

Report for Information

Report to Audit Committee
28th November 2008

Report of Head of Finance

Subject Commentary on the External Audit of the 2007/08 Financial Statements

5

Purpose

To provide a commentary on the actions taken by Norwich City Council during the external audit of the 2007/08 Statement of Accounts

Recommendations

To be noted

Financial Consequences

There are no direct financial consequences of this report.

Strategic Priority and Outcome/Service Priorities

The report helps to achieve the strategic priority “Aiming for excellence – ensuring the Council is efficient in its use of resources, is effective in delivering its plans, is a good employer and communicates effectively with its customers, staff and partners” and the service plan priority to ensure the proper administration of council’s financial affairs including reviewing, developing and reporting on the financial aspects of corporate governance.

Contact Officers

Barry Marshall, Head of Finance

01603 212556

Background

Following on from the appointment of the a new Head of Finance in November 2006, it was estimated that it would take a minimum of 3 years to move the council’s financial management processes to a position where the annual statement of accounts were both SORP compliant and met a high standard. With the near completion of the 2007/08 Statement of Accounts, we are now at the end of the second year of this recovery process.

The production of the statement of accounts for 2007/08 represents the first time in a number of years that the accounts have been completed from a ‘balanced’ trial balance.

Report

As members may recall, for the 2006/07 Statement of Account, Norwich City Council received a 'qualified disclaimed' opinion and the council was subject to a Section 11 notice, whereby it had to address specific audit issues; which were a mix of both financial management and accounting issues.

On the 30th June 2008, members approved the 2007/08 Statement of Accounts. However, although these accounts were produced based on a 'balanced' trial balance, there was a probability that some further accounting treatments would be brought into question and would require to be resolved during the subsequent audit.

Since the summer, the Audit Commission, the council's appointed external auditors, have been conducting an extensive and thorough audit of the statements; their audit update report on the 2007/08 Statement of Accounts follows this report.

Although the auditors update report illustrates a number of audit issues, as you will see from the attached table, the council has made significant progress in tackling both the issues that were raised as a result of the 2006/07 Section 11 notice and other issues that have been identified during the audit of the 2007/08 accounts. In addition, the table also shows that the majority of the audit issues have no impact on either the General Fund or HRA balances.

Over the period of the audit the council's finance team have worked very closely with the Audit Commission to address the audit issues that have been raised to ensure that inadequate accounting practices are identified and eradicated from the council's financial management systems. Some of the accounting treatments that have come to light have been embedded within the council for a number of years. Indeed, some of these issues, for example, the accounting arrangements around NELM and some of the grants that the council have received over past years, are having to be very carefully 'unwound' to identify the true financial position. It is only with having a firm foundation (i.e. a 'balanced trial balance') has it been possible to 'filter' out these practices and ensure that the council can move forward to ensure that there will be a steady and robust improvement in its financial management and reporting arrangements.

2007/08 Financial Statements Audit Update - Progress Against Audit Issues

Paragraph Reference	Audit Issue	Action to Date	Adjustment Agreed by NCC and External auditor	Impact on		
				General Fund Balance	HRA Balance	
Accounting Issues that are Currently Unresolved						
13		Pension Liability in connection with the employees transferred to a contractor in 2000.	Updated Actuarial Assessment of liability has been obtained. The provision to meet the estimated cost is yet to be determined.	The value of the adjustment is yet to be determined.	Yes	Yes
14		Fixed Assets:				
	14.1	Adjustment of £5.8m to District Value valuation due to incorrect stock numbers	District Valuer valuation for 2007/08 reflects the correct housing stock numbers, thus correcting the valuation error due to incorrect stock numbers included in the 2006/07 accounts	Yes	No	No
	14.2	Adjustment to the Revaluation Reserve for £19.0m incorrect apportionment of Capital Expenditure to Beacon Property Groups.	NCC reduced £19.0m by £1.6m (see 14.4) and apportioned £17.0m to beacon properties on which the expenditure was spent, appropriate adjustments made to the Revaluation Reserve.	Yes	No	No
	14.3	£2.1m Capital Expenditure 'Impairment Adjustment' as noted by the District Valuer.	NCC have adjusted the HRA to reflect the Impairment Adjustment	Yes	No	No
	14.4	Reclassification of £1.6m capital expenditure to repairs and renewals	NCC have reclassified the expenditure as revenue and charged to HRA	Yes	No	Yes
	14.5	£1.8m revaluation of council house disposals and adjustment to the Revaluation Reserve and Capital Adjustment Account.	NCC have reviewed housing disposals to reflect the difference between the 'social housing value' and the actual 'market value', and the accounts have been adjusted accordingly.	Yes	No	No
	14.6	Asset Register adjustments for Additions of £0.718m and Disposals of £2.9m	Asset Register adjustments have been made in the accounts.	Yes	No	No
	14.7	Adjustment for Depreciation on non-land Community Assets	Non-land assets have been reviewed and external audit are currently reviewing. There may be a £0.102m to the General Fund.	Yes	Yes	No

15		NELM:				
	15.1	Review of £0.613m Debtor in accounts.	Ongoing forensic review	The value of the adjustment is yet to be determined.	Yes, amount not known until forensic review complete	No
	15.2	Review of £1.1m Creditor in accounts.	Ongoing forensic review	The value of the adjustment is yet to be determined.	Yes, amount not known until forensic review complete	No
	15.3	Review of £0.595m accruals in accounts.	Ongoing forensic review	The value of the adjustment is yet to be determined.	Yes, amount not known until forensic review complete	No
	15.4	Financial assessment of potential Contingent Liability	Dependent on 15.1 to 15.4	The value of the adjustment is yet to be determined.	Yes, amount not known until forensic review complete	No
17		Review of Suspense Accounts; showing Income of £1.8m and expenditure of £1.5m	Forensic review has been undertaken by NCC, this has been reviewed by external audit and currently gross income and expenditure adjustments to be made to clear off all outstanding Suspense Accounts.	Yes	Yes	no
18		Highways Agency and a external audit assessment of the recoverability of the resultant debtor.	NCC has reviewed the Highways Agency account and all transactions are complete. A decision on the outstanding debtor is to be finalised.	Yes	No	No
19		Correct accounting treatment of Interreg European grants.	Forensic review of all Interreg European grants is ongoing.	Yes	Yes	No
20		Adjustment for £2.0m accruals brought forward from 2006/07.	NCC have reviewed the accruals, but amendments to the accounts will be dependent on the NELM review (see 15 above)	The value of the adjustment is yet to be determined.	Yes, amount not known until review complete	Yes, amount not known until review complete
21		Rewording of Explanatory Foreword	Will be completed when review of I&E and Balance Sheet complete	N/a	N/a	N/a

Quantified Errors in the Financial Statements						
22		Errors:				
	22.1	£68.0m Internal Recharges	Accounts Amended	Yes	No	No
	22.2	£0.997m incorrect grossing up of European debtor and creditor balances	Accounts Amended	Yes	No	No
	22.3	£1.4m LABGI receipt received around time of Accounts approval.	Accounts Amended	Yes	Yes	No
	22.4	£0.354m Council Tax and NNDR creditor balances included in Receipts in Advance	Accounts Amended	Yes	Yes	No
	22.5	Omissions of £0.912m capital accruals.	Accounts Amended	Yes	No	No
	22.6	Reclassification of £3.0m S.106 developer contributions between short and long term creditors.	Accounts Amended	Yes	No	No
	22.7	£0.326m discrepancy between housing benefits and debtors system	Accounts Amended	Yes	Yes	No
	22.8	Write-off of £3.8m of deferred premiums to the General Fund through the Financial Instruments Adjustment Account	Accounts Amended	Yes	No	No
	22.9	Misclassification of £2.5m deferred capital receipts liability	Accounts Amended	Yes	No	No
	22.10	Misclassification of £1.6m housing benefits overpayments as short rather than long term debtors	Accounts Amended	Yes	No	No
	22.11	Recognition of £3.0m write-off of asset values through I&E	Accounts Amended	Yes	No	No
	22.12	£0.9m of cut off errors in accounting for grants to RSL's	Accounts Amended	Yes	No	No
	22.13	Incorrect consolidation of HRA in the I&E (recharges)	Accounts Amended	Yes	No	No
	22.14	£0.813m cut off error for 'week 53' rental income in the HRA	Accounts Amended	Yes	No	Yes
	22.15	Inappropriate treatment of £0.750m receipt for livestock market	Accounts Amended	Yes	No	No
	22.16	Capital Financing Account and Fixed Asset Adjustment Account transfer to the Capital Adjustment Account	Accounts Amended	Yes	No	No