

Confirmed



Minutes of a Meeting of the **Audit and Governance Committee** held via Zoom, on **Monday, 18 January 2021 at 6:30pm**

**Members of the Committee present:**

Councillor Edward Back, Councillor Judy Cloke, Councillor Tony Cooper, Councillor Linda Coulam, Councillor Geoff Lynch, Councillor Rachel Smith-Lyte, Councillor Ed Thompson

**Other Members present:**

Councillor Maurice Cook, Councillor Craig Rivett

**Officers present:**

Sarah Davis (Democratic Services Officer), Matt Makin (Democratic Services Officer), Siobhan Martin (Head of Internal Audit & Data Protection Officer), Brian Mew (Interim Chief Finance Officer & Section 151 Officer) and Lorraine Rogers (Deputy Chief Finance Officer).

**Others present:**

Debbie Hanson (Ernst & Young).

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**1 Apologies for Absence and Substitutions**

Apologies for absence were received from Councillor Gandy. Councillor Byatt attended as Councillor Gandy's substitute.

**2 Declarations of Interest**

There were no Declarations of Interest.

**3 Suffolk Coastal District Council Annual Audit Letter 2018/19**

The Committee received the report of the Cabinet Member with responsibility for Resources which presented Ernst and Young's (EY) 2018/19 Annual Audit Letter for Suffolk Coastal District Council. It was noted that the Letter communicated the key issues arising from their work to Committee Members and external stakeholders, including members of the public.

The Cabinet Member reminded the Committee that detailed findings from EY's audit work had already been reported to them in September 2020 via the Audit Results Report and, at that time, the audit had been substantially complete. Members also received the updated Audit Results Report for 2018/19 with the sections that had been updated clearly highlighted in the Report. It was clarified that those findings had not been repeated in the Annual Audit Letter. Members were informed that the Executive Summary of the Audit Letter covered the areas of audit work undertaken and the conclusions of that work, while the Financial Statement Audit and Value for Money

Sections of the Letter detailed the significant risks identified from EY's audit planning, along with the findings from their work, in relation to these areas. There were no issues to report and an unqualified audit opinion and unqualified value for money conclusion had been issued.

The Cabinet Member explained that the Audit Letter also detailed the agreed and proposed audit fees. It was noted that the scale of fee variations for the 2018/19 year were yet to be agreed by the S151 Officer and were subject to further approval by Public Sector Audit Appointments (PSAA). The estimated scale fee variation of £10,600 in respect of the 2018/19 audit related to an objection to the Statement of Accounts which EY had not yet concluded their work on.

Debbie Hanson from EY reported that the purpose of the Annual Audit Letter was to provide a more public facing version of the Results Report that had been presented to the Committee in September 2020. Members were reminded that an unqualified audit opinion on the financial statements and unqualified value for money conclusion had been issued. A certificate concluding the audit had not yet been issued because EY were still concluding the objection received, although EY was satisfied that no issues raised by the objector would impact materially on the financial statements or value for money conclusion. Ms Hanson referred to Appendix B which was an updated Results Report and she explained that it had been revised because there had been some movement since the September Committee, when the original Report had been considered, in relation to the NNDR appeal position as one of the appeals had now been settled.

The Chairman queried whether the NNDR appeal related to Felixstowe Docks and the Interim Chief Finance Officer responded that the Council had made a sizeable provision of around £1.3m and this was reflected in the 2018/19 accounts but the appeal had settled at a much lower value than that giving around £1.1m difference. Because this happened in the period of the audit, this needed to be reflected as a material adjustment in the accounts for 2018/19. Essentially this was just a switch between years because it had been originally reflected in the 2019/20 East Suffolk accounts. He concluded that this adjustment was actually financially advantageous for the Council and the Suffolk Business Rates Pool because, in that year, the Council was part of a Government pilot where 100% of NNDR was retained by the Pool, whereas in 2019/20 the retained portion was 50%.

In relation to the Melton Hill valuation, the Chairman queried if EY was happy with that and Ms Hanson responded that EY had received responses from officers and were now in the process of drafting a response to the objector.

Councillor Byatt highlighted page 19 and a reference to a review of classifications and he queried how urgent this would be and also if Officers were sufficiently trained given there was reference to the value of Felixstowe chalets being overestimated due to the inclusion of VAT. The Interim Chief Finance Officer stated that he was confident that they were one-off issues and the valuation process should deal with those types of issues in the future. Ms Hanson confirmed that they had seemed to be one-off issues. She added that EY was doing more work around valuations this year due to Covid. In relation to the query on a review of classifications, Ms Hanson responded that they would need to be reviewed in 2019/20. The Interim Chief Finance Officer

confirmed that procedures were reviewed every year to ensure that the Council was in line with the Code and Framework.

On the proposition of Councillor Cloke, seconded by Councillor Coulam, it was

## **RESOLVED**

That, having reviewed and commented, the Committee noted:

1. the key findings within the External Auditors' Annual Audit Letter for the year ended 31 March 2019 in respect of Suffolk Coastal District Council (Appendix A).
2. the findings in the updated external auditor's report 2018/19 (updated November 2020).

### **4 Waveney District Council Annual Audit Letter 2018/19**

The Committee received the report of the Cabinet Member with responsibility for Resources which presented Ernst and Young's (EY) 2018/19 Annual Audit Letter for Waveney District Council.

Debbie Hanson stated that this report had the same background as the Suffolk Coastal report and she highlighted, in particular, Section 3 which contained the key findings in relation to the financial statements audit. She explained that there was no update for the Annual Results Report for Waveney as there had been no additional update since it was presented to the Committee in September 2020. Members noted that EY had issued an unqualified opinion for the financial statements audit and value for money conclusion on 10 December 2020 and their certificate concluding the audit had also been issued at the same time in relation to Waveney.

The Committee was informed that the first two risks EY had noted in relation to their audit was the misstatements due to fraud or error and the inappropriate capitalisation of revenue spend but no issues were identified in relation to those two areas. In relation to the valuation of land and buildings, Ms Hanson stated that there had been an error in relation to community assets which had been included in the accounts at a value of £617,000 but in their view this was an incorrect value and it should have been valued on an existing use basis with a value of £0. Management had corrected this and put it in as a prior period adjustment and amended the comparative information in 2017/18 but, although EY agreed with the nature of the error, they felt that it did not meet the definition of a prior period adjustment because the error was immaterial and was not, therefore, fundamental to a reader of the accounts so, in their view it should have just been adjusted in the current year rather than as a prior period adjustment. With regard to the pension liability valuation, Ms Hanson explained that this was due to legal cases and timing of the estimates undertaken by the actuary but had not been amended as it was not material. EY had also noted the authority had incorrectly shown a figure for the increase in available for sale financial assets but, again, this was not material and, therefore, not amended for. Ms Hanson reminded Members that she had talked through the going concern assessment and disclosures when the Committee had considered the Results Report.

Ms Hanson concluded that there was nothing else to draw to Members' attention in

the report and she reiterated that there had been a positive outcome in terms of the unqualified opinion and certificate issued in December.

The Chairman referred to page 58 of the agenda and queried an additional charge of £8,400 in relation to Housing Benefits charges. Ms Hanson responded that there was a base charge for this work and then, as part of the audit, 25 cases were tested and if there were then errors found in that testing or in the prior year, a further sample of 40 cases would be tested to address the specific error so the final fee for Housing Benefits depended on the final amount of testing undertaken, therefore, the charge could vary each year. She added that, if there were fails and extended testing required, a report had to be made to DWP for which an additional fee was charged.

Councillor Cooper queried the audit fees and whether it would be the same figure next year. Ms Hanson clarified that the £73,000 was the total fee including the work on the housing benefit claim and the audit but she pointed out that, as the housing benefit fee varied, she did not know next year's total fee yet. In relation to the audit, she explained that the PSAA set the audit scale fee of £41,406 and this was the same for 2019/20, however, EY had made representations to the PSAA to increase the scale fees because they did not feel they had kept pace with the changing regulatory environment and the extra audit work required to be taken eg more specialists being involved in an audit such as valuers. Ms Hanson reported that the PSAA was still deliberating on their proposal to increase the scale fees for 2019/20. She added that the impact of Covid was also unknown in relation to its effect on the extra work needing to be undertaken in 2019/20 and the risks would roll forward to 2020/21. This meant that the current base figure for 2019/20 was £41,406 but EY expected that they would make proposals to the PSAA to increase this figure due to the extra work needed as a result of Covid to address the risks from that.

Concern was expressed that this meant the Council would not know the fees until after the audit had been carried out. Ms Hanson responded that EY had shared with Officers what they thought the base fees should be. She also pointed out that these fees were for Waveney but they had been reset by the PSAA for East Suffolk. She added that the Finance Team were aware of the starting point relating to the fees and EY could share estimates of what the fee would be as things came up but until the work was undertaken it was not possible to know what was required because the issues and errors identified through the audit were unknown. Clarification was sought as to whether the fees were negotiable and Ms Hanson responded that the process was that they tried to agree them with management and the PSAA who would ask what kind of work had been undertaken, the number of hours spent, what grade of staff had been involved etc. The PSAA would then set an hourly rate and Ms Hanson pointed out that this would be much lower than those set for EY's corporate clients.

The Chairman referred to the fact that part of the additional £6,000 fee was due to staffing issues at EY so he queried whether this would be an additional fee on 2019/20 audit as well as paying it in 2018/19. Ms Hanson responded that EY would still have to do work in relation to 2019/20 because the going concern assessment covered a period of 12 months from the date of the audit report, so if they were completed in February 2021 then the work would need to look forward to February 2022. She added, however, that this time the Council knew what information would be needed in respect of the going concern assessment so it should be less onerous than the first time the

process was undertaken.

The Chairman reminded the Committee that the 2019/20 accounts were due to be considered at their next meeting in March 2021 and he queried if EY would be able to complete their audit in time. Ms Hanson responded that EY were making good progress on the audit so she was confident the audit would be completed subject to the review of asset valuations being completed in time.

Councillor Byatt expressed his Group's thanks to the Finance, Audit and EY Teams for their hard work in ensuring that there was nothing of concern in relation to Waveney's accounts, particularly in relation to value for money.

On the proposition of Councillor Cooper, seconded by Councillor Cloke, it was

**RESOLVED**

That, having considered and commented, the Committee noted the key findings within the External Auditor's Annual Audit Letter for the year ended 31 March 2019 in respect of Waveney District Council.

The meeting concluded at 7:15pm

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Chairman