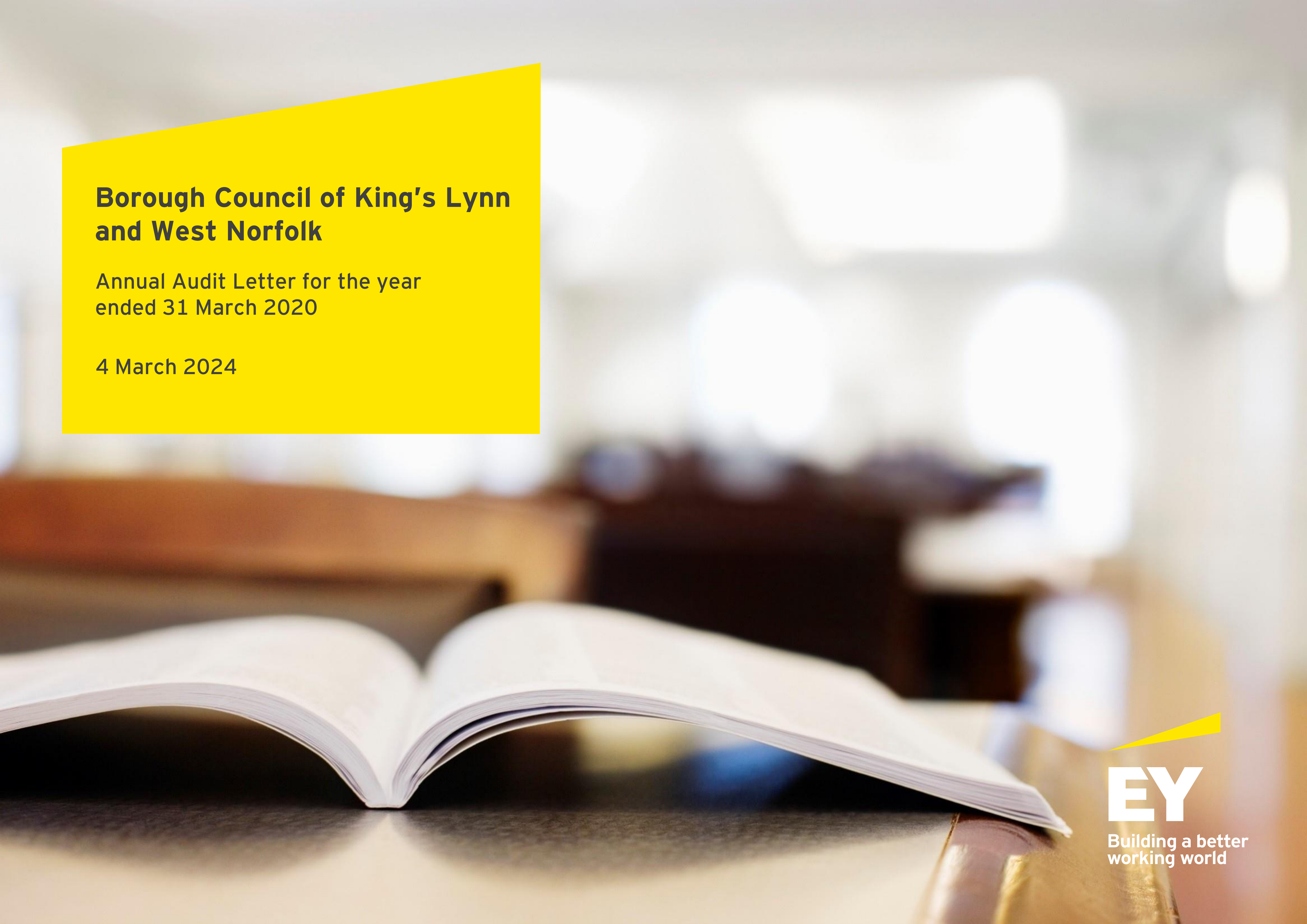
Borough Council of King's Lynn and West Norfolk

Annual Audit Letter for the year ended 31 March 2020

4 March 2024



Building a better working world

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). [**OR** As part the Auditor Engagement process, we have agreed with you the respective responsibilities of auditors and audited bodies. Copies of the Engagement Letter and Terms and Conditions of our appointment are available from the Chief Executive or via the bodies minutes on their website].

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 / Terms and Conditions of Engagement. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Hywel Ball, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

Section 1

Executive Summary

Executive Summary

We are required to issue an Annual Audit Letter to Borough Council of King's Lynn and West Norfolk following completion of our audit procedures for the year ended 31 March 2020. Covid-19 had an impact on a number of aspects of our 2019/20 audit. We updated our audit procedures to take account of the following issues:

Area of impact	Commentary
Impact on the delivery of the audit	
► Changes to reporting timescales	As a result of Covid-19, new regulations, the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020 No. 404, have been published and came into force on 30 April 2020. This announced a change to publication date for final, audited accounts from 31 July to 30 November 2020 for all relevant authorities. We worked with the Council to ensure that they met the requirements of the regulations by publishing a notice explaining the delay to the audit.
Impact on our risk assessment	
► Valuation of Land and Buildings and Investment Properties	The Royal Institute of Chartered Surveyors (RICS), the body setting the standards for property valuations, has issued guidance to valuers highlighting that the uncertain impact of Covid-19 on markets might cause a valuer to conclude that there is a material uncertainty. Caveats around this material uncertainty have been included in the year-end valuation reports produced by the Council's internal valuer. We consider that the material uncertainties disclosed by the valuer gave rise to an additional significant risk relating to the valuation and disclosures on Land and Buildings.
► Disclosures on Going Concern	Financial plans for 2020/21 and medium term financial plans required revision to take account of Covid-19. We considered the unpredictability of the current environment gave rise to a risk that the Council would not appropriately disclose the key factors relating to going concern, underpinned by managements assessment with particular reference to Covid-19.
► Events after the balance sheet date	We identified an increased risk that further events after the balance sheet date concerning the current Covid-19 pandemic may need to be disclosed.
Impact on the scope of our audit	
► Information Produced by the Entity (IPE)	We identified an increased risk around the completeness, accuracy, and appropriateness of information produced by the entity due to the inability of the audit team to verify original documents or re-run reports on-site from the Council's systems because of remote working protocols. We undertook the following to address this risk: ▸ Used the screen sharing function of Microsoft Teams to evidence re-running of reports used to generate the IPE we audited; and ▸ Agree IPE to scanned documents or other system screenshots.
► Consultation requirements	Additional EY consultation requirements were required concerning the impact on auditor reports.

Executive Summary (cont'd)

The tables below set out the results and conclusions on the significant areas of the audit process.

Area of Work	Conclusion
Opinion on the Council and Group:	
► Financial statements	Unqualified – the financial statements give a true and fair view of the financial position of the Council and Group as at 31 March 2020 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 financial statements was consistent with the financial statements.
► Concluding on the arrangements for securing economy, efficiency and effectiveness	We concluded that the Council had put in place proper arrangements to secure value for money in your use of resources.

Area of Work	Conclusion
Reports by exception:	
► Consistency of the Annual Governance Statement	The Annual 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 Authority'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 8 January 2024.
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 Audit Certificate was issued on 22 January 2024.

The audit has been long and protracted, due to a high level of turnover of key finance staff and ability to service the audit. We would like to take this opportunity to thank the Council's staff for their assistance during the course of our work.

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

Section 2

Purpose and Responsibilities

Ref: EY-000092651-01

Purpose

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 2019/20 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

Responsibilities of the Appointed Auditor

Our 2019/20 audit work has been undertaken in accordance with the Audit Plan that we issued on 24 February 2021 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 2019/20 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 and Group 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 22 January 2024.

Our detailed findings were reported to the 16 January 2024 Audit Committee. The key issues identified as part of our audit were as follows:

Risks	Conclusion
Misstatements due to fraud or error - management override of controls	We did not identify any matters to report to the Council.
Fraud Risk - Incorrect capitalisation of revenue expenditure	We completed our work on capital additions and identified an exception in our Assets Held For Sale additions testing. There was a lack of evidence and rationale to support a transaction in relation to sales proceeds of a major housing project. We judged that additions were overstated by a net error of £0.102 million after considering the allocation posting between additions and debtors for the transaction. Our testing of year-end journals did not identify any movements from expenditure to capital outside of the normal course of business.

Financial Statement Audit (cont.)

Risks	Conclusion

Valuation of Property, Plant and Equipment (PPE) and Investment Property	We engaged our own experts, EY Real Estate, to support the work in relation to the valuation of land, buildings and investment properties, and to assess the impact of the material uncertainty issued by the Council's Internal Valuer in their valuation report due to the impact of Covid-19.
	
	We completed our work in this area and set out our findings below:
	• Our own expert did not identify any issues with their review of both PPE and investment properties valuations.
	• However, our review of the work identified the following issues:
	    • Our PPE disposal testing found that the Assets Under Construction (AUC) was understated by £5.851 million due to an incorrect derecognition of the Lynnsport New Access Road. The road was transferred to Norfolk County Council in December 2021 but it was incorrectly recorded in 2019/20.
	    • Our PPE valuation work identified that one asset, NORA Waterfront Development Land, was updated with an incorrect valuation for the 'Boal Quay Car Park' and as a result the Other Land and Buildings (OLB) and the Revaluation Reserve were both understated by £1.938 million.
	    • Our PPE valuation testing identified an audit difference of £0.197 million relating to St Augustine Living Centre where an incorrect valuation was used to update the Fixed Assets Register (FAR). This resulted an overstatement of £0.197 million in OLB and an understatement of £0.104 million in Revaluation Reserve and an understatement of £0.093 million in CIES.
	    • We identified a calculation error in the revaluation of two caravan sites, Vegas of £0.469 million and South Shore of £0.035 million. As a result the OLB was overstated by £0.570 million while the corresponding entry in the Revaluation Reserve was overstated by £0.469 million and CIES - Deficit on Revaluation of Non-Current Assets was understated by £0.101 million respectively.
	    • We also identified that the valuation of NEWS Depot was understated by £0.177 million due to a valuation movement in 2018/19 was omitted in the FAR.
	
	Furthermore, Management identified an understatement of £0.628 million in Other Land and Buildings (OLB), relating to the valuation of two car parks, Boal Quay cark park of £0.058 million and Baker Lane car park of £0.570 million. The difference was due to updated valuation information being provided by Management's Internal Valuer subsequent to the preparation of the draft financial statements.
	
	As a result of the errors above, PPE was understated by a net difference of £7.827 million while the Revaluation Reserve was understated by £2.170 million and the net expenditure within the CIES was overstated by £5.657 million.

Financial Statement Audit (cont.)

Risks	Conclusion
Valuation of Property, Plant and Equipment (PPE) and Investment Property **(continued)**	We also found that there was a lack of disclosure made in the accounts concerning the estimation uncertainty relating to year-end valuations: • Royal Institute of Chartered Surveyors (RICS), the body setting the standards for property valuations, issued guidance to valuers highlighting that the uncertain impact of Covid-19 on markets might cause a valuer to conclude that there is a material uncertainty. Caveats around this material uncertainty were included in the year-end valuation reports produced by the Council's valuer. We considered that the material uncertainties disclosed by the valuer gave rise to an increased risk relating to disclosures on the valuation of property, plant and equipment and investment property valued using existing use value or fair value and thus we requested that further disclosure to be included within Note 6 in the accounts. In addition, we also have the following observations in relation to the Council's valuation process: • **PPE valuation original supporting documentation:** It is our understanding that the Council's Internal Valuer that prepared the valuations left the Council at some point before the audit commenced, and the new valuer was not able to retrieve some of the supporting documentation for that valuation that we requested for our testing of valuations. We were not provided with the supporting valuation sheet for one of the items in our sample. We were also not able to obtain a final version of the valuation report to corroborate the figures in the financial statements. We have therefore planned and executed alternative audit procedures in order to obtain sufficient appropriate assurance from the new valuers in respect of the 2019/20 valuations. • **Property, Plant and Equipment assets valuation programme**: The Council carries out a rolling programme to ensure that all Property, Plant and Equipment requested to be measured at fair value is revalued at least every five years. However, our review of the assets revaluation identified that a number of assets, totalling £2.573 million, were valued prior to 2016 and therefore they fall outside the 5-year valuation programme. While these assets remained materially accurate at year ended 31 March 2020 and were subsequently valued in 2020/21, they were not compliant with the Code of Practice on Local Authority Accounting, which requires assets must be revalued every five years as a minimum.

Financial Statement Audit (cont.)

Risks	Conclusion
Pensions valuations and disclosures	We have reviewed the assessment of the Pension Fund actuary by PWC and EY pensions and have undertaken the work required without identifying any further issues. We have agreed the IAS19 disclosure in the accounts to the relevant reports from the Pension Fund Actuary. We have received assurances from the Pension Fund Auditor around IAS 19 procedures and controls, and data submitted to the actuary. The work performed by the Norfolk Pension Fund auditor identified an increase in the value of the Pension Fund plan assets as at 31 March 2020. The estimated impact for Borough Council of King's Lynn and West Norfolk was an increase in asset valuation (and consequential reduction in the pension fund liability) of approximately £0.515 million. The Council did not obtain an updated version of the Actuary report to be able to fully quantify the reduction in the Council's Pension Liability. Whilst there is no direct correlation to the impact on the Council's Pension Liability, given that this is an estimation, our judgement is that this would not lead to a material misstatement within King's Lynn's pension fund liabilities or disclosures. In addition, we also have the following observations in relation to the Council's valuation process: When performing our IAS19 procedures we noted that there was a difference between the level of contributions paid by the Council and the contributions disclosed in the actuary report. Further enquiries determined that this difference was due to the fact that the Council is in a pooling arrangement on the LGPS scheme with some of its subsidiary companies, and the contributions paid in respect of this would appear in the actuary report. However, there was no formal pooling agreement signed between the Council and Alive West Norfolk Ltd even though its contributions had been treated as if both entities had an agreement in practice.
Group consolidation	Management has made amendments to the revised Group Accounts as a result of the changes identified in the audited subsidiary accounts. The amendments have no impact on the Group Comprehensive Income & Expenditure Statement and to the net assets in the Group Balance Sheet. We did not identify any matters to report to the Council.
Calculation of Expected Credit Loss (NWES Loan)	We did not identify any matters to report to the Council.

Financial Statement Audit (cont.)

Risks	Conclusion
Classification of Grant Income	We did not identify any matters to report to the Council.
Incorrect classification of Assets Held For Sale (AHFS)	We completed the work in this area and set out our findings below: • The closing balance of AHFS was increased by the agreed/estimated sales prices of the assets at £4.031 million, which was not compliant with the Code of Practice on Local Authority Accounting and IFRS 5 accounting standards which require the assets to be measured at the lower of carrying amount or the fair value less cost to sell. This resulted an overstatement of £4.031 million in both AHFS and Revaluation Reserve. • We also found that the disposal derecognised in AHFS of £20.970 million was related to assets that were completed and sold during the year and therefore they do not meet the definition and criteria of AHFS. Hence this was a misclassification error between AHFS and Assets Under Construction. • In addition, the disposals were written out as 'sales proceeds' rather than the carrying amount of the assets, £18.822 million. This resulted a difference of £2.148 million which should be recorded as gain on disposal in CIES. • Furthermore, there was a misclassification between AHFS and PPE - Assets Under Constructions (AUC) for additions, £7.503 million and assets newly classified as held for sale, £11.400 million. As a result, AHFS was overstated by £18.903 million. As a result of the errors above, the AHFS was overstated by a net difference of £1.992 million and the Assets Under Construction was understated by £0.109 million, while the Revaluation Reserve and Gains on Disposal were overstated by £4.031 million and understated by £2.148 million respectively.
Preparation of Cash Flow Statement	We completed our work in this area and identified a number of mis-mappings within the Cash Flow Statement, where the figures did not match with other sections of the Statement of Accounts and supporting working papers. Consequently, Management had to re-create the Cash Flow Statement to ensure consistency within the Cash Flow Statement and to other parts of the Statement of Accounts.
Impact of Covid-19 – Going Concern	We did not identify any matters to report to the Council.

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.

Overall Materiality	Performance Materiality	Level of Gross Expenditure materiality based on	Audit Differences
Council:			
£1.834 million	£0.917 million	£91.678 million (Operating Expenditure)	£0.092 million
Group:			
£1.923 million	£0.961 million	£96.143 million (Operating Expenditure)	£0.096 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:

- Remuneration disclosures including any severance payments, exit packages and termination benefits: We agreed all disclosures back to source data and approved amounts.
- Related party transactions: We tested the completeness of related party disclosures and the accuracy of all disclosures by checking back to supporting evidence.

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:

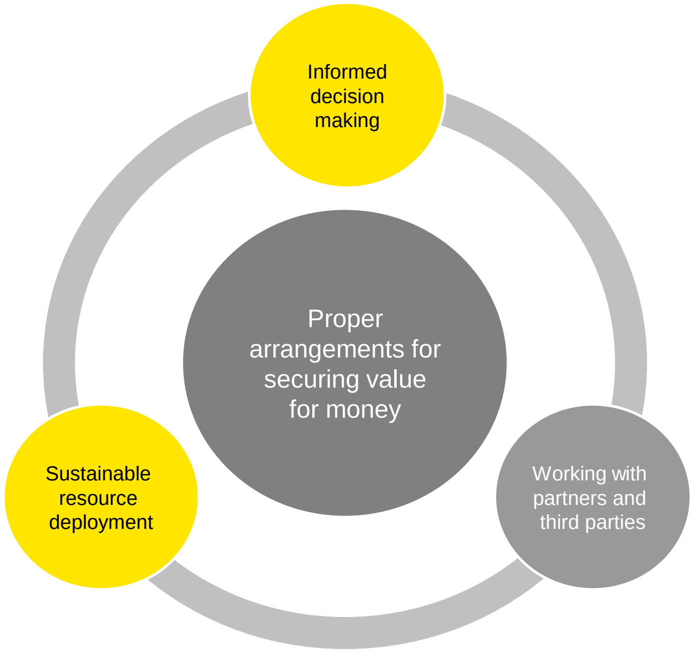
- Take informed decisions;
- Deploy resources in a sustainable manner; and
- Work with partners and other third parties.

On 16 April 2020 the National Audit Office published an update to auditor guidance in relation to the 2019/20 Value for Money assessment in the light of Covid-19. This clarified that in undertaking the 2019/20 Value for Money assessment auditors should Council's response to Covid-19 only as far as it relates to the 2019/20 financial year; only where clear evidence comes to the auditor's attention of a significant failure in arrangements as a result of Covid-19 during the financial year, would it be appropriate to recognise a significant risk in relation to the 2019/20 VFM arrangements conclusion.

We did not identify any significant matters with those arrangements.

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

We therefore issued an unqualified Value for Money Conclusion on the 22 January 2024.



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 detailed audit procedures on the consolidation pack and we had no matters to report.

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.

Other Reporting Issues (cont'd)

Objections Received

We did not receive any objections to the 2019/20 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.

Independence

We communicated our assessment of independence in our Audit Results Report dated the 30 November 2023. 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 identified the following observations to bring to the attention of the Audit Committee:

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

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

Other Reporting Issues (cont'd)

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

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

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

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

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

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

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

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

Section 6

Focused on your future

Focused on your future

The NAO has issued a new Code of Audit Practice 2020. The impact on the Council is summarised in the table below.

Council responsibilities for value for money

The Council is required to maintain an effective system of internal control that supports the achievement of its policies, aims and objectives while safeguarding and securing value for money from the public funds and other resources at its disposal.

As part of the material published with the financial statements, the Council is required to bring together commentary on the governance framework and how this has operated during the period in a governance statement. In preparing the governance statement, the Council tailors the content to reflect its own individual circumstances, consistent with the requirements of the relevant accounting and reporting framework and having regard to any guidance issued in support of that framework. This includes a requirement to provide commentary on arrangements for securing value for money from the use of resources.

Auditor responsibilities under the new Code

Under the 2020 Code we are still required to consider whether the Council has put in place ‘proper arrangements’ to secure economy, efficiency and effectiveness on its use of resources. However, there is no longer overall evaluation criterion which we need to conclude on. Instead the 2020 Code requires the auditor to design their work to provide them with sufficient assurance to enable them to report to the Council a commentary against specified reporting criteria (see below) on the arrangements the Council has in place to secure value for money through economic, efficient and effective use of its resources for the relevant period.

The specified reporting criteria are:

- Financial sustainability - How the Council plans and manages its resources to ensure it can continue to deliver its services.
- Governance - How the Council ensures that it makes informed decisions and properly manages its risks.
- Improving economy, efficiency and effectiveness - How the Council uses information about its costs and performance to improve the way it manages and delivers its services.

Reporting on VFM

In addition to the commentary on arrangements, where we are not satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources the 2020 Code has the same requirement as the 2015 Code in that we should refer to this by exception in the audit report on the financial statements.

However, a new requirement under the 2020 Code is for us to include the commentary on arrangements in a new Auditor’s Annual Report. The 2020 Code states that the commentary should be clear, readily understandable and highlight any issues we wish to draw to the Council’s attention or the wider public. This should include details of any recommendations arising from the audit and follow-up of recommendations issued previously, along with our view as to whether they have been implemented satisfactorily.

Section 8

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. In addition, we reported a significant number of issues as a result of our audit which led to the delayed timing of our audit opinion. We have now quantified this fee and have notified the additional work fee with the Assistant Director Resources after providing supporting details. We will seek formal approval from PSAA as per the requirements.

Description	Final Fee 2019/20 £'s	Planned Fee 2019/20 £'s	Scale Fee 2019/20 £'s
Total Audit Fee – Code work	39,494	39,494	39,494
Changes in work required to address professional and regulatory requirements and scope associated with risk (see Note 1)	40,956	40,956	-
Revised Proposed Scale Fee	**80,450**	**80,450**	**39,494**
Additional specific one-off work required for Covid-19 considerations (see Note 2)	2,930		
Work required to address the significant risks identified in regards to PPE valuation, including the use of our internal experts (see Note 2)	23,516		
Work required to address the inherent risks identified in regards to • calculation of expected credit loss (NWES loan), • classification of grant income, • incorrect classification of Assets Held For Sale (AHFS) • Preparation of Cash Flow Statement (see Note 2)	31,346		
Additional work and hours in relation to the quality of the working papers which includes a number of errors found, audit overrun and delays, and reduced materiality level (see Note 2)	95,948		
Total Audit Fee *All fees excl. VAT*	**234,190**	**80,450**	**39,494**

Note 1 - For 2019/20, we have proposed an increase to the scale fee to reflect the increased level of audit work required which has been impacted by a range of factors, as detailed in our Audit Plan. Our proposed increase has been discussed with management and is with PSAA for determination.

Note 2 - We have quantified the extent of the additional work we have undertaken, in order to be able to gather sufficient, appropriate audit evidence to support our audit opinion. We have provided details of this additional work to the Assistant Director of Resources. We have now submitted this scale fee variation and will be seeking determination from PSAA Ltd.

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ED None

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