

**Great Yarmouth
Borough Council**

Annual Audit Letter for the year
ended 31 March 2019

September 2020



Building a better
working world

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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.psaa.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 set 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 and Terms of Appointment. 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.



01

Executive Summary

Executive Summary

We are required to issue an Annual Audit Letter to Great Yarmouth Borough Council (the Council) following completion of our audit procedures for the year ended 31 March 2019. Below are the results and conclusions on the significant areas of the audit process.

Area of Work	Conclusion
Opinion on the Council's: ► 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. Due to a number of factors, including our own resourcing difficulties, the volume of audit differences identified, and the impact of Covid-19, the audit of the 2018/19 financial statements was prolonged and challenging. Our audit identified a significant number of material errors in the account which were corrected by management. We issued our auditor's report on 13 August 2020. The report included a paragraph to emphasise to the reader of the accounts the Council's disclosures on the impact of the Covid-19 pandemic on its financial position.
► Consistency of other information published with the financial statements	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.
► 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)

In addition 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.	We issued an Audit Results Report on 28 November 2019. This was subsequently updated at the conclusion of audit and we issued an Audit Results Report Update on 6 August 2020.
Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the NAO's 2015 Code of Audit Practice.	We issued the certificate within the auditor's report on 13 August 2020.

We would like to take this opportunity to thank the Council's staff for their assistance during the course of our work.



Debbie Hanson

Associate Partner

For and on behalf of Ernst & Young LLP



02

Purpose and Responsibilities

Purpose and Responsibilities

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 reported the detailed findings from our audit work in our 2018/19 Audit Results Report Update to the Chair of the Audit and Risk Committee representing those charged with governance on 7 August 2020 having previously presented an Audit Results Report to the Audit and Risk Committee on 2 December 2019.

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 presented at the December 2018 Audit and Risk Committee and is conducted in accordance with the NAO's 2015 Code of Audit Practice, International Standards on Auditing (UK), and other guidance issued by the NAO. 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 NAO on your WGA 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.



03

Financial Statement Audit

Financial Statement Audit

Key Issues

The Council's Statement of Accounts is an important tool for it 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 NAO's 2015 Code of Audit Practice, International Standards on Auditing (UK), and other guidance issued by the NAO and issued an unqualified audit report on 13 August 2020.

We reported detailed findings to the December 2019 Audit and Risk Committee. Further findings were reported to the Chair of that Committee on 6 August 2020. We summarise here the key risks we identified and our conclusions.

Our Audit Results Report and Update reported a large number of errors a number of which were material. Although management corrected the vast majority of these errors, and all of those which were material, the level of errors was higher than we would expect and indicates the need for the Council to consider whether it had appropriate quality assurance arrangements and capacity in place in relation to the preparation of the financial statements.

Significant risk	Conclusion
Misstatements due to fraud or error The financial statements as a whole are not free of material misstatements whether caused by fraud or error. Senior 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 otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit.	We found no evidence in our testing that management had overridden controls.
Inappropriate capitalisation of revenue expenditure That the Council could try reduce the level of revenue expenditure charged to services by accounting for some of it as capital expenditure related to land, buildings and equipment and therefore funding from capital rather than revenue balances.	We found no evidence in our testing that management had accounted for revenue expenditure on services as capital spend relating to land, buildings and equipment.

Financial Statement Audit

Key Issues

Other areas of audit focus	Conclusion
<p>Requirement for group accounts</p> <p>The Council has a wholly owned subsidiary, Equinox Enterprises Ltd. 2018/29 was the first year the Council produced group accounts. There was therefore a risk that the group accounts would not be properly prepared and required disclosures would be incomplete.</p> <p>The Council also needed to consider whether its other investments in Great Yarmouth Borough Services and Great Yarmouth Norse should be included in the group accounts. We needed to undertake procedures to determine whether the conclusion reached in this regard was inappropriate.</p>	<p>Equinox Enterprises produce accounts in accordance with Financial Reporting Standard 102 (FRS 102). The Council is required to prepare accounts in accordance with an accounting Code that is based on International Financial Reporting Standards (IFRS).</p> <p>The auditor of Equinox Enterprises did not have experience of IFRS which meant officers and the EY audit team had to undertake additional procedures to consider whether adjustments were required to the Equinox balances to bring them into line with the Code applied by the Council. In future this task may become more onerous as the level of transactions increases. The Council should therefore consider whether it has the requisite skills to undertake this assessment properly within the finance team or the auditor of the subsidiary.</p> <p>The Council did not consolidate its investments in Great Yarmouth Norse or Great Yarmouth Borough Services on the basis that they are immaterial. We are satisfied that this assessment is appropriate for 2018/19 but recommended the Council continue to keep the need to include these and any other investments in the group accounts under review.</p> <p>We identified a number of errors in the preparation of the Group Accounts and related notes which management agreed to amend.</p>
<p>Valuation of other land and buildings and investment properties</p> <p>The Council owns £282 million of land and buildings (£231 million of which is council houses) and £47 million of investment property from which it generates a return. The valuation of these assets is a significant estimate, involving the use of a valuation expert and requires judgement from senior officers. A small error in judgement can have a big impact on the valuation.</p>	<p>When completing this work we noted:</p> <ul style="list-style-type: none">▶ Investment properties are required to be measured at fair value to reflect market conditions at the end of the reporting period. The Council's approach is to revalue its investment properties on a 5 year rolling cycle. Our review of investment property assets indicated that the valuation in the accounts may vary materially from fair value. A review by the Council showed that investment property was understated by £1.143 million.▶ Infrastructure assets were understated by £1.857 million due to late invoicing by Norfolk County Council.▶ We noted £0.223 million of old capital related balances which had not moved for more than 1 year. This indicated the associated assets are overstated by this amount. Council officers have agreed to review and correct the position in 2019/20.▶ The St Georges Trust building which is included in the accounts at nil value, was reclassified as a heritage asset as it is a Grade 1 listed building which has restrictions on its use. The building has not been revalued as the cost of obtaining a valuation of this building would outweigh the benefit to the reader of the accounts. Additional disclosures were made to explain this position.

Financial Statement Audit

Other Areas of Audit Focus (continued)	Conclusion
Pension liability valuation The Council's pension fund deficit is a material estimated balance which is disclosed on the Council's balance sheet based on information provided by the pension fund actuary. At 31 March 2019 this totalled £72 million.	 Before we commenced our audit work the Council updated its accounts to reflect the impact of a national legal case impacting all council pension schemes as well as to reflect changes in the value of pension fund investment assets at year end compared to the estimates initially used by the actuary. We did not identify any issues from our audit work.
New accounting standards The Council had to implement two new accounting standards for 2018/19: <ul style="list-style-type: none">▶ IFRS 9 - Financial instruments▶ IFRS 15 - Revenue from contracts	 IFRS 9 - Our audit procedures for financial instruments did not identify any audit issues. IFRS 15 - Our audit procedures for revenue from contracts did not identify any audit issues. We agreed with the Council's conclusion that this standard does not have a material impact on their disclosures.
Impact of Covid-19 The Covid-19 pandemic has had a significant impact on the Council's finances. As the 2018/19 financial statements were approved after the outbreak, the Council has been required to disclose in its accounts the impact of the pandemic on its income, expenditure and funds. We identified the following areas of the financial statements and our audit which were impacted by Covid-19 : <ol style="list-style-type: none">1. Going concern2. Accounts disclosures	Going concern There is presumption that the Council will continue as a going concern. However, the uncertainty over future government funding and other sources of Council revenue as a result of Covid-19 meant that the Council needed to undertake a more detailed assessment to support the presumption that the accounts be prepared on a going concern basis and evaluate its financial resilience. We scrutinised the Council's latest financial plans and cashflow, liquidity forecasts, known outcomes, sensitivities, mitigating actions and key assumptions and were satisfied that they supported the conclusion that there was not material uncertainty which required disclosure. Management also updated the disclosure on going concern in the financial statements to include additional information on the estimated impact of Covid-19 on the Council's future financial position. Accounts disclosures For the 2018/19 statements, Covid-19 impacted disclosures only. We added an emphasis of matter paragraph in our audit opinion to highlight the disclosures in Note 2 Accounting Policies; policy i General Principles and Note 7 Events after the Reporting Period, which describe the financial and operational consequences of COVID-19. Our opinion is not modified in respect of this matter.

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	We determined planning materiality to be £1.6 million which is 2% of gross revenue expenditure reported in the accounts. This results in a performance materiality, at 50% of overall materiality, £0.8 million. Our performance materiality is set at 50% due to the volume of audit differences identified in previous years. We consider gross revenue expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Council.
Reporting threshold	We agreed with the Audit and Risk Committee that we would report to the Committee all audit differences in excess of £80,000.

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 councillor allowances to the agreed 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.



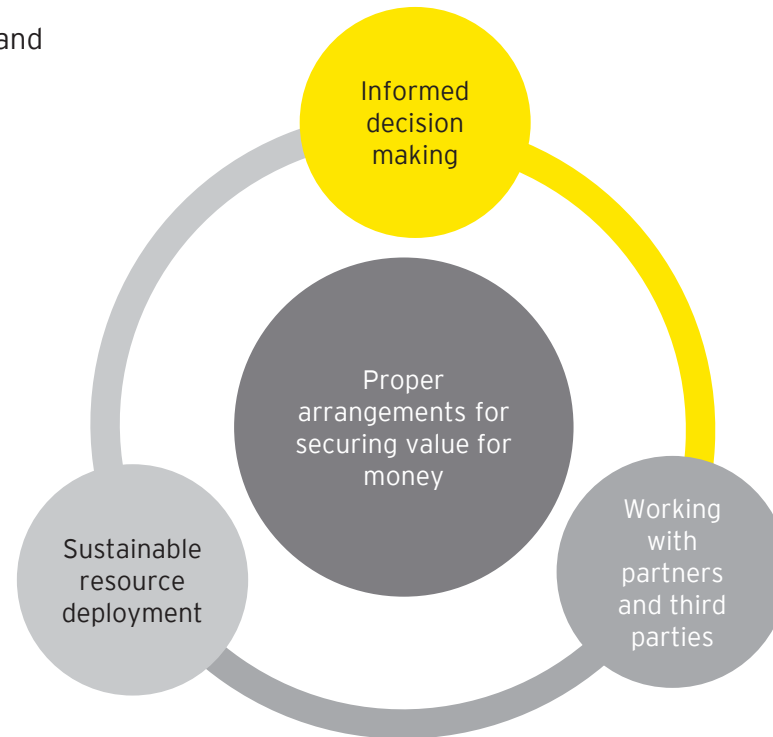
04 Value for Money

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.



In our Audit Plan we did not identify any risks in relation to the value for money conclusion. We had no matters to report in respect of value for money in the auditor's report.



05

Other Reporting Issues



Other Reporting Issues

Whole of Government Accounts

We are required to perform the procedures specified by the National Audit Office (NAO) on the accuracy of the consolidation pack prepared by the Council for Whole of Government Accounts purposes.

The Council falls below the NAO's threshold for auditor review.

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

Objections Received

We did not receive any objections to the 2018/19 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.



Other Reporting Issues (cont'd)

Independence

We communicated our assessment of independence in our Audit Results Report to the Audit and Risk Committee on 2 December 2019 and again in our updated report on 6 August 2020. 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 adopted a fully substantive audit approach, which does not seek to rely on internal controls, and therefore did not test the operation of controls.

However we identified and reported weaknesses in the controls in place to prevent or detect material misstatement in the following areas:

- ▶ Arrangements to ensure investment property valuations are materially accurate due to use of a 5-year rolling valuation program rather than an annual valuation
- ▶ Debtor and creditor positions - due to the nature of year end processes
- ▶ Cash flow statement - due issues with to the working paper being used to compile the statement
- ▶ Quality assurance arrangements and capacity in relation to the preparation of the financial statements - this was impacted by the delays in the audit timetable as well as the higher than expected level of errors.



06

Focused on your future



Focused on your future

The Code of Practice on Local Council 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.

Standard	Issue	Impact
IASB Conceptual Framework	<p>The revised IASB Conceptual Framework for Financial Reporting (Conceptual Framework) will be applicable for local Council accounts from the 2019/20 financial year.</p> <p>This introduces;</p> <ul style="list-style-type: none">➤ new definitions of assets, liabilities, income and expenses➤ updates for the inclusion of the recognition process and criteria and new provisions on derecognition➤ enhanced guidance on accounting measurement bases➤ enhanced objectives for financial reporting and the qualitative aspects of financial information. <p>The conceptual framework is not in itself an accounting standard. However, an understanding of concepts and principles can be helpful to preparers of local Council financial statements when considering the treatment of transactions or events where standards do not provide specific guidance, or where a choice of accounting policies is available.</p>	<p>It is not anticipated that this change to the Code will have a material impact on Local Council financial statements.</p> <p>However, Councils will need to undertake a review to determine whether current classifications and accounting remains valid under the revised definitions.</p>



07

Audit Fees

Audit Fees

In our Annual Results Report presented to the Chair of the Audit and Risk Committee on 6 August 2020 we highlighted that due to the additional work we had undertaken to address risks identified and the high level of errors identified, we would seek to agree an additional fee with the Council's Section 151 officer. Any scale fee variations also need to be agreed by PSAA.

In the table below we summarise the fees that are agreed and proposed. The scale fee variations for the 2018/19 year are yet to be agreed by the s151 officer and are subject to further approval by PSAA.

	Proposed fee 2018/19	Planned fee 2018/19	Final Fee 2017/18
		£	£
Scale fee	42,966	42,966	55,800
Scale fee variations for overruns and additional audit work	Between 35,000 and 40,000	4,000	5,861
Total audit	77,966 to 82,966	46,966	61,661
Other non-audit services not covered above Housing Benefits Subsidy Claim	20,750	15,250	18,547
Pooling of Housing Capital Receipts Return	-	3,900	3,500
Total other non-audit services	20,750	19,150	22,047
Total fees	98,716 to 103,716	66,116	83,708

All fees exclude VAT

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