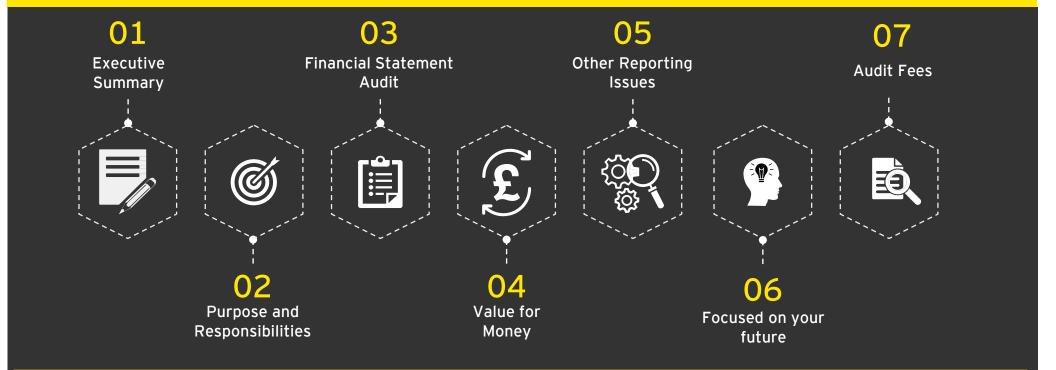


## Contents



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

The 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 23 February 2017)' 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 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.



## Executive Summary

We are required to issue an annual audit letter to the Borough Council of King's Lynn & West Norfolk (the Council) following completion of our audit procedures for the year ended 31 March 2018.

Below are the results and conclusions on the significant areas of the audit process.

Area of Work	Conclusion	
Opinion on the Council's:	Unqualified – the financial statements give a true and fair view of the financial position of the Council as at 31 March 2018 and of its expenditure and income for the year then ended.	
► Financial statements		
<ul> <li>Consistency of other information published with the financial statements</li> </ul>	Other information published with the financial statements was consistent with the Annual Accounts.	
Concluding on the Council's arrangements for securing economy, efficiency and effectiveness	We concluded that you have put in place proper arrangements to secure value for money in your use of resources.	

Area of Work	Conclusion
Reports by exception:	
► 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.
<ul> <li>Other actions taken in relation to our responsibilities under the Local Audit and Accountability Act 2014</li> </ul>	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 presented to the Audit Committee on 30 July 2018.
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 31 July 2018.

We will also issue a report to those charged with governance of the Council summarising the certification work we have undertaken, once this work has been completed. We would like to take this opportunity to thank the Council's staff for their assistance during the course of our work.

MARK HODGSON

Mark Hodgson

Associate Partner For and on behalf of Ernst & Young LLP Encl



## The Purpose of this Letter

The purpose of this annual audit letter is to communicate to Members 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 2017/18 Audit Results Report to the 30 July 2018 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 2017/18 audit work has been undertaken in accordance with the Audit Plan that we presented at the 12 February 2018 Audit Committee and is conducted in accordance with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office.

As auditors we are responsible for:

- ► Expressing an opinion:
  - On the 2017/18 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 you 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. 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.



## **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 Ireland), and other guidance issued by the National Audit Office and issued an unqualified audit report on 31 July 2018.

Our detailed findings were reported to the 30 July 2018 Audit Committee.

The key issues identified as part of our audit were as follows:

## Significant Risk

## Risk of Fraud in Revenue and Expenditure Recognition

Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.

One area susceptible to manipulation is the capitalisation of revenue expenditure on Property, Plant and Equipment given the extent of the Council's Capital programme.

#### Conclusion

#### We focused on:

- Understanding the controls put in place by management relevant to this significant risk;
- Considering whether or not purchase invoices were being inappropriately classified as capital;
- Whether management were inappropriately processing journals that transferred amounts from revenue to capital.

We performed the following audit procedures:

- Documented our understanding of the controls relevant to this significant risk and confirmed they have been appropriately designed;
- Reviewed and discussed with management any accounting estimates and policies on revenue or expenditure recognition for evidence of bias;
- Obtained breakdown of capital additions in the year and reviewed the descriptions to identify any items that could be revenue in nature;
- Reviewed and tested revenue cut-off at the year-end date; and
- Designed journal procedures to identify and review adjustment manual journals that moved amounts from revenue codes to capital codes.

Our testing did not identify any material misstatements from revenue and expenditure recognition. We judged all capital additions to be appropriately supported.

Overall our audit work did not identify any material issues or unusual transactions to indicate any misreporting of the Council's financial position.

## Significant Risk

## Risk of Management Override

As identified in ISA 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that would otherwise appear to be operating effectively.

We identify and respond to this fraud risk on every audit engagement.

#### Conclusion

#### We focused on:

- ► ISA 240 mandates we perform procedures on: accounting estimates, significant unusual transactions and journal entries to ensure they are appropriate and in line with expectations of the business; and
- We are also required to identify specific additional risks of management override. The specific additional risk identified is with regards to manipulation of year-end accounting entries. Estimation techniques is an area subject to management override of controls which includes nonroutine income and expenditure accruals and provisions for example the Non Domestic Rates (NDR) appeals provision.

We performed the following audit procedures:

- ► 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.

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

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

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

## Area of Audit Focus

## Property, Plant and Equipment Valuation

Property, Plant and Equipment represents a significant balance in the Council's accounts and are subject to valuation changes, impairment

reviews and depreciation charges.

Material judgemental inputs and estimation techniques are required to calculate the year-end fixed assets balances held in the balance sheet.

The Council will be using its internal expert for 2017/18, to value the Council's asset base, who will apply a number of complex assumptions and assess the Council's assets to identify whether there is any indication of impairment and changes to their useful life.

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

#### Conclusion

#### We focused on:

- ► The adequacy of the scope of the work performed by the internal valuer including their professional capabilities.
- ► The reasonableness of the underlying assumptions used by the Council's internal valuer.

We performed the following audit procedures:

- Considered the reliance placed on management's valuation experts and undertook a review of the internal valuer's work. This included comparison to industry valuation trends;
- Considered the annual cycle of valuations to ensure that assets had been valued within a 5 year rolling programme as required by the Code for PPE. We have also considered if there were any specific changes to assets that have occurred and that these have been communicated to the valuer;
- Reviewed assets not subject to valuation in 2017/18 to confirm that the remaining asset base is not
  materially misstated by using market indices to assess movements from last revaluation dates; and
- ► Tested the accounting treatment of valuations made in the year, including the assessment and treatment of impairments.

Our testing did not identify any material misstatements from property, plant and equipment valuation. We did identify some audit adjustments as part of our valuation testing, these were reported in the audit results report presented to Audit Committee on 30 July 2018.

Overall our audit work did not identify any material issues or concerns with the scope of work or underlying assumptions used by the Council's internal valuer.

Our consideration of the annual cycle of valuations did not identify any issues with the implemented plan or with the movement on assets not revalued in year.

Area of Audit Facus	Canalysian
Area of Audit Focus	Conclusion
Pension Valuation and Disclosures	We focused on:
The Local Authority Accounting Code of Practice (the code) and IAS19 require the Council to make extensive disclosures within its financial	<ul> <li>The reasonableness of the underlying assumptions used by the Council's expert - Hymans Robertson</li> <li>Ensuring the information supplied to the actuary in relation to Borough Council of King's Lynn &amp; West Norfolk was complete and accurate; and</li> </ul>
statements regarding the Local Government Pension Scheme (LGPS) in which it is an admitted body.	► Ensuring the accounting entries and disclosures made in the financial statements were consistent with the report from Hymans Robertson.
The Council's current pension fund deficit is a material and	We performed the following audit procedures:
sensitive item and the Code requires that this liability be disclosed on the Council's balance sheet.	<ul> <li>Liaised with the auditors of Norfolk Pension Fund, and obtain assurances over the information supplied to the actuary in relation to the Borough Council of King's Lynn &amp; West Norfolk;</li> <li>Assessed the work of the Pension Fund actuary (Hymans Robertson) including the assumptions they</li> </ul>
The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the administering body.	have used by relying on the work of PWC - Consulting Actuaries commissioned by National Audit Office for all Local Government sector auditors, and considered any relevant reviews by the EY actuarial team; and
Accounting for this scheme involves significant estimation and judgement.	<ul> <li>Reviewed and tested the accounting entries and disclosures made within the Borough Council of King's Lynn &amp; West Norfolk's financial statements in relation to IAS19.</li> </ul>
ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the	We reviewed the assessment of the pension fund actuary by PWC and EY pensions and undertook the work required.
assumptions underlying fair value estimates.	A movement on the total fund asset between the estimated year end balance and the actual was identified by the pension fund auditor. The impact of this was an understatement of the Council's pension assets by $£1.258$ million. This amount was above our summary of audit differences level and was adjusted in the accounts.

statements.

We did not identify any issues with the accounting entries and disclosures made within the financial

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## Major Housing Project

The Council has sold the first of the properties as part of the Major Housing Project during the period. Sales in 2017/18 are expected to be

material. Early discussions with finance officers suggest that the accounting treatment for the sales has not been finalised. As a result there is a risk that the financial statements could be materially misstated at year-end.

#### Conclusion

#### We focused on:

- ► The reasonableness of the underlying assumptions used by the Council; and
- Ensuring the accounting entries and disclosures made in the financial statements were accurate.

We performed the following audit procedures:

- Reviewed the contractual arrangements of the Major Housing Project;
- Checked a sample of property sales to ensure they are been valued correctly;
- Reviewed the accounting treatment proposed by the Council and ensured this is compliant with the relevant accounting standards and Code of Practice; and
- Ensured the accounting entries are correctly reflected in the financial statements.

We did not identify any issues with the accounting entries and disclosures made within the financial statements.

## 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	We determined planning materiality to be £1.7 million (2016/17 £1.7 million), which is 2% of gross expenditure on provision of services reported in the accounts. We consider gross expenditure on provision of services to be one of the principal considerations for stakeholders in assessing the financial performance of the Council.
Reporting threshold	We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £0.087 million (2016/17 £0.08 million).

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:

- ► Exit packages: We agreed all exit packages back to supporting documentation.
- ▶ Remuneration disclosures: We lowered our testing threshold to ensure we tested the largest senior officer salaries back to supporting documentation.
- ▶ Related party transactions: We consider materiality from the perspective of the related party body as well as the Council.

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

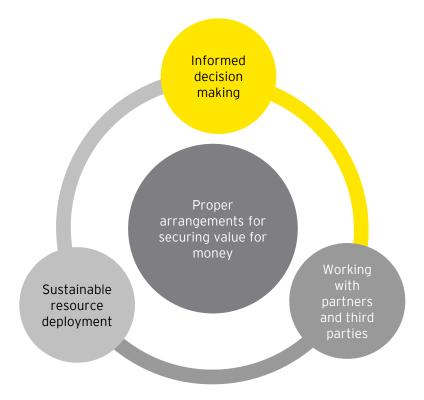


# **£** Value for Money

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

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 not identify any significant risks in relation to these criteria.

We have performed the procedures outlined in our audit plan. We did not identify any significant weaknesses in the Council's arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.





## **Whole of Government Accounts**

The Council is below the specified audit threshold of £500m. Therefore, we did not 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 areas of concern.

## 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 identified one written recommendation which we included in the Audit Results Report presented to Audit Committee on 30 July 2018:

<u>Recommendation</u> - The Council should continue to improve and enhance the quality review process prior to the authorisation of the draft financial statements to help minimise audit adjustments. We acknowledge that this is the first year of faster close and the 31 May statutory deadline.



## Other Reporting Issues (cont'd)

## jections Received

We did not receive any objections to the 2017/18 financial statements from members of the public.

## Other Powers and Duties

We identified no issues during our audit that required us to use our additional powers under the Local Audit and Accountability Act 2014.

## ndependence

We communicated our assessment of independence in our Audit Results Report to the Audit Committee on 30 July 2018. 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 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 Audit Committee, except for the issue raised in the written recommendation section above.





## Focused on your future

The Code of Practice on Local Authority Accounting in the United Kingdom introduces the application of new accounting standards in future years. The impact on the Council is summarised in the table below. The Council will need to keep these standards under continued focus during 2018/19.

Standard	Issue	Impact		
IFRS 9 Financial Instruments	Applicable for local authority accounts from the 2018/19 financial year and will change:	Although the Code has now been issued, providing guidance on the application of the standard, along with other provisional information issued by CIPFA on the approach to adopting IFRS 9, until the Guidance Notes are issued and any statutory overrides are confirmed there remains some uncertainty. However, what is clear		
	<ul> <li>How financial assets are classified and measured;</li> </ul>			
	<ul> <li>How the impairment of financial assets are calculated; and</li> </ul>			
	► The disclosure requirements for financial assets.	is that the Council will have to:		
	There are transitional arrangements within the standard and the 2018/19	<ul> <li>Reclassify existing financial instrument assets;</li> </ul>		
	Accounting Code of Practice for Local Authorities has now been issued, providing guidance on the application of IFRS 9. In advance of the Guidance	<ul> <li>Re-measure and recalculate potential impairments of those assets; and</li> </ul>		
	Notes being issued, CIPFA have issued some provisional information providing detail on the impact on local authority accounting of IFRS 9, however the key outstanding issue is whether any accounting statutory overrides will be introduced to mitigate any impact.	<ul> <li>Prepare additional disclosure notes for material items.</li> </ul>		
IFRS 15 Revenue from Contracts	Applicable for local authority accounts from the 2018/19 financial year. This new standard deals with accounting for all contracts with customers except:	As with IFRS 9, some provisional information on the approach to adopting IFRS 15 has been issued by CIPFA in advance of the Guidance Notes. Now that the Code has been issued, initial views have been confirmed; that due to the revenue streams of Local Authorities the impact of this standard is likely to be limited.		
with Customers	► Leases;			
	► Financial instruments;			
	► Insurance contracts; and	The standard is far more likely to impact on Local Authority Trading		
	► For local authorities; Council Tax and NDR income.	Companies who will have material revenue streams arising from contracts with customers. The Council will need to consider the		
	The key requirements of the standard cover the identification of performance obligations under customer contracts and the linking of income to the meeting of those performance obligations.	impact of this on their own group accounts when that trading company is consolidated.		



# Focused on your future (cont'd)

Standard	Issue	Impact
IFRS 16 Leases	It is currently proposed that IFRS 16 will be applicable for local authority accounts from the 2019/20 financial year.  Whilst the definition of a lease remains similar to the current leasing standard; IAS 17, for local authorities who lease a large number of assets the new standard will have a significant impact, with nearly all current leases being included on the balance sheet.  There are transitional arrangements within the standard and although the 2019/20 Accounting Code of Practice for Local Authorities has yet to be issued, CIPFA have issued some limited provisional information which begins to clarify what the impact on local authority accounting will be. Whether any accounting statutory overrides will be introduced to mitigate any impact	Until the 2019/20 Accounting Code is issued and any statutory overrides are confirmed there remains some uncertainty in this
	remains an outstanding issue.	



## **Audit Fees**

Our fee for 2017/18 is in line with the scale fee set by the PSAA and reported in our 30 July 2018 Audit Results Report.

	Final Fee 2017/18	Planned Fee 2017/18	Scale Fee 2017/18	Final Fee 2016/17
	£'s	£'s	£'s	£'s
Total Audit Fee - Code work (See Note 1)	To be confirmed	53,291	51,291	58,291
Total non-audit services - Housing Benefit Subsidy (See Note 2)	To be confirmed	18,556	18,556	22,000
Total Fees	tbc	72,847	69,847	80,291

#### Note 1:

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. There is likely to be additional fees for the additional work performed on the Major Housing Project risk identified.

We need to assess the impact of the audit adjustments and disclosure errors on the quantum of our audit work. This will lead to a variation to the Scale Fee being levied but we are at this stage, unable to quantify the quantum of that amount. This additional fee will be discussed with management and is then subject to approval by the PSAA. We will report separately once this approval process is complete.

#### Note 2:

The final fee for the Housing Benefit Subsidy certification will be confirmed upon completion by the 30 November deadline. We will report the final fee in our annual grant certification report.

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