



MINUTES

AUDIT COMMITTEE

4.30pm to 5.30pm

22 January 2013

Present: Councillors Little (chair), Wright (vice chair), Barker, Driver, Haynes, Manning and Neale

Apologies: Councillors Waters

1. MINUTES

RESOLVED to approve the accuracy of the minutes of the meeting held on 20 November 2012.

2. REVIEW OF THE CORPORATE RISK REGISTER

The audit manager (LGSS) presented the report.

The chair said that he was pleased to see that his concerns raised at the last meeting had been taken into account and welcomed the amendment to the corporate risk register in relation to CR10, emergency planning and business continuity. However he said that CR16, environment strategy, was no longer included on the corporate risk register and that he considered that the council should address the causes of climate change and it should be kept under review.

RESOLVED to note the latest version of the corporate risk register.

3. INTERNAL AUDIT AND FRAUD TEAM 2012-13 – UPDATE

The audit manager (LGSS) presented the report and, together with the head of audit, risk and insurance (LGSS) and the chief executive, answered members' questions.

The head of audit, risk and insurance (LGSS), explained that LGSS was not undertaking an audit of the performance of its ICT contract to the council. An internal audit of the security controls for systems used within the council was being undertaken.

Members were advised that the revision of the council's anti-fraud and corruption policy was included on the audit plan. The policy needed to ensure that the council met the regulations. It was proposed to benefit from the partnership working by using the LGSS policy and adapt it to best fit the city council. The policy would be reviewed on an annual basis in line with national requirements and best practice. The chair reminded members that the audit committee had recommended that it had a role in the review of the policy.

The chair said that he thought that at the previous meeting of the audit committee he had requested a report on the council's corporate asset register. The audit manager (LGSS) said that he would check the minutes and report back to the next meeting.

The audit manager (LGSS) explained that the audit team had more working days available in the fourth quarter because fewer days of annual leave were taken at this time of year.

The chair referred to the internal audit assurance review of accounts payable, shown in annex 2, and said that the delayed implementation of the recommendations because of a change in staffing was not satisfactory. Officers confirmed that this would be investigated and the recommendations implemented.

RESOLVED to note:

- (1) the progress on the internal audit plan;
- (2) progress on the actions being taken as a result of internal audit assurance reviews as set out in the annual governance statement;
- (3) the work of the fraud team;
- (4) the latest position on the national fraud initiative (NFI).

4. ANNUAL GOVERNANCE REPORT – UPDATE (AUDIT 2011-12)

The chief finance officer introduced the report and said that this was final version of the Audit Commission's annual governance report which had previously discussed and contained the amendments that she had agreed and signed off in consultation with the chair of this committee. The director (Ernst & Young) (formerly district auditor, Audit Commission) explained that the Audit Commission had issued its opinion two weeks after the committee's meeting on 15 October 2012, and said that he was obliged to circulate it to members. The director (Ernst & Young) presented the report and highlighted the amendments.

Discussion ensued in which the chief finance officer and the director (Ernst & Young) answered members' questions. The letter from the city council, signed by the chair of this committee, to the district auditor, dated 22 October 2012, would be circulated to the members of the committee with the minutes of this meeting.

During discussion the director (Ernst & Young) explained the reasons for issuing a qualified "disagreement" report in relation to the council's Whole of Government Accounts because there were a number of variances which if resolved would have

increased the cost to the council and not met the date for the accounts to be transferred from the Audit Commission to Ernst & Young.

RESOLVED to

- (1) receive the Audit Commission's annual governance report – update, audit 2011-12;
- (2) ask the committee officer to circulate a copy of the letter from the city council to the district auditor dated 22 October 2012.

5. STANDING ITEMS

(The chair agreed to take this as an urgent item.)

In response to a member's request, the director (Ernst & Young) said that the company would be producing briefings to its client audit committees on a regular basis.

The chair requested that progress on the action plan should also be considered at each meeting of the committee to ensure that important dates were being met. The chief finance officer agreed to this but pointed out that some of the accounts issues only came up once a year.

RESOLVED to include audit committee briefings and progress on the action plan as standing items on the agendas for future meetings.

CHAIR



Directorate of Corporate Resources
Norwich City Council
City Hall
Norwich
NR2 1NH

Rob Murray
Audit Commission
3rd Floor
Eastbrook
Shaftesbury Road
Cambridge, CB2 8BF

22 October 2012

Your reference

Our reference PD/CR

Dear Mr Murray

Norwich City Council – Audit for the year ended 31 March 2012

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 Authority's financial statements for the year ended 31 March 2012.

Compliance with the statutory authorities

I have fulfilled my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom which give a true and fair view of the financial position and financial performance of the Authority, for the completeness of the information provided to you, and for making accurate representations to you.

Uncorrected misstatements

The effects of uncorrected financial statements misstatements summarised in the Appendix 1 are not material to the financial statements, either individually or in aggregate.

These misstatements have been discussed with those charged with governance within the Council and the reasons for not correcting these items are set out in Appendix 1

Supporting records

I have made available all relevant information and access to persons within the Authority for the purpose of your audit. I have properly reflected and recorded in the financial statements all the transactions undertaken by the Authority.

Internal control

I have communicated to you all deficiencies in internal control of which I am aware.

Irregularities

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

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;
- 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; and
- the results of our assessment of the risk the financial statements may be materially misstated as a result of fraud.

Law, regulations, contractual arrangements and codes of practice

I have disclosed to you all known instances of non-compliance, or suspected non-compliance with laws, regulations and codes of practice, whose effects should be considered when preparing financial statements.

Transactions and events have been carried out in accordance with law, regulation or other authority. The Authority has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance.

Accounting estimates including fair values

I confirm the reasonableness of the significant assumptions used in making the accounting estimates, including those measured at fair value.

Related party transactions

I confirm that I have disclosed the identity of the Authority's related parties and all the related party relationships and transactions of which I am aware. I have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of the Code.

Subsequent events

I have adjusted for or disclosed in the financial statements all relevant events subsequent to the date of the financial statements.

Comparative financial statements

A restatement of £28.5 million was made to correct a material presentational misstatement in the prior period financial statements. This affects the comparative information of the cash flow statement and relates to the following disclosures:

- Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities – misstated by £28.5 million; and
- Investing activities – misstated by £28.5 million.

Written representations previously made in respect of the prior period remain appropriate.

A handwritten signature in black ink, appearing to read "Steve Little". The signature is written in a cursive style with a large initial 'S'.

Signed on behalf of Norwich City Council

I confirm that the this letter has been discussed and agreed by the Audit Committee on 15 October 2012

A handwritten signature in black ink, appearing to read "Caroline Ryba". The signature is written in a cursive style.

Signed

Caroline Ryba

Chief Finance Officer

Date 22nd October 2012

Appendix 1: Uncorrected misstatements

Schedule of uncorrected misstatements and reasons for non correction

Misstatement	Comprehensive Income and Expenditure Statement		Balance Sheet		Reason for not correcting the misstatement
	Dr £000	Cr £000	Dr £000	Cr £000	
<p>Net Cost of services 1,295</p> <p>Short term creditors 1,295</p> <p>Extrapolation of errors based on a sample test of short term creditors. The actual error was £595,000 and related to a 2010/11 accrual the had not been reversed</p>					Actual error has been corrected. The extrapolation is a statistical technique of inferring unknown from the known and as such would not normally be adjusted for
<p>Surplus/ deficit on revaluation of non-current assets 851</p> <p>Revaluation reserve brought forward 851</p> <p>A painting worth £800,000 was not accounted for in the 2007 valuation of heritage assets, plus other immaterial errors</p>					Not considered material
<p>Other operating expenditure 2,120</p> <p>NCS HRA 323</p> <p>Expenditure</p> <p>Financing and 446</p> <p>Investment Income and Expenditure</p> <p>Surplus/ deficit on revaluation of non-current assets 1,351</p> <p>The Council's policy to charge any subsequent downward revaluation of assets held for sale to other operating expenditure rather than the revaluation reserve or net cost of services</p>					Not considered material
<p>NCS Non-distributed costs 1,061</p> <p>NCS Corporate and Democratic Core 1,061</p> <p>Misclassification of past service costs and curtailments in respect of the pension fund</p>					Not considered material
<p>Other Operating Expenditure 44</p> <p>Financing and Investment Income and Expenditure 44</p> <p>Gains and losses on disposals of investment properties should be accounted for within Financing and Investment Income and Expenditure</p>					Not considered material

Misstatement	Comprehensive Income and Expenditure Statement		Balance Sheet		Reason for not correcting the misstatement
	Dr £000	Cr £000	Dr £000	Cr £000	
Net Cost of services Short term debtors	104			104	Actual error has been corrected. The extrapolation is a statistical technique of inferring unknown from the known and as such would not normally be adjusted for
Extrapolation of errors based on a sample test of short term debtors. The actual error found was £31,000 and was due to inappropriate recognition of 2012/13 income in 2011/12					
Net Cost of services Short term debtors	51			51	Actual error has been corrected. The extrapolation is a statistical technique of inferring unknown from the known and as such would not normally be adjusted for
Extrapolation of errors based on a sample test of transaction around the year end The actual error found was expenditure of £9,485 related to 2011/12 which had not been accrued for					
Net Cost of Services Other not analysed Long Term Debtors	31		80	111	Actual error has been corrected. The extrapolation is a statistical technique of inferring unknown from the known and as such would not normally be adjusted for
Extrapolation of errors based on a sample test of long term debtors. The actual errors identified totalled £237,987 and related to: <ul style="list-style-type: none">• Misclassification of operating leases• An inconsistency between the ledger and supporting evidence for transferred debt• An inconsistency between the ledger and supporting papers regarding the finance lease debtor					
Net Cost of Services Long term borrowing	132			132	Not considered material
An uncertainty over the accounting for expenditure on environmental projects that have been charged to the balance sheet rather than the comprehensive income and expenditure account.					
Surplus/ deficit on revaluation of non-current assets Revaluation reserve brought forward		200		200	Not considered material
The Council's valuers determined that the Hepworth bronze owned by the Council was worth £200,000 less as at 31 March 2011 than its carrying value as at 31 March 2012. This was not reflected in the financial statements					
HRA expenditure Short term creditors		313		313	Not considered material
Over accrual of repairs and maintenance expenditure					

Misstatement	Comprehensive Income and Expenditure Statement		Balance Sheet		Reason for not correcting the misstatement
	Dr £000	Cr £000	Dr £000	Cr £000	
Short term creditors Net cost of Services; General Fund Housing Income		233	233		Not considered material
Being an unexplained difference between the general ledger and the Housing Benefit Subsidy claim form					
Capital Adjustment Account Revaluation Reserve			1,509	1,509	Not considered material
Misstatement of the revaluation reserve and capital adjustment account due to incorrect accounting for the historical cost of garages					
Total	4,394	5,266	3,630	2,758	

Item Of Account	Nature of Error	Cash Flow Statement		Reason for not correcting the misstatement
		Dr £000	Cr £000	
Investing Activities Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	The adjustment to short term debtors in respect of capital items accounted for the whole of the closing debtor rather than just the in-year movement. This overstated the impact on PPE purchased by £894,000	894	894	Not considered material
Financing Activities Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	Movements in short term debtors did not correctly identify the movement in the NNDR debtor of £1.777 million as a financing activity.	1,777	1,777	Not considered material
Financing Activities Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	The movements in short term creditors did not correctly identify the movement in the NNDR creditor, Airport accrual and amount due to the precepting authorities.	794	794	Not considered material

Investing Activities Adjustments for items included in the net surplus or deficit on the provision of services	The movement in short term creditors relating to the purchase of property plant and equipment was unsupported. I found it was overstated by £1.03 million.	1,030	1,030	Not considered material
		4,495	4,495	