Annual Governance Report

Norwich City Council

Audit 2007/08

Date

Contents

Summary

Purpose

1 This report summarises the findings from our 2007/08 audit, which is substantially complete, although there remain some areas where further work is necessary. It identifies the key issues that you should consider before we issue our opinion, conclusion and certificate.

2 This report includes only matters of governance interest that have come to our attention in performing our audit. Our audit is not designed to identify all matters that might be relevant to you.

3 We presented a Financial Statements Audit Update Report to the Audit Committee in November 2008 which set out the position on our audit as at 18 November. This report updates the position on some of the issues reported at that time, and provides a more comprehensive position for Audit Committee members.

Financial statements

4 A significant number of issues, leading to material amendments in the draft financial statements, have arisen throughout the course of the 2007/08 audit. As a consequence the audit progressed significantly beyond the 30 September deadline.

5 Officers have made a large number of adjustments to the financial statements as a consequence of our recommendations (see Appendix 3). Despite the level of adjustments required we are pleased to report that officers have reacted positively to the audit issues raised with them to date. Officers are in the process of finalising a revised set of financial statements to reflect the necessary changes, and we still have some remaining work to carry out on checking through all the agreed adjustments. Our audit findings demonstrate that there are still issues with the quality of some of the underlying data underpinning the financial statements and, in some respects, with the Council's ability to adequately deal with technical accounting matters and changes. Further work to strengthen both processes and the knowledge base is still required.

6 We are still considering the form of our opinion as some prior year qualification issues are not yet fully resolved (see table 3 below), and there are two current year issues where we are awaiting additional audit evidence.

7 We welcome the fact that many of the prior year issues that contributed to our disclaimer audit opinion have been resolved. Whilst we do not wish to detract from the significant achievement that this represents for the Council, getting to this stage has involved significant additional work, and cost, for both the Council and ourselves. The level of adjustments required indicates that the Council's arrangements for the production of the financial statements were still inadequate in 2007/08, although we acknowledge progress made in certain areas, such as control of the closedown process. A significant improvement is still required if the production and audit of the 2008/09 financial statements is to be a much less onerous and costly process.

Value for Money

8 We are required to conclude whether the Council put in place adequate corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. We assess your arrangements against twelve criteria specified by the Commission. Our conclusion is informed by our work on Use of Resources, a scored judgement reported to the Audit Commission

9 The Council has made some progress in the Use of Resources which underpins the VFM opinion, but was starting from a low base point. A number of weaknesses remain in three areas which have impacted on the value for money conclusion. The areas of qualification have reduced as a result of the Council's efforts and we will therefore be issuing a qualified 'except for' opinion (Appendix1).

Formal audit powers

10 I have given consideration as to whether I should again make statutory recommendations under section 11 of the Audit Commission Act 1998 or issue a public interest report under section 8 of the Act. I have concluded that, given the progress achieved by the Council in respect of financial reporting in 2007/08 I do not need to exercise my formal audit powers at this stage. However, as noted above there remains significant scope for further improvement and I shall keep this situation under review as part of my 2008/09 audit.

Next steps

11 We ask the Audit Committee to:

- consider the matters raised in the report before adopting the revised financial statements;
- approve the representation letter on behalf of the Council before we issue our opinion, conclusion and certificate; and
- agree the proposed action plan.

Financial statements and Annual Governance Statement

12 The Council's financial statements and Annual Governance Statement are important means by which the Council accounts for its stewardship of public funds. As Council members you have final responsibility for the financial statements and Annual Governance Statement. It is therefore important that you consider our findings before you adopt the revised financial statements and the Annual Governance Statement.

13 In planning our audit we identified specific risks and areas of judgement that we have focused on during our audit. We report to you the findings of our work in those areas.

14 In addition, auditing standards require us to report to you:

- any expected modification to our report;
- our views about the Council's accounting practices and financial reporting;
- errors in the financial statements;
- the draft representation letter which we are asking management and you to sign;
- weaknesses in internal control; and
- certain other matters.

Key areas of judgement and audit risk

15 In planning our audit we identified key areas of judgement and audit risk that we have considered as part of our audit. Our findings are set out in Table 1.

Table 1 Key areas of judgement and audit risk

Issue or risk	Finding
Risks arising from original audit plan issued in May 2007	
Significant changes proposed in the 2007 Statement of Recommended Practice (SORP)	See comments under supplementary audit plan risk below.
Poor standard of draft financial statements and working papers previously provided for audit and the resultant extent of audit work before issuing the audit opinion which was a qualified disclaimer opinion in 2005/06. Financial statements deadlines were not met in 2005/06.	See comments under supplementary audit plan risk below.
Historical weaknesses in connection with certain key accounts reconciliations.	Key accounts reconciliations have been reviewed as part of our pre and post-

Issue or risk	Finding
	statements work. Whilst we recognise improvements made some issues remain: • no reconciliation had been carried out between the Academy rents system and the General Ledger at the time our audit commenced, although this was subsequently carried out. This is a key reconciliation which should automatically form part of the closedown arrangements. The reconciliation resulted in significant amendments to the financial statements; • our audit of the reconciliation of the NNDR and council tax systems resulted in the removal of unsubstantiated old creditor balances from prior years. It may be prudent to include the old balances as a contingent liability disclosure in the financial statements; and • no reconciliation had been carried out between the benefits system and the General Ledger in respect of Housing Benefit overpayments, seemingly due to a lack of awareness of the reporting capabilities of the benefits system. When this reconciliation was performed as a result of our audit requirements it resulted in a £326k reduction in debtors and other housing income.
The Council's unitary status bid.	No direct impact for the 2007/08 financial statements audit due to the referral to the Boundary Committee.
Risks arising from supplementary audit plan issued in May 2008	
The financial statements opinion for 2006/07 was disclaimed. A significant number of less fundamental issues were also detected as reported in our Annual Governance and regularity Reports.	A significant amount of additional audit work has been undertaken and we have had to adopt a 'substantive' audit process whereby, rather than relying on controls that the Council seeks to have in place, we seek to agree financial statements entries back to the underlying records and supporting evidence. Issues arising from this work are set out later in this document.

Issue or risk	Finding
Working papers were inadequate in 2006/07. In many areas there was a lack of sufficient, appropriate audit evidence.	We have noted improvements in the Council's approach to the preparation of the financial statements during the closedown process and we are pleased to report that officers have reacted positively to the audit issues raised with them to date. Officers are in the process of preparing a revised set of financial statements to reflect the necessary changes, and given the volume of adjustments required, this has taken a considerable amount of both officer and audit time. The extent of change required is evident from Appendix 3. Our audit findings demonstrate that there are still issues with the quality of some of the underlying data underpinning the financial statements, the working papers provided and, in some respects, in the Council's ability to adequately deal with technical accounting matters and technical changes. Further work to strengthen both processes and the knowledge base is still required.
Internal Audit's work on fundamental financial systems is behind schedule and there are therefore significant limitations in our ability to place full reliance on it. Additionally, there have been some significant changes in finance personnel.	As noted above we have had to adopt a 'substantive' audit process rather than relying on controls or Internal Audit (IA) work. We note that the Council has recently engaged a firm of auditors to assist with Internal Audit work. Whilst we welcome this development we would reiterate the Audit Committee's responsibility for monitoring and, where necessary challenging, the activities of IA, and for maintaining an adequate environment of internal control. Reports to the Audit Committee on IA activity should be refined so that the reported planned days for 'systems audits' excludes Internal Audit work outside of the routine systems reviews - such work (for example, finance system improvement plan work, corrective action on grant claims and arrangements) is often a deviation from the plan and

Issue or risk	Finding
	should be clearly reported as such. A lack of fundamental IA systems work is evident as there were only five reports issued for 2007/08, three of which were IT reports. The implications are that the IA function is either significantly under-resourced to cope with the Council's demands or that it is working on areas which may be better suited to the use of other resource. Because of the substantive approach for 2007/08 Audit Committee members should be aware that we have not followed up all matters raised in the 2006/07 Annual Governance Report or Regularity Reports, and have not tested the operation of controls at the Council. We will give further consideration to action plan achievements as part of the 2008/09 pre-statements work when improvements are expected to have become embedded.
System weaknesses/issues were reported in 2006/07. System and procedure notes were assessed as inadequate in 2006/07, and this impacted on the speed at which we were able to assess the accounting systems to comply with International Auditing Standards.	Refer to the above comments regarding key control account recommendations. Our pre-statements and Use of Resources work indicated that the Council had made some improvements in terms of systems and procedure notes, but that this requires continued attention, and a system needs to be set up to keep procedure notes up to date. We will consider the latest position when we carry out our pre-statements work for 2008/09.
The requirements of the new SORP.	A review of compliance against the SORP undertaken as part of our post-statements work resulted in a number of material and non-material amendments to the financial statements. Such amendments are included in Appendix 3. The SORP introduced key changes to capital accounting and in respect of financial instruments. The most significant errors in the draft financial statements were in connection with:

Issue or risk	Finding
	• deferred premiums previously carried in the balance sheet (£4.7 million at 31 March 2007) should have been written off to the Financial Instruments Adjustment Account. This, together with the write back which can pass through the HRA, has subsequently been corrected in a revised version of the accounts; • officers incorrectly brought forward the Capital Financing Account and Fixed Asset Adjustment Accounts despite SORP changes which required these to be transferred to the new Capital Adjustment Account (CAA) (a total of £984m movement between reserves); and • numerous changes to the fixed assets movements were detected as part of our audit procedures. These are referred to later in this report. These changes impacted on the impairments shown in the financial statements as well as the Revaluation Reserve and CAA.

Recommendation	
R1	Ensure that all feeder system reconciliations are carried out, as a minimum, as part of closedown arrangements before the financial statements are prepared. Consider reconciling certain systems more often where these are only done annually at present.
R2	Further strengthen both processes and the knowledge base within the Financial Services team. Consider whether additional resource is required for capital accounting given reporting requirements and the asset base held by the Council.

R3	Review the current Internal Audit workload and the internal and external resources available to determine whether further resource is required to developed financial systems work. Improve the way that Internal Audit progress is reported to Audit Committee members so it is clear to them when Internal Audit resources are being deviated away from plan. This should be a key consideration when the Council prepares its Annual Governance Statement.
R4	Review the latest position on system and procedure notes and consider the use of a central log to show where these are kept, who has responsibility for their upkeep and the maximum elapsed time before they should be updated.

The audit report

16 We presented a Financial Statements Audit Update Report to the Audit Committee in November 2008 which set out the position at that time. Significant progress on the form of our audit opinion has been achieved since then, but there remain, at time of drafting, certain issues where further consideration is required before we can determine the final content of our audit opinion.

17 Audit Committee members are aware that the issues arising from the 2006/07 audit resulted in a qualified disclaimer opinion being issued. This has meant that a significant amount of additional audit work has been undertaken and we have had to adopt a 'substantive' audit process whereby, rather than relying on controls that the Council seeks to have in place, we seek to agree financial statements entries back to the underlying records and supporting evidence. All prior year qualification matters have had to be considered in terms of their impact on the current year financial statements including the comparative amounts - further information on this is given below.

18 In addition to the prior year issues there are currently unresolved issues which could potentially impact on our opinion if not satisfactorily resolved during January. These are in relation to the Housing Revenue Account and are discussed further below. We are therefore not yet in a position to finalise the form of our audit opinion.

19 Our intention is to provide a verbal update to members at the Audit Committee meeting on 29 January 2009. This update will be supported by an Addendum to this report which we shall table. This process will:

- Update the Audit Committee members on the status of our work and any remaining work;
- Update the Audit Committee members on any new issues arising or resolved since this report;
- Provide a draft financial statements opinion; and
- Include a completed Action Plan in respect of the recommendations raised in this report (see Appendix 4).

Prior year qualification issues where the material uncertainty or disagreement have been removed

20 Table 2 below summarises the position for 2007/08 of the material uncertainties forming part of the disclaimed audit opinion in 2006/07, where the material uncertainty or disagreement has been removed.

Table 2 Prior year qualification issues where the material uncertainty or disagreement have been removed

Prior year uncertainty or disagreement (summarised)	How resolved for 2007/08
The 2005/06 financial statements received a qualified (disclaimer) opinion. Necessary adjustments to the 2005/06 figures could have a consequential effect on the deficit for the year ended 31 March 2007, the comparative figures and opening balances.	The matters noted in our 2004/05 and 2005/06 qualified audit reports have each been reviewed and, where appropriate, we have considered the findings of our 2007/08 audit work, where matters are related. Many issues are considered to be resolved by the work done in the current year - for example, the bank position has been reconciled at 31 March 2008, key feeder systems have also been reconciled; and additional audit work has been carried out on the latest position on New Deal and SureStart claims. Other issues such as the qualification of the 2004/05 cashflow statement have no ongoing impact on the Council's accounts. In respect of the concerns regarding entries in the Capital Financing Account (the balance on which was subsumed into the Capital Adjustment Account on 1 April 2007 in accordance with the SORP), officers have carried out additional analysis of this which we have reviewed. Whilst there remains a difference we do not consider that this remains a material concern in the context of the CFA balance of £122.8m. A significant proportion of the current General Fund balance has been generated since 31 March 2006, and, as we have audited the 2007/08 financial statements in detail, and considered the impact of all 2006/07 qualification issues, we do not consider that the GF balance

Prior year uncertainty or disagreement (summarised)	How resolved for 2007/08
	could be materially misstated by any issues arising from the 2005/06 and 2004/05 qualifications.
Lack of sufficient appropriate evidence to support elements of the £17.969 million 'net additional amount required by statute and non-statutory proper practices to be debited or credited to the General Fund balance for the year' which forms part of the Statement of Movement on the General Fund Balance (SMGFB). The specific issues were: • the total of £9.056 million made up of £2.682 million for depreciation and impairment of fixed assets and £6.374 million for the excess depreciation charged to the Housing Revenue Account (HRA) over the Major Repairs Allowance (MRA), was £9.553 million lower than the corresponding debits in the Income and Expenditure Account; and • the £5.932 million write down of deferred charges was £351k lower than the corresponding debit in the Income and Expenditure Account. These left a position where the closing balance on the General Fund balance may have been materially misstated.	Additional work has been carried out by officers in support of the 2006/07 entries. We have considered this and now understand what the entries should be for both the current year and prior year SMGFB. In respect of the 2006/07 entries, we are satisfied that none of the inaccuracies are material. There is no proposal to correct the remaining inaccuracies (primarily in respect of the treatment of deferred charges) detected in the 2006/07 comparatives as they are not materially misstated, and there is no impact on the overall reserves position (note that similar errors in the 2007/08 figures are to be corrected in the revised version of the financial statements).
Lack of sufficient appropriate evidence to support the calculation of the Capital Financing Requirement. This meant we had insufficient assurance that the minimum revenue provision (MRP) of £0.957 million was fairly stated.	There were two aspects leading to the qualification in 2006/07: • the fact that the Council had not appropriately reconciled the 'Adjustment A' figure used when the capital Financing Requirement (CFR) regime was brought into force in 2004; and • the fact that the Council's opening and closing CFRs were not reconciled to the balance sheet. In respect of the Adjustment A figure we have carried out an exercise to review the credit ceiling and CFR at the date the requirements came into force. Whilst the

Prior year uncertainty or disagreement (summarised)	How resolved for 2007/08
	position has not been reconciled fully, appropriate Adjustment 'A' reconciling items have been identified which enable us to be satisfied that there was no material misstatement of the 2003/04 financial statements in respect of this issue. Additional work has been carried out by officers in support of the CFR entries. They have corrected for the impact of errors they detected by providing an additional £386k MRP in the 2007/08 financial statements. Our review of this work indicated that there was an error in respect of the inclusion of deferred capital receipts in the CFR workings. This had a non-material impact on the MRP which the Council has agreed to correct in the revised financial statements (see Appendix 3).
Lack of sufficient appropriate evidence to support the capitalisation of £2.8 million of expenditure on council dwellings rather than charging them to the HRA repairs and maintenance account. This gave us concerns that the following were not fairly stated: • £15.869 additions to council dwellings; and • £11.886 million HRA repairs and maintenance expenditure met via the housing repairs and renewals fund (and the associated entries consolidated into the Income and Expenditure Account).	Officers reviewed the position and have now charged to the revenue account £2,299k of the sum previously capitalised. The work we have performed supports that this correction is not materially misstated. However, this adjustment is significant in the context of the 2007/08 figures, so should be disclosed as an exceptional item on the face of the HRA. This has been raised with officers who are to make the correction in the revised version of the financial statements.
Lack of sufficient appropriate evidence to verify the £0.320 million credit balances in respect of SureStart grant income. This left us with insufficient assurance that the year end debtors balance of £2.775 million in respect of ‘Agency Accounts and Government Departments’ were not fairly stated.	A 'clean up' of the accounts connected with the SureStart schemes was carried out by officers in 2007/08. The SureStart creditor at 31 March 2008 has a supporting analysis on which the payment to the new accountable bodies has subsequently been based. The work we have performed indicates that the balance sheet position is not materially misstated.

<table>
<tr><th>Prior year uncertainty or disagreement (summarised)</th><th>How resolved for 2007/08</th></tr>
<tr><td>Lack of sufficient audit evidence to support significant reconciling entries in the year end bank and rent reconciliations. The bank reconciliation includes a £0.611 million adjustment in respect of rental income which was not adequately explained. In addition the reconciliation of rental income and rental arrears included unexplained adjustments of :
• £0.077 million for dwelling rents;
• £1.029 million for non-dwelling rents; and
• £0.970 million in respect of the rent arrears position.
This gave us insufficient assurance that the following were not fairly stated:
• £3.943 million bank overdraft;
• £43.881 million HRA dwelling/non-dwelling rental income, and associated income in the consolidated Income and Expenditure Account, and
• £0.584 million Housing rents net debtor</td><td>Officers have investigated the reconciling items in the 2006/07 bank reconciliation and concluded that the issue was in relation to timing issues in respect of PARIS (cash receipting system) income. The difference should not have been classified as cash, but should have been set off the related debtors and creditor balances. We are satisfied that the position has not recurred in 2007/08, although do recommend that detailed consideration is always given to cash timing issues at the year end as, whilst not impacting on cash, there was a £511k misclassification between debtors and creditors in respect of amounts paid in advance. Whilst the 2006/07 balance sheet has not been corrected in this regard, the comparatives are not materially misstated.
Additional work has also been carried out by officers in respect of the 2006/07 rent position. This investigation indicated that the problem occurred following a change in accounting connected with housing rents paid in at the post office. This resulted in an element of double counting in 2006/07 during April 2006, although the posting mechanism meant that only balance sheet codes were impacted. The Council has taken corrective action in 2007/08. We have reviewed the 31 March 2008 balances on the affected codes and are satisfied that the current balances do not indicate any material misstatement.
Members should note there is currently an unresolved issue on the current year rent position - this is considered later in this report.</td></tr>
<tr><td>Lack of appropriate evidence to support elements of the £7.992 million ‘net additional amount required by statute and non-statutory proper practices to be debited or credited to the HRA balance for</td><td>Additional work has been carried out by officers in support of the 2006/07 entries. We have considered this and now understand what the entries should be for the prior year SMHRAB.</td></tr>
</table>

<table>
<tr><th>Prior year uncertainty or disagreement (summarised)</th><th>How resolved for 2007/08</th></tr>
<tr><td>the year' which forms part of the Statement of Movement on the HRA Balance (SMHRAB). The unsupported amounts were as follows:
• the total of £0.006 million regarding the difference between the amounts charged to I&E for amortisation of premiums and discounts and the charge for the year determined in accordance with statute; and
• the total of £nil regarding the difference between any other items of income and expenditure determined in accordance with the SORP and determined in accordance with statutory HRA.

This left us with insufficient assurance that the closing balance on the Housing Revenue Account of £8.088 million was fairly stated.</td><td>The £0.006million related to 3% stock issued by the Council, which should not have been included in the SMHRAB.
In respect of the second item there was £0.509m of government grants deferred in 2006/07 which should have been reversed through the SMHRAB.

There is no proposal to correct the inaccuracies detected in the 2006/07 comparatives as they are not materially misstated, and there is no impact on the overall reserves position (note that similar errors in the 2007/08 figures are to be corrected in the revised version of the financial statements).</td></tr>
<tr><td>Lack of sufficient appropriate evidence to demonstrate that the leases in respect of the Authority's investment properties are appropriately accounted for in the financial statements. The Authority currently accounts for all these leases as operating rather than finance leases.
This gave us concerns that the following were fairly stated:
• £78.192 million investment properties;
• £nil long term debtors in respect of leases;
• rental income; and
• £2.097k interest and investment income.</td><td>Officers have reviewed a sample of the leases that they consider are most at risk of being inappropriately classified as operating leases. We are satisfied, that on the basis of the review the risk of material misstatement in respect of inappropriate lease classification has been acceptably reduced.
Whilst we welcome the steps taken to date we would make the following comments:
• The documentation supporting the consideration of the leases could be further improved, particularly the balance attributed to the qualitative factors where these have been determined the overriding factors in the lease classification;
• Officers should review all leases in operation. It is sensible that they have considered the ones most at risk of misclassification during 2007/08, but a programme should be agreed to</td></tr>
</table>

Prior year uncertainty or disagreement (summarised)	How resolved for 2007/08
	consider all remaining leases. The accounting treatment for leases then needs to be kept up to date for any changes to leases; and • Officers also need to be mindful of the potential changes that may occur when International Financial Reporting Standards are adopted (IAS17 and IFRIC4) for local government reporting. An IFRS implementation plan needs to be established to take this consideration into account.
Lack of sufficient appropriate evidence for the debtor balance of £0.613 million in relation to the New Deal grant. This gave us insufficient assurance that the income for the year recognised for New Deal, or the £0.613 million debtor balance were fairly stated.	Additional work has been carried out by officers in support of the New Deal grant. We have considered this and agreed with officers that the debtor balance of £0.613m represented the cumulative balance with the NELM Development Trust arising pre 2007/08. This balance needed to be amalgamated with the balance for the 2007/08 transactions to give an overall creditor due to the Trust, and this has been done in the revised version of the financial statements (see Appendix 3). Our overview of the overall cash flows in respect of the New Deal grant income and expenditure does not indicate any material misstatement of the overall creditor now showing as amounts due to NELM, although there is an immaterial non-adjusted difference. We recommend that officers consolidate the understanding that they have now gained on the transaction flows relating to New Deal transactions. A qualification letter was raised in respect of our audit of the 2003/04 New Deal grant claim and many of these issues are expected to be still ongoing. Whilst we are aware that officers are now having more routine liaison with the officers at NELM, we consider that this should be an area of continued focus with improved internal control arrangements being put in place.

Prior year uncertainty or disagreement (summarised)	How resolved for 2007/08
	This should include agreement of amounts that the Council recognises as debtors or creditors in its General Ledger. The draft financial statements included a contingent liability note in connection with New Deal due to the fact that there is a backlog of un-audited claims, and the potential for claw back of funds advanced which we did not consider to meet the terms of the grant. We concur that a contingent liability note is required, but have raised concerns with officers that, as currently drafted, the note does not meet SORP requirements. This should be corrected in the revised version of the financial statements. The grant conditions state that 10% of the grant income may be used for management and administration (M&A) costs. Over the life of the project this amounts to £3.95m (assuming that 10% of capital receipts can also be applied for M&A purposes). To date the Council has charged £3.81m of M&A costs to NELM leaving only £0.14m available for the remainder of the project. Any unapproved M&A costs will have to be borne by the Council's General Fund. We understand the M&A costs over the last two years of the project will be approximately £0.631m, leading to a projected overspend of £0.490m.
The Council recognised income of approximately £2 million in excess of the relevant grant approvals in respect of New Deal expenditure for the period 2001/02 to 2005/06. We considered that it was prudent for the financial statements to include a creditor for this amount but none was included.	The need for this creditor arose because New Deal expenditure exceeded the amount of grant offered. We are now of the view that as the grant is a 10 year grant the argument to take a cumulative position is reasonable, and that as the grant approving body has paid grant in excess of the grant offered, that is has in effect given approval. We concur with officers' assertions that the likelihood that the grant approving body will seek a refund of this element of grant

Prior year uncertainty or disagreement (summarised)	**How resolved for 2007/08**
	is remote and is sufficiently addressed by the inclusion of a contingent liability note (although note the above concerns regarding the content of this note in the draft financial statements).
Disagreement regarding the transactions of the Norwich Highways Agency Committee (NHC) which were included in the Authority's financial statements This gave us concerns that the figures disclosed in the financial statements for income and expenditure were both overstated by approximately £4 million.	Officers have corrected the recognition of income and expenditure in the prior year figures by way of a prior period adjustment. We are satisfied that the comparatives in the income and expenditure account are now appropriate in this regard. As part of our work in 2007/08 we have given further consideration of the position regarding the Norwich Highways Agency Joint Committee. Our overall conclusion is that, due to the structure of the joint committee overseeing the performance of the agency agreement, the appropriate accounting treatment should include elements of accounting as a 'joint arrangement not an entity' (the activities outside of the Agency arrangement) and elements of accounting as an Agency (activities forming part of the Agency arrangement, which is the bulk of the income and expenditure). The Council is currently revising the financial statements to reflect this position.
The undervaluation of Housing stock by £17.2 million due to the failure to include the District Valuer's estimate of the adjustment to reflect the notional acquisition costs in the value.	Officers have corrected the error in the prior year figures by way of a prior period adjustment. Note that an additional £5.8m prior period adjustment was also made by officers to correct for the issue reported to members in 2006/07 regarding the provision of inaccurate stock numbers to the District Valuer, resulting in an over-valuation of the housing stock at 31 March 2007.
The inclusion of £0.301 million in respect of payments made before the year end as a year end reconciling item in the bank	Officers have reviewed the position but have not adjusted the comparatives to move the credit balances from cash into

Prior year uncertainty or disagreement (summarised)	How resolved for 2007/08
reconciliation. These amounts should have been accounted for as expenditure in the year ended 31 March 2007.	accruals. However, based on the 31 March 2008 work the misclassification has effectively been resolved in 2007/08. As the misclassification in the comparatives is not material we are satisfied that the treatment is acceptable.

Recommendation	
R5	Improve the documentation supporting the consideration of leases; particularly the balance attributed to the qualitative factors where these have been determined to be the overriding factors in the lease classification. Agree a programme to consider all remaining leases and ensure the lease information is kept up to date for any changes to leases.
R6	Establish an IFRS implementation plan to ensure that the Council is able to deal with the requirements of International Financial Reporting Standards when they are adopted for local government reporting.
R7	Improve the understanding of the transaction flows in the council's General Ledger relating to New Deal transactions. Improve liaison with the NELM Development Trust and seek to regularly agree amounts that the Council recognises as debtors or creditors in its General Ledger.
R8	Address the issues raised in the qualification letter relating to the 2003/04 New Deal grant claim.
R9	Redraft the contingent liability note in respect of the New Deal claim position and ensure it is SORP compliant.
R10	Endeavour to secure additional funding for the expected New Deal Management & Administration overspend to avoid having to fund this cost from the general fund in future years. Make a budget provision for this until the funding is secured.

Prior year qualification issues where the material uncertainty currently remains

21 Table 3 below summarises the position for 2007/08 (including the comparative amounts) of the material uncertainties forming part of the disclaimed audit opinion in 2006/07, where the material uncertainty currently remains. In this case, unless work in January is sufficient to resolve the position, these issues will result in either a current year qualification or a qualification on the comparative balances.

Table 3 Prior year qualification issues where the material uncertainty currently remains

Prior year uncertainty (summarised)	Status and impact for 2007/08 opinion if not resolved in January
Lack of sufficient appropriate evidence as to whether it has a liability regarding accrued pension deficits in respect of the employees transferred to a contractor in April 2000. No liability was included within the 2006/07 financial statements. We had insufficient assurance therefore that the following balances were fairly stated: • £0.771 million non-distributed costs in the income and expenditure account; and • £55.078 million liability related to the defined benefit pension scheme (and the associated pensions reserve).	The financial statements do not include any provision for payment of the liability (although the Explanatory Foreword comments on a potential liability of £1.8m based on actuarial advice at the time the Foreword was drafted). Officers were subsequently made aware of a highly material increase in this pension liability to approximately £19m, but have recently agreed with the pension fund trustees that the liability will be taken into account in future actuarial calculations which will determine the future rate at which the Council will contribute to the pension scheme (hence 'smoothing' the cost over future years). Due to this agreement officers have proposed that no provision is required in the 2007/08 accounts, nor is any disclosure of the position required. We are concerned that the accounting treatment and disclosures may not be in accordance with generally accepted accounting practice and are currently consulting with our technical team regarding this issue.
Lack of sufficient appropriate evidence to support the 'other operating cash payments' of £71.256 million in the Cash Flow Statement. Additionally, there was a lack of sufficient appropriate evidence to support the note reconciling the 'net revenue cash outflow'. We were therefore unable to substantiate the amounts within the Cash Flow Statement.	The 2006/07 cash flow statement has not been revised nor have we received any additional information in support of the figures disclosed, although officers are currently considering what is feasible in respect of this. If the position is not adequately resolved during January then the cash flow comparatives will be qualified. This would not result in any ongoing qualification. Members should note that our audit work on the 2007/08 cash flow has been deferred until officers have had the opportunity to prepare the revised financial

Prior year uncertainty (summarised)	Status and impact for 2007/08 opinion if not resolved in January
	statements taking into account all of the adjustments set out in Appendix 3. We aim to have completed this work by the date of the Audit Committee meeting, but this is dependent on the standard of the revised financial statements and cash flow working papers received.
Lack of sufficient appropriate evidence to support the disclosures within the Explanatory Foreword to the financial statements and therefore whether the Explanatory Foreword was consistent with the rest of the financial statements. Note that this was not a qualification issue but an 'emphasis of matter' paragraph in the 2006/07 Annual Audit Report.	Following the volume of changes to the financial statements (see Appendix 3) the Explanatory Foreword is in the process of being re-worked. We will need to consider the 2007/08 version to determine if the inadequacies have been resolved.

Recommendation
R11 Further consider the position in respect of the pension issue for the 2007/08 financial statements in light of the technical view offered.
R12 Revisit the 2006/07 comparatives in the cash flow statement and deal with the material uncertainties raised in the 2006/07 qualification. Ensure that the 2007/08 cash flow statement and working papers are robustly prepared.
R13 Re-work the Explanatory Foreword in the 2007/08 financial statements ensuring that disclosures are consistent with the primary statements as revised. Provide appropriate supporting working papers for disclosures made in the revised version.

Current year audit work outstanding which, if not resolved may contribute to a qualified opinion

22 In addition to the matters noted in table 3 above, the following issues, if not adequately resolved in January, may contribute to this year's audit report being qualified.

Recharges to the HRA

23 Whilst we are aware that the Head of Finance did consider the overall basis for recharges to the HRA in overview, there was a lack of readily available supporting evidence for the recharges made from the General Fund to the statutory HRA. We are

currently trying to obtain additional evidence to support the recharges made and to confirm that there is no material overcharge to the HRA.

24 A recharge was made to the HRA in respect of street cleansing and tree 'management'. Whilst, exceptionally, a council may wish to charge the HRA costs incurred on estate roads provided under Part II of the 1985 Act and used almost exclusively by HRA tenants and their visitors, it is possible that such charges are not robustly supported at the Council.

25 Officers must ensure that all recharges are made on an appropriate basis, based on as up to date information as is practicable, and that documentation supporting the recharges should be retained.

Rent

26 Whilst the Council has carried out a reconciliation of the rent system to the general ledger (and thus to the amounts included in the 2007/08 financial statements), our analytical procedures have detected an approximate £688k potential understatement in relation to the £43.6m rent disclosed in the financial statements. This appears to relate to incorrect postings in connection with private sector rentals but this is subject to further investigation and explanation by officers.

Recommendation
R14 Ensure that all recharges made to the HRA are robustly supported.
R15 Resolve the current audit concern regarding the rent disclosed in the financial statements.

Other comments on outstanding audit work

27 As a result of the significant changes to the income and expenditure accounts and balance sheet a number of other elements of the financial statements need to change to reflect the revised financial statements position including:

- the Statement of Movement in the General Fund balance (SMGFB) and the supporting note;
- the Statement of Total Recognised Gains and Losses (STRGL);
- the Cash Flow statement and the supporting notes; and
- the Statement of Movement in the Housing Revenue Account Balance (SMHRAB) and the supporting note.

For that reason we temporarily ceased audit work on the above areas of the financial statements, although the Council has been advised of material and significant issues identified in our work to date, including the need to provide a SORP compliant STRGL regarding the impact of prior period adjustments, and an error in the figure disclosed in the gain arising on pension fund assets and liabilities. It is important that the entries in the revised STRGL, movement statements and notes are consistent with the revised primary statements. We will audit these areas based on a revised final draft of the financial statements as soon as they are available. Should any material issues arise we will provide an updated position to the Audit Committee members at the meeting on 29 January.

28 It is important for members to be aware that whilst we have worked closely with officers to agree the amendments to be made to the financial statements during the course of the audit, we shall need to reconcile the final draft version, when received, to our expectations. If there are any significant variations then these may present additional audit qualification issues.

29 Members should note that, other than the comments noted above, the quality assurance procedures relating to the overall audit are yet to be completed. Should any further matters arise in concluding the outstanding work then we will discuss them at the Audit Committee meeting on 29 January. If issues emerge after that date we will raise them with the Chair of the Audit Committee.

Accounting practices and financial reporting

30 We consider the qualitative aspects of your financial reporting. Table 4 contains the issues we want to raise with you.

Table 4 Accounting practices and financial reporting

Issue or risk	Finding
Quality of draft financial statements	Review of the draft statement of accounts revealed there were a number of arithmetic and cross-referencing errors, as well as many technical points and disclosure deficiencies noted by the technical and audit managers. As previously noted in this report, significant effort has been made by both officers and audit staff to 'clean up' the financial statements in respect of the issues identified. It will be critical for the success of the 2008/09 audit that appropriate lessons are learned from this process and that the same sorts of errors are not repeated in drafting the 2008/09 financial statements.
Debtors and bad debt provisioning	We do not consider that the Council's approach to bad debt provisioning is fully compliant with the financial instruments requirements within the SORP, and there are elements of the provision which are not

Issue or risk	Finding
	adequately supported or being applied inconsistently. It seems likely that there is an element of under provision, particularly with regard to housing benefits overpayments. Whilst not insignificant, this is unlikely to be material and we recommend that the approach to bad debt provisioning is fully reviewed before the 2008/09 financial statements are produced. In particular the sundry debtors' ledger needs to be reviewed and cleared of old or uncollectible debt. Responsibility then needs to be assigned in respect of ensuring balances are regularly reviewed and pursued (note our comments in the internal controls section below).
Classification of fixed assets	A review of the notes to the financial statements shows the Theatre Royal and "Trading Units" as non-operational assets. Similarly note 3 to the HRA states that the HRA has £21m of investment assets. The reason given for classification as non-operational is that they are "not in our control" or "occupied by others". The true determinant of whether an asset is operational or non-operational is whether the assets are being held to meet strategic objectives. Officers and members should review the classification of non-operational assets following the SORP guidance before preparing the 2008/09 financial statements. Where appropriate the assets should be reclassified and an appropriate depreciation charge levied.
Split of assets between the General Fund and HRA	Council dwellings in the balance sheet include £9.9m of property which is being accounted for within the General Fund. Council dwellings are properties that are supplied under Part II of the Housing Act 1985 and provide secured tenancies to the

Issue or risk	Finding
	tenant. These properties normally fall to be accounted for under the HRA and as such it would not be expected that any GF properties would be identified under this heading. We recommend that officers and members review the classification of these properties and consider the technicalities of transferring them to the HRA.
Fixed asset register	Members should be aware that revaluation reserve accounting was introduced by the 2007 SORP. This puts greater demands on the information required from councils' fixed asset registers when assets have been re-valued, and the information becomes increasingly complex if re-valued assets are depreciable. It will be important that the fixed asset register is revised to ensure that it is able to provide the necessary information going forwards. The current register does not always split land from depreciable assets. Where the value pertaining to land is not clearly identified it is possible that depreciation may be overstated where the assets are depreciable. Members and management should also give consideration to whether additional support is required for the Capital Accountant.
Fixed asset additions	Officers should be mindful of the needs of both the Capital Accountant and the auditors in terms of the split of major projects between capital and repairs and renewals. Detailed consideration needs to be given to the classification and coding of projects at an early stage so that costs are not capitalised inappropriately (note that significant adjustments were required for retrospective corrections for such issues in both 2007/08 and 2006/07. Additionally, the Capital Accountant needs to be able to allocate additions to council houses by Beacon group and this was only possible with a significant amount of effort in

Issue or risk	Finding
	2007/08. Consideration should therefore be given as to whether the coding structure and/or accounting procedures can be better aligned to financial reporting needs. Information supporting the completion of works such as post inspection reports and completion certificates should be retained to support the existence of the assets.
Deferred charges	Expenditure on capital projects (which, on completion, transferred to Norfolk County) have historically been included as infrastructure assets within Norwich City Council. Such expenditure would more properly be classified as a deferred charge as it represents expenditure of a capital nature which does not result in an asset owned by the Council. Associated capital grants and contributions should be dealt with accordingly. The accounting practices should be reconsidered going forwards.
Item 8 determination and the HRA	The Item 8 determination was not fully considered when preparing the HRA account. Application of the Item 8 determination is a statutory requirement.

Recommendation
R16 Formulate an action plan to ensure that errors are not repeated in the financial statements preparation process in 2008/09. Ensure that the draft financial statements have an overall sensibility check in terms of their content and internal consistency - this should be carried out by someone with a good working knowledge of the SORP.
R17 Review the approach to bad debt provisioning and ensure that it is in line with SORP requirements for financial instruments.
R18 Improve the arrangements for the collection of sundry debtors and carry out a ledger clean up exercise.
R19 Review the classification of non-operational assets following the SORP guidance before preparing the 2008/09 financial statements. Where appropriate reclassify the assets and make an appropriate depreciation provision.

R20	Review the classification of the properties held within the General Fund but used for housing. Consider the technicalities of transferring them to the HRA.
R21	Ensure that the fixed asset register is updated to reflect accounting changes made in 2007/08. Review the form of the register to ensure that it is able to cope with the effect of revaluations and disposals over future years, and ensure that land is split out from the rest of the asset where appropriate.
R22	Give early consideration to the needs of both the Capital Accountant and the Auditors in terms of expenditure made on assets and its classification as either capital or revenue. Detailed consideration needs to be given to the classification and coding of projects at an early stage so that costs are not inappropriately capitalised. Review the general ledger coding structure and/or accounting procedures to see if such expenditure can be better aligned to financial reporting.
R23	Review accounting practices on expenditure on capital projects which, on completion, transfer to Norfolk County Council.
R24	Follow the Item 8 determination fully when preparing the HRA account.

Errors in the financial statements

31 We identified a significant number of errors in the financial statements (other than those of a trivial nature) and reported these to management.

32 Management has agreed to adjust the financial statements for the errors identified in Appendix 3. However, because of the weakness in financial control process that caused the errors, and the materiality of some of the errors, we are reporting these errors to you.

33 The Audit Committee previously received commentary on some of the most significant errors found in our Audit Update report issued in November. We have not sought to comment here on all the non-trivial errors found but highlight below some of the more significant areas where adjustments were required and revisions to accounting treatment need to be progressed in 2008/09.

34 Members should also note that there were some significant disclosure omissions, and errors within notes. Officers have generally amended for all significant issues, but the volume of amendments does suggest there were considerable weaknesses in the quality of the draft financial statements.

Financial statements preparation process

35 Whilst the preparation of the financial statements from the trial balance was better controlled this year via the use of a spreadsheet detailing all journals processed to produce the financial statements, both income and expenditure in the I&E account had been overstated by almost £68m due to the failure to exclude internal recharges. This was a significant error and indicates a lack of overall 'sensibility' checking of the statements. Officers' initial correction of the error failed to completely correct the issue and further corrections were required.

36 The Housing Revenue Account was not consolidated into the Income and Expenditure Account correctly. The amount disclosed for 'Local Authority Housing' in the I&E

account (£3,785k) included a number of items which should have been disclosed in Net Operating Expenditure or within the Statements of Movement on the General Fund Balance/HRA balance. Also included in this line were amounts which should have been disclosed as part of Corporate and Democratic Core and Non-distributed Costs in the I&E account.

Accounting for capital transactions

37 A number of individually material adjustments to the financial statements were required to the fixed asset and related capital transactions and the supporting notes to the financial statements. Whilst the overall carrying value of the assets has not changed materially (mainly because the council dwellings are carried at a valuation as at 31 March 2008), members should not dismiss the significance of the issues detected, nor the work required correcting the accounts. Issues included:

- Additions to HRA Council dwellings of £19m were inaccurately apportioned to Beacon property groups based on their balances at 1 April 2007, rather than being allocated to the property groups where the money had been spent. Depreciation was calculated and applied in a similar manner. As a result the revaluation reserve and/or impairment charge in relation to each Beacon property group was misstated.
- Officers failed to request a view from the District Valuer as to whether or not the capital expenditure on council dwellings added equivalent value. The District Valuer subsequently expressed the view that £2.1m did not add any market value. Whilst the expenditure that did not add value is correctly treated as capital in nature it represents a consumption of economic benefit and therefore should have been written off to the Capital Adjustment Account (CAA) via the HRA and Statement of Movement in the HRA Balance.
- We identified £1.6m of capital expenditure which should properly have been classified as repairs and renewals and be written off to the HRA.
- We identified cut off errors in accounting for capital transactions (including deferred charges) of £1.7m.
- Whilst sold at market value, council houses were not re-valued for accounting purposes prior to disposal, resulting in an estimated £1.8m misstatement of the revaluation reserve and CAA in the Balance Sheet.
- The presentation of the fixed asset note contained an "adjustments" line consisting of additions, disposals, reclassifications and the expected prior year adjustment. The additions of £718k and disposals of £2.9m included in this line represented errors and omissions in the asset register. The fixed asset note did not contain the information required by the SORP due to the format adopted, although we had raised this issue in the previous year. Officers agreed a revised format as part of processing all of the fixed asset amendments.
- Community assets which are not land had not been depreciated. This is historical practice but is not compliant with the SORP. Officers have subsequently estimated and put through a charge for 2007/08, but further investigation of the assets, and required depreciation levels, making up the balance of community assets should be carried out before the 2008/09 financial statements are prepared.

- During 2007/08, government grants relating to non-depreciable assets were not credited to revenue. Instead, they were credited straight to the Capital Adjustment Account (CAA). The Council should credit service revenue accounts with amounts amortised in respect of government grants associated with non-depreciable assets (£3,185k). Corresponding debits should be made in the SMGFB (from the CAA) to ensure that there is no impact on the General Fund.

38 As noted under the accounting practices section, members and management should give consideration to whether additional support is required for the Capital Accountant.

Accounting for grants

39 The Council did not account for three Interreg European grants correctly as balance sheet holding accounts were used which meant that no entries passed through the income and expenditure account. It is important that as grant funding is obtained the accounting considerations are given appropriate consideration. The Council has continued to use suspense and holding accounts inappropriately during 2007/08 although we had raised this as an issue in our 2006/07 Annual Governance Report (see comments below). Corrective action as a consequence of a review we requested during the audit resulted in the General Fund balance being amended by £134k as a result of the clearance of suspense and holding accounts.

40 Cut-off was not applied appropriately in respect of the Local Authority Business Growth Initiative grant.

Decent homes loans

41 The Council incorrectly accounted for decent home loans given. The loans were accounted for within deferred capital receipts. The loans are not mortgages of council properties and cash has been paid out. In accordance with the SORP, this transaction is a simple advance, and the transactions should be to create a debtor for the cash paid out.

Draft representation letter

42 Before we issue our opinion, auditing standards require us to obtain from you and management, written representations that:

- you acknowledge your collective responsibility for preparing financial statements in accordance with the applicable financial reporting framework;
- you have approved the financial statements;
- you acknowledge your responsibility for the design and implementation of internal controls to prevent and detect fraud and error;
- you have told me the results of your assessment of the risk that the financial statements might be materially misstated because of fraud;
- you have told me of any actual or suspected fraud by management, employees with significant roles in internal control or others (where the fraud could have a material impact on the financial statements);

- you have told me of any allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, regulators or others;
- you have told me about all known actual or possible non-compliance with laws and regulations whose effects should be considered when preparing financial statements;
- you have assessed the reasonableness of significant assumptions, including whether they appropriately reflect management's intent and ability to carry out specific courses of action on behalf of the Council where relevant to the fair value measurements or disclosures;
- you are satisfied that all related parties requiring disclosure in the financial statements have been disclosed and that the disclosure is adequate;
- you are satisfied that the individual or collective impact of errors we have identified, but that you have not corrected, is not material; and
- cover areas where other sufficient appropriate evidence cannot reasonably be expected to exist, for example the completeness of the disclosure of contingent liabilities.

43 Appendix 2 contains the draft of the letter of representation we seek from you.

Material weaknesses in internal control

44 We have identified weaknesses in the design or operation of an internal control that might result in a material error in your financial statements which has not been reported to you. These weaknesses may be symptomatic of broader weaknesses in your control environment. These weaknesses are set out in Table 5.

Table 5 Weaknesses in internal control

Issue or risk	Finding
Annual Governance Statement (AGS)	The AGS as originally approved by members was inaccurate and incomplete regarding control issues at the council (for example, it failed to mention the s11 recommendations made in the prior year or the disclaimed audit opinion). This demonstrates weaknesses in the approval process and a lack of awareness/regard by Council officers and members of the importance of a robust process for preparing and approving the AGS.

Issue or risk	Finding
Information Technology	The Council does not enter IT risks on the corporate risk register; these are managed through service review meetings with the outsourced provider. Whilst there is evidence that risk is discussed, particularly following incidents, there is no evidence of an IT risk log being maintained. We consider that significant risks should be included on the corporate risk register, and that an ongoing log of IT issues is maintained. The level of IT outsourcing is total. The Council does not receive any formal independent assurance over the IT control environment e.g. SAS70 reports on system assurance or whether security policies conform to ISO27001. We recommend that the Council obtains additional assurance each year over the outsourced IT control environment. Leavers' access to Oracle is not always promptly deleted.
Council tax system	Our walkthrough of the Council Tax system noted the following weaknesses: • Quarterly banding reconciliations between the Valuation Office's Council Tax data and the Council's system were only carried out twice in the year (July 2006 & November 2006). The position should be reconciled more regularly; • The year end Collection Fund (CF) reconciliation by the Revenues & Benefits Finance Officer is not thoroughly reviewed by another Finance officer before the year end journals are created. The spreadsheet calculating year end CF journals included some errors. Key accounts journals and reconciliations should be reviewed by someone other than the preparer; • Checks by seniors on data entered to the Council Tax system by less experienced staff were not performed regularly.

Issue or risk	**Finding**
Journals	There have been some improvements over the control of journals, with authorisation requirements being introduced in February 2008. The requirement is for the creator of the journal to obtain authorisation before they post it to the general ledger. However, since the creator also posts the journal, the creator could post a journal without authorisation. There should be a different person posting the journal than the person who created it. We also note that journals are not sequentially pre-numbered, with the creator of the journal being required to manually enter their own sequential journal number (based on the last journal they entered). There is a risk that a journal could be entered twice or that the journal may be difficult to trace. The Council should consider further improvements to the procedures for journals.
Debtors and recoverability	Our walkthrough of the Debtors system noted the following weaknesses: • Sundry Debtors are sent a monthly "Past Due Invoices" report, showing all aged sundry debts; but at the end of February 2008, this report had not been passed on to service centres throughout the Council. There appears a lack of clarity as to whether responsibility for chasing up debts (or writing off irrecoverable debts) lies with Sundry Income, service centres, or both; • The "Past Due Invoices" report for Feb 2008 totals £3.2m - a significant amount. This includes many insignificant debts dating back a number of years. The debtor position should be further 'cleaned up' - this would make monitoring of old debts easier going forwards; and • In 2007/08, controls to ensure that only authorised staff raised invoice request

Issue or risk	Finding
	forms (IRFs) were weak - the Sundry Income team did not have an up to date list of service centre staff approved to authorise IRFs. Testing by Internal Audit found a number of cases where IRFs had been authorised at service centre level by a member of staff without the seniority to do so. This was also an issue in 2006/07.

Recommendation
R25 Improve the process for preparing and approving the Annual Governance Statement. Additional member and officer training may be required.
R26 Form an action plan to address the control weaknesses identified in this Annual Governance Report.

45 We have not provided a comprehensive statement of all weaknesses which may exist in internal control, nor of all improvements which may be made. We have reported only those matters which have come to our attention because of the audit procedures we have performed. As commented above, our audit approach has been predominantly substantive in nature in 2007/08, which means that we have not carried out any detailed testing of the operation of controls.

Other matters

46 We have identified the following matters that we require you to consider.

Table 6 Other matters

Issue or risk	Finding
Greyhound Opening/Goldsmith Street - HRA properties have been rented to Council staff.	We have been asked to look into this issue. We have asked to be kept informed of the outcomes of both the Council's own inquiry into this matter and the independent assessment of that inquiry that the Council is instigating. A pre-arranged inspection of the Council's housing service will also take these developments into account. Once the position has been more fully explored via the above channels we will consider whether the matter needs to be subject to any separate Audit Commission investigation.
Our 2006/07 Annual Audit Letter contained the following recommendations under section 11 of the Audit Commission Act 1998: • Monitor closely the implementation of the action plan put in place to address the key weaknesses in financial reporting and internal control system set out in our Annual Governance Report for 2006/07; and • Review the arrangements for the production of the 2007/08 financial statements, and ensure that sufficient resources of the appropriate quality are made available to prepare good quality financial statements that are fully supported by complete working papers.	The Council formally responded to the s11 recommendations made. Our audit work has enabled us to conclude that whilst some progress has been made, the level of issues detected indicates that there is evidently more to do before arrangements are adequate. We are currently not minded to formally reissue the s11 recommendations but reiterate to both members and officers of the need to improve financial accounting and reporting at the Council.

Value for money

47 We are required to conclude whether the Council put in place adequate corporate arrangements for securing economy, efficiency and effectiveness in its use of resources in the year to 31 March 2008. We assess your arrangements against twelve criteria specified by the Commission. Our conclusion is informed by our work on Use of Resources, a scored judgement reported to the Audit Commission.

48 The Council has made some progress in the Use of Resources which underpins the VFM opinion, but was starting from a low base point. A number of weaknesses remain in three areas which have impacted on the value for money conclusion. The areas of qualification have reduced as a result of the Council's efforts and we will therefore be issuing a qualified 'except for' opinion (Appendix1).

49 We identified weaknesses in arrangements for securing value for money as detailed below.

Table 7 Value for money conclusion: criteria where assessed as not adequate

Criterion	Finding
The body has put in place arrangements to maintain a sound system of internal control.	Whilst some progress has been made by the Council during 2007/08, the following weaknesses have contributed to our conclusion that the overall criterion is not met: • The sources of assurance to support the governance statement were not reviewed by members when approving the Annual Governance Statement (AGS); • Whilst the Council developed a draft Business Continuity plan during 2007/08, it had not been reviewed or approved by members by 31 March 2008. No monitoring or testing of the plan occurred during 2007/08; • Pre and post statements audit work identified some control weaknesses. Reconciliations of some major feeder systems are only performed at year end and some were not performed at all or were incorrect (e.g. rent reconciliation,

Criterion	Finding
	the housing benefits debtors reconciliation); and • the Council has not implemented governance arrangements for all of its significant partnerships during 2007/08, nor finalised a partnership policy. This is identified by the Council as an issue in its AGS. Our work on the New Deal for Communities grant claim supports the conclusion that arrangements are not yet adequate.
The body has put in place a medium term financial strategy, budgets and a capital programme that are soundly based and designed to deliver its strategic priorities.	Progress has been made by the Council during 2007/08, including the development of the medium term financial strategy (MTFS). However, the following weaknesses remain and have contributed to our conclusion that the overall criterion is not met: • the MTFS was introduced in July 2007 and was not reviewed prior to July 2008. As at the end of September 2008 it had still not been formally revisited by members; and • there was insufficient progress in the year to 31 March 2008 in undertaking equalities impact assessments of the Council's strategies and understanding the effect and impact these will have on its diverse population. The implications for medium term financial planning are yet to be fully understood.
The body has put in place arrangements to manage performance against budgets.	Weaknesses remain in the following areas: • budget performance reporting to members during 2007/08 was not sufficient, with only 2 reports being issued during the year; • financial systems are not being regularly tested - Internal audit did not complete all of their 2006/07 work or complete any financial system reviews in 2007/08; • arrangements to consider departmental overspends are not considered robust enough to determine if they have been managed with no adverse impact on

Criterion	Finding
	service delivery; and • The financial performance of all significant partnerships is not regularly reviewed, the results shared with partners and acted upon. We have raised particular concerns about the arrangements for New Deal with the NELM Development Trust.

Recommendation
R27 Address the issues necessary to achieve an unqualified value for money conclusion. Members should note that the Use of Resources assessment for 2009 will be based around three themes which will be directly linked to the value for money conclusion (managing the finances, governing the business and managing resources). The Use of Resources assessment for 2009 will be more 'outcomes' focussed. It will be helpful if the Council could provide a robust self assessment based on the new themes.

50 We therefore propose to issue a qualified conclusion stating the Council had adequate arrangements for securing economy, efficiency and effectiveness, except in the three areas highlighted above. Appendix 1 contains the wording of our draft report.

Formal audit powers

51 We have:

- a power to issue a public interest report. We do so where we believe this is necessary to draw a matter to your attention, or to that of the public;
- a power to apply to court for a declaration that an item in the Council's accounts is contrary to law;
- a power to issue an advisory notice. An advisory notice requires the Council to meet and consider the notice before:
  - making a decision that might give rise to unlawful expenditure; or
  - taking an unlawful course of action that would give rise to a loss; or
  - making unlawful entry in the accounts; and
- a power to seek judicial review of a decision of the Council.

52 In 2007/08 we are not currently minded to exercise these powers. We are mindful that the issues noted in the 'other matters' section above and this position will be kept under review.

Independence

53 The Code of Audit Practice and the APB's Ethical Standards with which auditors must comply require that auditors act, and are seen to act, with integrity, objectivity and independence.

54 We confirm that we comply with the APB's Ethical Standards, that we are independent and that our objectivity is not compromised.

55 We communicate to you:

- any relationships between us and the Council, its members and senior management that might affect our objectivity and independence and any safeguards put in place;
- total fees charged to you for audit and non-audit services; and
- our arrangements to ensure independence and objectivity.

Relationships with the Council

56 We have identified no relationships that might affect objectivity and independence.

Audit fees

57 We reported our fee proposals as part of the Audit Plan for 2007/08. The table below reports the outturn fee against that plan.

Table 8 Audit fees

	Plan 2007/08 £	Actual 2007/08 (estimated) £
Financial statements and Annual Governance Statement	80,902	209,781
Use of Resources	36,448	36,448
Data Quality	12,492	12,492
Whole of Government Accounts	2,134	-
National Fraud Initiative	625	625
Total Audit Fees	132,601	259,346

58 As reflected in this report a significant amount of additional audit work has been required to resolve issues in 2007/08 and the 2006/07 disclaimer opinion issues. To date we have agreed additional fees of £78,879 with the Head of Finance. A further fee will be required to reflect the completion of our audit work and agreeing the substantial number of adjustments through the accounts. An estimate of this final fee is £50,000 (net of the Whole of Government Accounts fee which will no longer be required as the deadline has passed) although this will be impacted by the standard of the revised financial statements. The actual column above reflects fees issued to date and the estimate of the final fee.

Our arrangements to ensure independence and objectivity

59 We have comprehensive procedures to ensure independence and objectivity. These are outlined in Table 9.

Table 9 Arrangements to ensure independence and objectivity

Area	Arrangements
Independence policies	Our policies and procedures ensure that professional staff or an immediate family member: • do not hold a financial interest in any of our audit clients; • may not work on assignments if they have a financial interest in the client or a party to the transaction or if they have a beneficial interest in a trust holding a financial position in the client; and • may not enter into business relationships with UK audit clients or their affiliates. Our procedures also cover the following topics and can be provided to you on request: • the general requirement to carry out work independently and objectively; • safeguarding against potential conflicts of interest; • acceptance of additional (non-audit) work; • rotation of key staff; • other links with audited bodies; • secondments; • membership of audited bodies; • employment by audited bodies; • political activity; and • gifts and hospitality.
Code of Conduct	The Code of Conduct forms part of the terms and conditions of all Audit Commission employees. The Code of Conduct states that staff have to comply with ethical guidance issued by their relevant

Area	Arrangements
	professional bodies.
Confidentiality	All staff are required to sign an annual undertaking of confidentiality as a condition of employment.

Appendix 1 – Proposed auditor's report

Independent auditor's report to the Members of Norwich City Council

Opinion on the financial statements

Specific wording for this opinion is presently being drafted.

Conclusion on arrangements for securing economy, efficiency and effectiveness in the use of resources

Authority's Responsibilities

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance and regularly to review the adequacy and effectiveness of these arrangements.

Auditor's Responsibilities

I am required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Authority for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion in relation to proper arrangements, having regard to relevant criteria specified by the Audit Commission for principal local authorities. I report if significant matters have come to my attention which prevent me from concluding that the Authority has made such proper arrangements. I am not required to consider, nor have I considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Qualified conclusion

I have undertaken my audit in accordance with the Code of Audit Practice and having regard to the criteria for principal local authorities specified by the Audit Commission and published in December 2006, I am satisfied that, in all significant respects, Norwich City Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2008 except that it did not put in place:

- arrangements to maintain a sound system of internal control;
- a medium term financial strategy, budgets and a capital programme that are soundly based and designed to deliver its strategic priorities; and
- arrangements to manage performance against budgets.

Best Value Performance Plan

I issued our statutory report on the audit of the Authority's best value performance plan for the financial year 2007/08 in December 2007. I did not identify any matters to be reported to the Authority and did not make any recommendations on procedures in relation to the plan.

Certificate

Specific wording for this part of the opinion is presently being drafted.

Andy Perrin

Audit Commission
Regus House
1010 Cambourne Business Park
Cambourne,
Cambridge
CB23 6DP

Date:

Appendix 2 – Draft letter of representation

To:

Mr A Perrin
District Auditor
Audit Commission
Regus House
1010 Cambourne Business Park
Cambourne
Cambridge
CB23 6DP

Norwich City Council - Audit for the year ended 31 March 2008

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other officers of Norwich City Council, the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2008.

Compliance with the statutory authorities

I acknowledge my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Code of Practice for Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice which present fairly the financial position and financial performance of the Council and for making accurate representations to you.

Supporting records

All the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the Council have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all Council and Committee meetings, have been made available to you.

Irregularities

I acknowledge my responsibility for the design and implementation of internal control systems to prevent and detect fraud or error.

There have been no:

- irregularities involving management or employees who have significant roles in the system of internal accounting control;
- irregularities involving other employees that could have a material effect on the financial statements; or
- communications from regulatory agencies concerning non-compliance with, or deficiencies on, financial reporting practices which could have a material effect on the financial statements.

I also confirm that I have disclosed:

- my knowledge of fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements; and
- my knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

Law, regulations, contractual arrangements and codes of practice

There are no instances of non-compliance with laws, regulations and codes of practice, likely to have a significant effect on the finances or operations of the Council.

Fair Values

I confirm the reasonableness of the significant assumptions within the financial statements.

Assets

The following have been properly recorded and, where appropriate, adequately disclosed in the financial statements:

- losses arising from sale & purchase commitments;
- agreements & options to buy back assets previously sold; and
- assets pledged as collateral.

Compensating arrangements

There are no formal or informal compensating balancing arrangements with any of our cash and investment accounts. Except as disclosed in the notes to the financial statements we have no other lines of credit arrangements.

Appendix 2 – Draft letter of representation

Contingent liabilities

There are no other contingent liabilities, other than those that have been properly recorded and disclosed in the financial statements. In particular:

- there is no significant pending or threatened litigation, other than those already disclosed in the financial statements;
- there are no material commitments or contractual issues, other than those already disclosed in the financial statements; and
- no financial guarantees have been given to third parties.

Related party transactions

I confirm the completeness of the information disclosed regarding the identification of related parties.

The identity of, and balances and transactions with, related parties have been properly recorded and where appropriate, adequately disclosed in the financial statements

Post balance sheet events

Since the date of approval of the financial statements by the Council, no additional significant post balance sheet events that have occurred which would require additional adjustment or disclosure in the financial statements.

The Council has no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

Signed on behalf of Norwich City Council

I confirm that this letter has been discussed and agreed by the Audit Committee on [XX January 2009].

Signed

Name	Name
Position – Head of Finance	Position – Chair of Audit Committee
Date	Date

Appendix 3 – Schedule of adjusted misstatements

Table 10 Adjusted Misstatements

Ref	Description of error	Items affected	Debit £'000	Credit £'000	Impact on I&E	Impact on HRA	Impact on GF balance £'000	Impact on HRA balance £'000
1	Misclassification of bank account as investment	Short term investments Bank	 689	689			0	0
2	Debit and credit balances held with the same bank were not netted off	Cash and bank Bank Overdraft	 4,801	4,801			0	0
3	Surplus assets held for disposal were not shown on the face of the balance sheet	Investment properties Surplus Assets held for disposal	 56,094	56,094			0	0
4	Internal recharges included in the net cost of services overstating income	Gross expenditure Gross income	 67,821	67,821	Yes	Yes	0	0

Appendix 3 – Schedule of adjusted misstatements

Ref	Description of error	Items affected	Debit £'000	Credit £'000	Impact on I&E	Impact on HRA	Impact on GF balance £'000	Impact on HRA balance £'000
	and expenditure							
5	Income and expenditure charged to balance sheet suspense accounts rather than the net cost of services	Debtors & Prepayments Cultural Environmental & Planning - income Corporate & Democratic Core - income Corporate & Democratic Core - expenditure	 114 225	134 205	Yes		134	0
6	Grant income received in 2008-09 relating to 2007-08	Local Authority business growth Initiative Debtors & Prepayments	 1,400	1,400	Yes		-1,400	
7	Capital expenditure charged to debtors & prepayments in error Being revenue contribution to capital from HRA	Debtors & Prepayments Fixed Asset - Additions Statement of movement on the HRA balance Capital adjustment account	 425 425	425 425	Yes	Yes	0	425
9	Being payments in advance reducing creditors in error.	Debtors & Prepayments Creditors	511	 511			0	0
10	Inappropriate grossing up of Interreg grant transactions	Debtors & Prepayments Creditors	 997	997			0	0
11	Removal of	CTAX Income		177			0	0

Ref	Description of error	Items affected	Debit £'000	Credit £'000	Impact on I&E	Impact on HRA	Impact on GF balance £'000	Impact on HRA balance £'000
	unsubstantiated creditor balances from prior years in respect of NNDR and council tax	NNDR Income Creditors - receipts in advance Creditors - other local authorities Collection fund surplus	 354 302	177 302 				
12	Capital transactions accounted for in the wrong year and associated financing	Creditors Fixed assets additions HRA - revenue contribution to capital Capital adjustment account	 806 757 	806 757		Yes	0	757
13	Misclassification of balances within Debtors	Debtors - Government departments Debtors - Other Local Authorities Debtors - Accruals	3,276 434 	 3,710			0	0
15	Misclassification between long and short term investments	Long term investments Short term Investments	286 	 286			0	0
16	Section 106 contributions were all classified as current liabilities	Creditors Long term liabilities	3,078 	 3,078			0	0
17	Section 106 amounts due in 2007-08 not accounted for until	Debtors & Prepayments Creditors	503 	 503			0	0

Appendix 3 – Schedule of adjusted misstatements

Ref	Description of error	Items affected	Debit £'000	Credit £'000	Impact on I&E	Impact on HRA	Impact on GF balance £'000	Impact on HRA balance £'000
	2008-09							
19	Differences identified between the general ledger and Northgate in respect of Housing Benefit overpayments	Debtors & Prepayments Other Housing Services - income	 326	326	Yes		326	0
20	Correction to Highways adjustment	Debtors Creditors Cash	826 454	 372			0	0
21	Deferred premiums incorrectly classified as a long term debtor	Deferred premiums on early repayment of debt Financial instruments adjustment account	 4,730	4,730			0	0
22	Misclassification of transferred debt from Norfolk County Council long term.	Long term debtors Debtors & Prepayments	 258	258			0	0
23	Fixed asset restatement account (FARA) and Capital Finance account (CFA) balances as at 31 March 2007 which should have been transferred to the new	Fixed asset restatement account (2006-07) Capital Finance Account (2006-07) Capital Adjustment Account (2006-07)	 984,467	861,147 123,320			0	0

Ref	Description of error	Items affected	Debit £'000	Credit £'000	Impact on I&E	Impact on HRA	Impact on GF balance £'000	Impact on HRA balance £'000
	Capital Adjustments Account (CAA)							
24	Misclassification of deferred capital receipts as a reserve.	Long term liabilities - Deferred capital receipts Reserves - Deferred Capital Receipts	 2,469	2,469			0	0
25	Misclassification of long term housing overpayments debtors as short term	Debtors & Prepayments Long term Debtors	 1,577	1,577			0	0
26	Impact of assets written off following service manager review of the asset register	Cultural Environmental & Planning - exp' Highways - expenditure Other Housing - expenditure Corporate & Democratic Core - expenditure Statement of Movement on General Fund (SMGF) Balance - impairments	2,380 205 253 126	 2,964	Yes		0	0
28	Grant income incorrectly included in creditors	Local Authority Business Growth Initiative Creditors	 459	459	Yes		-459	0
29	Income incorrectly treated as creditors	Creditors **Income:** Corporate and Democratic Core Cultural Environmental & Planning Highways Roads & Transport	452	 124 80 327	Yes	Yes	-343	-109

Ref	Description of error	Items affected	Debit £'000	Credit £'000	Impact on I&E	Impact on HRA	Impact on GF balance £'000	Impact on HRA balance £'000
		Local Authority Housing (HRA) **Expenditure:** Cultural Environmental & Planning Highways Roads & Transport Local Authority Housing (HRA)	 199 34	143 11				
30	Long term receipts in advance classified as short term	Creditors Long term creditors	150	 150			0	0
31	Strain costs due after more than one year treated as short term.	Creditors Long term creditors	177	 177			0	0
32	Grants made to Registered Social Landlords accounted for in the wrong period	Creditors Other Housing - Deferred charge SMGF - Deferred charge SMGF - Capital expenditure contribution, HRA Capital Adjustment Account Usable Capital Receipts Reserve	 900 412 900 488	900 900 900	Yes	Yes	0	412
33	Asset under construction misclassified as investment property	Investment properties Assets under construction	 725	725			0	0
36	Council tax write offs were netted off council tax income on the face	Council tax Income Council tax write offs	 340	340			0	0

Ref	Description of error	Items affected	Debit £'000	Credit £'000	Impact on I&E	Impact on HRA	Impact on GF balance £'000	Impact on HRA balance £'000
	of the Collection Fund							
37	Proceeds in respect of Barrack St disposal were under accrued	Debtors Profit and loss on disposal of fixed assets SMHRA Capital adjustment account	62 62	 62 62	Yes	Yes	0	0
39	Correction of inappropriate allocation of additions and depreciation to beacon property groups	Fixed asset - impairments Fixed asset - revaluations Revaluation reserve HRA - Impairment Statement of Movement on HRA Balance (SMHRA) Capital adjustment account	 4,244 4,244 4,244	4244 4,244 4,244	Yes	Yes	0	0
40	Payments to bus operators under concessionary fares scheme incorrectly shown as income.	Highways Roads, & Transport - Income Highways Roads, & Transport - expenditure	1,245	 1,245	Yes		0	0
41	Recharges incorrectly accounted for	HRA - Income HRA - Expenditure Corporate & Democratic Core - Income HRA - Expenditure Corporate & Democratic Core - Expenditure HRA - Expenditure Other Housing - Expenditure	 1,950 4,131 558	1,950 4,131 558 814	Yes	Yes	0	0

Appendix 3 – Schedule of adjusted misstatements

Ref	Description of error	Items affected	Debit £'000	Credit £'000	Impact on I&E	Impact on HRA	Impact on GF balance £'000	Impact on HRA balance £'000
		HRA - Expenditure	814					
42	Transfers from earmarked reserves incorrectly credited to the net cost of service in the I & E	HRA - Expenditure Other Housing - Expenditure SMGF	1,458 53 	 1,511	Yes	Yes	0	0
43	Removal of recharges following second draft of the I&E account	**Income** Cultural, Environmental & Planning Corporate democratic Core Central Services to the Public Highways Roads & Transport **Expenditure** Cultural, Environmental & Planning Corporate democratic Core Central Services to the Public Highways Roads & Transport	 243 125 1,572 871 	 871 243 125 1,572	Yes		0	0
44	Reduction in bad debt provisions and contribution form earmarked reserves incorrectly shown as operating income	Corporate and Democratic Core - income Corporate and Democratic Core - expenditure SMGF - Cont'n from earmarked reserve	450 	 325 125	Yes		0	0
45	Incorrect treatment of Overage for livestock	Investment property (revaluation) Investment property (disposals)	 750	750 	Yes		0	0

Ref	Description of error	Items affected	Debit £'000	Credit £'000	Impact on I&E	Impact on HRA	Impact on GF balance £'000	Impact on HRA balance £'000
	market	Revaluation reserve Capital Adjustment Account I&E - profit on disposal SMGF - profit on disposal	750 750 750	750 750 750				
46	Revaluation surplus on disposed right to buy properties which incorrectly treated.	Capital adjustment account Revaluation reserve	 1,832	1,832			0	0
47	Opening asset values were overstated due to incorrect housing numbers being supplied to District Valuer in 2006-07.	Council dwellings (06-07 Prior Year Adj') Council Dwellings (2007-08 revaluation) CAA (2006-07 Prior Year Adjustment) Revaluation reserve (2007-08 revaluation)	 5,805 5,805	5,805 5,805			0	0
50	Revenue expenditure in 2007-08 inappropriately classified as capital with consequent effect on the in-year revaluation.	Fixed asset - additions Fixed asset - revaluations Housing - Expenditure SMGF - capital charged to revenue SMGF - housing revenue transfer of surplus Revaluation reserve Capital adjustment account Usable capital receipts HRA Balance	 1,601 1,382 213 1,602 212	1601 1,595 1,601 213	Yes	Yes	0	-213
51	Expenditure	HRA - Contribution to Repairs & Renewals	990		Yes	Yes	0	2,299

Ref	Description of error	Items affected	Debit £'000	Credit £'000	Impact on I&E	Impact on HRA	Impact on GF balance £'000	Impact on HRA balance £'000
	capitalised in 2006-07 that should have been classified as revenue (included in the £2.8m prior year qualification report)	fund HRA - Supervision & management Capital adjustment account Usable Capital Receipts reserve	 1,309 2,299	 2,299 2,299				
52	De minimis expenditure shown as deferred charges.	SMGFB - Deferred charges SMGFB - De-minimis expenditure	536	 536	Yes		0	0
56	Capital contributions on non-depreciable assets and deferred charges were credited direct to the capital adjustment account.	Cultural, Environmental & Planning Other Housing Corporate & Democratic Core Highways, Roads & Transport Local Authority Housing (HRA) SMGFB - Grants amortised SMGF - Deferred charges	 2,046 1,139	2,210 437 35 253 250	Yes	Yes	0	0
59	Removal of smoothing reserve no longer allowed to HRA Balance	Earmarked reserve SMHRAB - transfer from earmarked reserve	110	 110	Yes	Yes	110	-110
60	Correction to revaluation reserve, and in-year impairments	Revaluation reserve Capital adjustments account Cultural Environmental & Planning	561	 561 19	Yes		0	0

Ref	Description of error	Items affected	Debit £'000	Credit £'000	Impact on		Impact on GF balance £'000	Impact on HRA balance £'000
					I&E	HRA		
		Highways, Roads & Transport Other Housing Corporate & Democratic Core SMGF - depreciation/impairment	 304	153 25 107				
61	Duplicate accruals in relation to highways and disabled adaptations.	Creditors Debtors & Prepayments Council Dwelling additions Usable capital receipts Capital adjustments account	351 105	 246 105 105			0	0
63	Rental income from 2008-09 accounted for in 2007-08	HRA - rental income Debtors & Prepayments Other Housing Income Other Housing Expenditure Creditors	846 407 374	 407 1,220	Yes	Yes	-33	846
65	Misclassification of creditors	Creditors - Government dept's Creditors - sundry	331	 331			0	0
66	Interreg transactions excluded from the Income & Expenditure Account and inappropriate netting off of debtors and creditors.	Cultural, Environmental & Planning - exp' Cultural, Environmental & Planning - income Debtors Creditors	755 635	 747 643	Yes		8	0
68	Incorrect entries made	Deferred capital receipts	2,089				-472	0

Appendix 3 – Schedule of adjusted misstatements

Ref	Description of error	Items affected	Debit £'000	Credit £'000	Impact on I&E	Impact on HRA	Impact on GF balance £'000	Impact on HRA balance £'000
	on set up of decent home loans	Capital adjustment account		2,089				
	Recognise loan repayments	Capital adjustment account Debtors & Prepayments	91	 91				
	Removal of decent home loans from deferred charges	SMGF Other Housing - expenditure	577	 577	 Yes			
	Removal of decent home loans from 2006-07 deferred charges	CAA Other Housing - expenditure	472	 472	 Yes			
	Calculation error	Debtors - long term Financial Instruments adj' account	91	 91				
69	Reverse 06-07 interest accrual	Creditors Interest payable Debtors & prepayments	1,166 3	 1,293	Yes		67	0
	Interest accrual for 2007-08	Interest payable Loans and borrowing	1,236	 1,236				

Ref	Description of error	Items affected	Debit £'000	Credit £'000	Impact on I&E	Impact on HRA	Impact on GF balance £'000	Impact on HRA balance £'000
	Reverse erroneous accruals from 2006-07	Highways, Roads & Transport - expenditure Corporate Democratic Core - expenditure	52 72					
70	Impairment of asset disposed not shown	HRA - depreciation/impairment SMHRAB	130	130	Yes	Yes	0	0
71	Correction of rental constraint allowance in note 10 to the HRA	HRA Capital charges HRA Rental constraint allowance Local Authority Housing - expenditure Debtors	350 11	361 11	Yes	Yes	0	11
72	Misclassified income	HRA Non dwelling rents Highways, Roads & Transport - income	58	58	Yes	Yes	58	-58
73	City Care Bonus adjustment	Local Authority Housing - expenditure Corporate & Democratic Core - expenditure Debtors & Prepayments	337	99 238	Yes	Yes	-238	-99
74	Depreciation charge for 2007-08 on Community assets	Community assets - depreciation Various - expenditure SMGF Capital adjustment account	468 468	468 468	Yes		0	0
78	Misclassification of recharges in the net cost of services	Local Authority Housing - expenditure Non Distributed Costs - expenditure Corporate & Democratic Core - expenditure	22 330	352	Yes		0	0
79	Correction required as a result of miscalculation of item	Amortisation of deferred premia Financial Inst' Adjustment Account	91	91	Yes	Yes	0	91

Appendix 3 – Schedule of adjusted misstatements

Ref	Description of error	Items affected	Debit £'000	Credit £'000	Impact on I&E	Impact on HRA	Impact on GF balance £'000	Impact on HRA balance £'000
	8 debit							
80	Adjustment required to correct balance due to NELM	Debtors & Prepayments Creditors	 613	613			0	0
81	Interest due to NELM on capital receipts incorrectly accounted for	Corporate & Democratic Core - expenditure Creditors Interest & Investment Income	 478	378 100	Yes		-478	0
82	Income credited to repairs and renewals fund in error	HRA - Other charges HRA - Contribution to Housing Repairs Account	 226	226	Yes	Yes	0	0

Appendix 4 – Action Plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
9	R1 Ensure that all feeder system reconciliations are carried out, as a minimum, as part of closedown arrangements before the financial statements are prepared. Consider reconciling certain systems more often where these are only done annually at present.					
9	R2 Further strengthen both processes and the knowledge base within the Financial Services team. Consider whether additional resource is required for capital accounting given reporting requirements and the asset base held by the Council.					
10	R3 Review the current Internal Audit workload and the internal and external resources available to determine whether further resource is required to developed financial systems work. Improve the way that Internal Audit progress is reported to Audit Committee members so it is clear to them when Internal Audit resources are being deviated away from plan. This should be a					

Appendix 4 – Action Plan

Page no.	Recommendation		Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
		key consideration when the Council prepares its Annual Governance Statement.					
10	R4	Review the latest position on system and procedure notes and consider the use of a central log to show where these are kept, who has responsibility for their upkeep and the maximum elapsed time before they should be updated.					
19	R5	Improve the documentation supporting the consideration of leases; particularly the balance attributed to the qualitative factors where these have been determined to be the overriding factors in the lease classification. Agree a programme to consider all remaining leases and ensure the lease information is kept up to date for any changes to leases.					
19	R6	Establish an IFRS implementation plan to ensure that the Council is able to deal with the requirements of International Financial Reporting Standards when they are adopted for local government reporting.					
19	R7	Improve the understanding of the transaction flows in the council's General Ledger relating to New Deal transactions. Improve liaison with the NELM Development Trust and seek to regularly agree amounts that the Council recognises as debtors or creditors in its General Ledger.					

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
19	R8 Address the issues raised in the qualification letter relating to the 2003/04 New Deal grant claim.					
19	R9 Redraft the contingent liability note in respect of the New Deal claim position and ensure it is SORP compliant.					
19	R10 Endeavour to secure additional funding for the expected New Deal Management & Administration overspend to avoid having to fund this cost from the general fund in future years. Make a budget provision for this until the funding is secured.					
21	R11 Further consider the position in respect of the pension issue for the 2007/08 financial statements in light of the technical view offered.					
21	R12 Revisit the 2006/07 comparatives in the cash flow statement and deal with the material uncertainties raised in the 2006/07 qualification. Ensure that the 2007/08 cash flow statement and working papers are robustly prepared.					
21	R13 Re-work the Explanatory Foreword in the 2007/08 financial statements ensuring that disclosures are consistent with the primary statements as revised. Provide appropriate supporting working papers for disclosures made in the revised version.					
22	R14 Ensure that all recharges made to the HRA are robustly supported.					

Appendix 4 – Action Plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
22	R15 Resolve the current audit concern regarding the rent disclosed in the financial statements.					
26	R16 Formulate an action plan to ensure that errors are not repeated in the financial statements preparation process in 2008/09. Ensure that the draft financial statements have an overall sensibility check in terms of their content and internal consistency - this should be carried out by someone with a good working knowledge of the SORP.					
26	R17 Review the approach to bad debt provisioning and ensure that it is in line with SORP requirements for financial instruments.					
26	R18 Improve the arrangements for the collection of sundry debtors and carry out a ledger clean up exercise.					
26	R19 Review the classification of non-operational assets following the SORP guidance before preparing the 2008/09 financial statements. Where appropriate reclassify the assets and make an appropriate depreciation provision.					
27	R20 Review the classification of the properties held within the General Fund but used for housing. Consider the technicalities of transferring them to the HRA.					
27	R21 Ensure that the fixed asset register is					

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
	updated to reflect accounting changes made in 2007/08. Review the form of the register to ensure that it is able to cope with the effect of revaluations and disposals over future years, and ensure that land is split out from the rest of the asset where appropriate.					
27	R22 Give early consideration to the needs of both the Capital Accountant and the Auditors in terms of expenditure made on assets and its classification as either capital or revenue. Detailed consideration needs to be given to the classification and coding of projects at an early stage so that costs are not inappropriately capitalised. Review the general ledger coding structure and/or accounting procedures to see if such expenditure can be better aligned to financial reporting.					
27	R23 Review accounting practices on expenditure on capital projects which, on completion, transfer to Norfolk County Council.					
27	R24 Follow the Item 8 determination fully when preparing the HRA account.					
33	R25 Improve the process for preparing and approving the Annual Governance Statement. Additional member and officer training may be required.					
33	R26 Form an action plan to address the control weaknesses identified in this Annual					

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
	Governance Report.					
37	R27 Address the issues necessary to further improve the Council's use of resources assessment and achieve an unqualified value for money conclusion. Members should note that the Use of Resources assessment for 2009 will be based around three themes which will be directly linked to the value for money conclusion (managing the finances, governing the business and managing resources). The Use of Resources assessment for 2009 will be more 'outcomes' focussed. It will be helpful if the Council could provide a robust self assessment based on the new themes.					