

# Annual Governance Report

Norwich City Council

Audit 2008/09

September 2009

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## Status of our reports

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
  - any third party.
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# Key messages

This report summarises the findings from the 2008/09 audit which is still in progress. It includes the messages arising from my audit of your financial statements and the results of the work I have undertaken to assess how well you use and manage your resources to deliver value for money and better and sustainable outcomes for local people.

Financial Statements	Results	Page
Unqualified audit opinion	Yes*	6
Financial statements free from error	No	11
Adequate internal control environment	No	12
Use of resources	Results	Page
Arrangements to secure value for money	No	21
* Subject to completion of my work		

## Audit opinion and Financial statements

- 1 In certain areas our audit work is still being finalised; the key areas where audit work is ongoing are set out in the body of the report. We will update Audit Committee members verbally on 24 September 2009 on progress on the remaining issues. Should any matters arise after the Audit Committee which we consider need to be brought to the attention of Audit Committee members we will raise them with the Head of Finance and Audit Committee Chair prior to signing our report. If the matters are of significance we will ensure that an updated report is circulated to all Audit Committee members.
- 2 Subject to the completion of our work, including satisfactory resolution of the outstanding matters identified in this report, I currently propose issuing an unqualified audit opinion. There is a significant risk that the opinion will not be given by the deadline of 30 September 2009 due to the number of outstanding issues and the need to review a fully revised set of financial statements for the issues identified to date. I currently estimate that the opinion will be issued no later than 30 October 2009. Members should be aware that, if outstanding matters were not resolved such that I were not in a position to issue my opinion by 30 November 2009, this would result in statutory recommendations being issued to the Council. However, I intend to issue my opinion no later than 30 October 2009.
- 3 The deadline for the submission of the audited Whole of Government Accounts (WGA) consolidation pack is 1 October 2009. Given the likely delay in issuing our opinion on the Council's financial statements there is a significant risk that the audit deadline for

WGA will not be met. If that is the case then the Council should ensure that it submits an un-audited consolidation pack by the 1 October deadline.

### Use of resources

- 4 I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission. My conclusions on each of the areas are set out in Appendix 5.
- 5 I have identified weaknesses in your arrangements in respect of three of the eight criteria assessed. I therefore intend to issue a qualified conclusion. I am currently considering the form of my opinion and will obtain a peer review before determining whether it should be an 'except for' VFM opinion or an 'adverse' opinion.

### Audit Fees

- 6 The audit fees charged to date for the 2008/09 audit are shown in Table 1. The fee for the audit is higher than the original agreed plan which Audit Committee members received in June 2008. We notified the Head of Finance and Chief Executive in July 2009 that an additional fee of £38,000 was required to address the risks which have arisen since that original plan was issued, including issues arising from the 2007/08 audit. The risks and issues along with the corresponding findings have been listed in Table 2 below.
- 7 As referred to above, our work remains ongoing at the time of drafting this report and, depending on the time necessary to resolve the remaining issues a further additional fee is likely be required. We will provide the Head of Finance, Chief Executive and Chair of the Audit Committee with an estimate of any additional fee as soon as is practicable.

**Table 1      Audit Fees**

	<b>Actual to date</b>	<b>Proposed per original Audit &amp; Inspection plan</b>
Financial Statements	£159,028	£121,028
Use of Resources	£18,977	£18,977
Data Quality	£13,142	£13,142
Whole of Government Accounts	£2,228	£2,228
<b>Total audit fee</b>	<b>£193,375</b>	<b>£155,375</b>

## Next steps

**This report identifies the key messages that you should consider before I issue my financial statements opinion, value for money conclusion, and audit closure certificate. It includes only matters of governance interest that have come to my attention in performing my audit. My audit is not designed to identify all matters that might be relevant to you.**

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**8** I ask the Audit Committee to:

- consider the matters raised in the report (pages 6 to 20);
- take note of the adjustments to the financial statements which are set out in this report (Appendix 2);
- agree to adjust the errors in the financial statements I have identified which management has declined to amend or set out the reasons for not amending the errors (Appendix 3);
- take note of the VFM Conclusion and Use of Resources key findings (Appendix 5);
- approve the letter of representation on behalf of the Council before I issue my opinion and conclusion (Appendix 4); and
- agree your response to the proposed action plan (Appendix 6).

# Financial statements

**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 these statements. It is important that you consider my findings before you adopt the financial statements and the annual governance statement.**

## Opinion on the financial statements

- 9 Subject to satisfactory clearance of outstanding matters, I plan to issue an audit report including an unqualified opinion on the financial statements. Appendix 1 contains a copy of my draft audit report.
- 10 At 22 September our work is substantially complete but members should be aware that:
  - there remain some areas where work with officers is ongoing to resolve audit queries;
  - audit work on the cash flow statement has not yet commenced as officers have as yet been unable to provide us with supporting working papers – we understand that this work is in progress;
  - the audit team are clearing residual matters arising from the Audit Manager and District Auditor review process which remains ongoing as residual work (see comments below) is completed; and
  - our internal quality assurance procedures are yet to be completed.
- 11 All matters which we consider to be significant to our audit opinion, based on the work completed to date, have been considered and, where appropriate, are included in this report. We will provide a verbal update to the Audit Committee on 24 September on further progress on the remaining issues and on any new issues arising since this report has been drafted. Should any matters arise after the Audit Committee which we consider need to be brought to the attention of the Audit Committee members we will raise them with the Head of Finance and Audit Committee Chair prior to signing our report. If the matters are of significance we will ensure that an updated report is circulated to all Audit Committee members.
- 12 Residual work that is being completed at 22 September and remains subject to the Audit Manager and District Auditor review process includes:
  - Completeness of the disclosures in the accounts including the accounting policies and the adequacy of the Explanatory Foreword, and Annual Governance Statement. This includes the full resolution of issues detected in our technical review of the accounts and compliance with Housing Revenue Account (HRA) resource requirements;

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- Completion of some residual testing on debtors, including the bad debt provision, and creditors;
- Finalisation of our assessment of the Council's compliance with laws and regulations;
- Completion of the minimum amount of work we need to do on material grant claims to be able to give our opinion;
- Completion of our testing on HRA 'other income';
- Finalisation of our work on the Capital Adjustment Account; and
- A full review of the amended financial statements.

- 13** The deadline for the submission of the audited Whole of Government Accounts (WGA) consolidation pack is 1 October 2009. Given the likely delay in issuing our opinion on the Council's financial statements there is a significant risk that the audit deadline for WGA will not be met. If that is the case then the Council should ensure that it submits an un-audited consolidation pack by the 1 October deadline.

### Recommendation

- R1** Ensure that the Whole of Government Accounts pack is submitted, even if un-audited, by 1 October 2009. Ensure that a final version which is consistent with the financial statements is submitted for audit at the earliest opportunity.

## Outstanding matters

- 14** Audit work on the Cash flow statement has not yet commenced as officers have been unable to provide us with supporting working papers to date.

### Recommendation

- R2** Provide fit for purpose supporting working papers for the cash flow statement at the earliest opportunity.

- 15** The following significant queries have been raised with officers which are yet to be resolved:

- Officers have not put through any impairment charge for elements of 'other land and buildings' which were last valued as at 1 April 2008 at £92m on the basis of depreciated replacement cost (DRC), based on advice by the District Valuer. This is not in line with our expectations as we consider that the current fall in the property market could be a trigger for asset impairments even where valued at DRC. We have asked officers to provide additional rationale as to why they consider that there is no requirement to further impair these assets as at 31 March 2009, in conjunction with the District Valuer. Our estimate of a potential impairment in terms of the reduction in land values and rebuild costs, which are part of the DRC valuation methodology, indicates that there could be the need for an £8m impairment.

- In 2007/08 we agreed with officers that a £6m provision was required in respect of the Council's liability for pre-contract pension obligations of staff transferred to CityCare in 2000. The provision had been increased by a further £13.157m in the 2008/09 accounts presented for audit, but additional evidence has come to light which casts some doubt on the need for this provision. Officers are in the process of seeking further clarification from the actuary. If no provision were required then the FRS 17 reserve (and net assets) would increase by £19.157m.
- The financial statements include a contingent liability note in respect of the qualified and as yet un-audited New Deal grant claims. We understand that the Deputy Chief Executive and Head of Finance recently attended a meeting with the Department for Communities and Local Government (CLG) and we have requested a summary note of the meeting from the Council so that we can consider further the impact on both balances in the financial statements in respect of New Deal and the contingent liabilities disclosure.

Recommendation	
<b>R3</b>	Set out a clear rationale regarding the need for any additional impairment charge for elements of 'other land and buildings' currently included in the accounts at depreciated replacement cost at 1 April 2008. Reflect any significant adjustments in the financial statements.
<b>R4</b>	Obtain the necessary clarification from the Actuary regarding the need for any provision in excess of the 'usual' FRS 17 pension liability for the pre-contract pension obligations of staff transferred to CityCare in 2000. Reflect any significant adjustments in the financial statements.
<b>R5</b>	Provide a summary note of the meeting with CLG in respect of New Deal including a consideration of any impact on connected balances and disclosures in the financial statements.

### Key areas of judgement and audit risk

- 16** In planning my audit I identified specific risks and areas of judgement that I have considered as part of my audit. My findings are set out in Table 2.

**Table 2      Key areas of judgement and audit risk**

Issue or risk	Finding
<b>Risks arising from original audit plan issued in April 2008</b>	
Weak financial reporting arrangements in 2006/07 and	See comments under supplementary audit plan risks below.



Issue or risk	Finding
<p>earlier years.</p> <p>The auditor issued statutory recommendations under section 11 of the Audit Commission Act 1998 in respect of this matter in respect of 2006/07.</p>	
Weaknesses in some internal control arrangements in 2006/07 and earlier years.	See comments under supplementary audit plan risks below.
Potential revisions to reporting arrangements under the 2008 SORP.	The 2008 SORP changes were not as significant as in previous years. We have considered compliance with SORP changes as part of our substantive audit procedures.
A need to carry out a triennial assessment of Internal Audit.	We carried out our triennial assessment of Internal Audit and found evidence of non-compliance with the CIPFA standards. Specific comments are included later in this report.
Changes in financial services' staff in 2008.	No issues have arisen as a result of the staff changes.
<b>Risks arising from supplementary audit opinion plan issued in July 2009</b>	
<p>System weaknesses/issues were reported in 2006/07 and 2007/08. These control weaknesses have reduced our inability to seek controls reliance on a cyclical basis as would be our normal audit approach.</p> <p>This has therefore resulted in an increased level of systems assessment work in 2008/09 than previously planned.</p>	The inability to seek controls reliance on a cyclical basis, resulting in additional systems assessment work in 2008/09, is reflected in the additional audit fee.
Our systems work in 2008/09 has detected some ongoing weaknesses in both the design and, on testing, the operation of some controls which have limited our ability to rely on systems controls to provide audit assurance.	Our pre-statements and Use of Resources work for 2008/09 indicated some ongoing weaknesses in internal control arrangements. Specific comments are included later in this report.
Our triennial review of Internal Audit detected some weaknesses in	The inability to place reliance on the work of Internal Audit in 2008/09 is reflected in the

Issue or risk	Finding
<p>arrangements resulting in limitations in our ability to place full reliance on Internal Audit's work.</p>	<p>additional audit fee. Specific comments arising from the triennial review are included later in this report.</p>
<p>The accounts opinion for 2007/08 was qualified in respect of the prior year cash flow comparatives. Whilst this represented significant progress from the 2006/07 disclaimed opinion, the audit was protracted due to the number of issues arising and there were many material and significant amendments to the accounts provided for audit, as reported in our Annual Governance and Regularity Reports.</p>	<p>Note that audit work on the 2008/09 Cash flow statement has not yet commenced as officers have been unable to provide us with supporting working papers to date.</p> <p>Financial reporting arrangements were below minimum standards in the 2008 Use of Resources assessment. This led to our being unable to issue our 2008 qualified audit opinion prior to the 30 September deadline in line with statutory regulations.</p> <p>Whilst we acknowledge some continued improvement in the closedown process for producing the financial statements it is still not fit for purpose and financial reporting arrangements have been assessed as below minimum standards in our 2009 use of Resources Assessment. It is disappointing that we have found a recurrence of some errors reported to officers in the prior year. Further comments are included in the following sections of this report.</p> <p>There is a significant risk that the 30 September audit deadline will be breached again for 2008/09, although we are optimistic that we will achieve audit completion by the end of October.</p>

Working papers were inadequate in 2007/08 leading to a protracted audit whilst sufficient, appropriate audit evidence was gathered.

Whilst the Council has made attempts to improve working papers we do not consider that the working papers made available to us at the start of the audit are fit for purpose. Working paper production is still not an engrained part of the accounts closedown and financial statements production processes. Whilst this remains the case it is likely that the high level of audit queries and differences will remain.

There remain some issues with the quality of the underlying data underpinning the financial statements and the working papers and it is evident that further work to strengthen accounting and reporting processes is necessary. It is likely that some capacity issues remain and the implementation of International Financial Reporting Standards (IFRS) for 2010/11 will put increased pressure on the Council's capacity.

We are pleased to report that officers continue to react positively in resolving the audit issues raised with them.

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### Errors in the financial statements

#### Adjusted amendments to the accounts

- 17** A number of material and non-material misstatements were identified during the course of my audit and the financial statements have either been adjusted by management, or they have committed to doing so in a further revision to the financial statements. The errors are included at Appendix 2. All errors detected to date have been included unless clearly trivial in nature – these do not include any adjustments necessary once the outstanding matters referred to above are resolved. I bring the errors to your attention to assist you in fulfilling your governance responsibilities as I continue to consider that the volume of amendments is unacceptably high.
- 18** Most of the errors detected during the course of our work are in respect of year end procedures rather than system generated errors. The most common errors are:
- misclassification of transactions, particularly recharges within the net cost of services;
  - errors and omissions in capital accounting in terms of fixed assets and the associated reserves; and
  - misclassification of debtors, creditors and investments.

Whilst we have seen some improvements in the financial statements, the improvements are not consistent and it is disappointing that these are the type of issues reported in respect of 2007/08 audit. To make the necessary step change in the

financial statements preparation process it is critical that the issues are fully understood by officers and that appropriate training is cascaded to those associated with the accounts preparation process.

- 19** We have noted above that working papers produced for the audit were not sufficiently timely or fit for purpose. Again, this remains a recurring issue for the Council and contributes to the 'below minimum standards' rating for financial reporting in Use of Resources. Working paper production is still not engrained as part of the preparation of the financial statements at the Council. Whilst this remains the case it is likely that the high level of audit queries and differences will continue. If working papers were produced, with sufficient scrutiny regarding the appropriateness of transactions and balances, at the time the financial statements are produced, then it is likely that the volume and value of audit adjustments would be substantially reduced.

#### Recommendation

**R6** Review and understand all audit adjustments made. Put in place appropriate procedures to ensure that common errors are not repeated. This should include appropriate cascade training to those associated with the financial statements preparation process.

**R7** Produce appropriate working papers as part of the preparation of the financial statements. Sufficient scrutiny should be applied to the appropriateness of the transactions and balances so that corrective action can be taken as part of the closedown process.

#### Unadjusted misstatements in the accounts

- 20** A limited number of misstatements identified during the course of my audit have not yet been adjusted by management. I bring them to your attention to assist you in fulfilling your governance responsibilities. If you decide that management's intentions not to amend the accounts are appropriate, please tell us why in the representation letter. If you believe the effect of the uncorrected errors, individually and collectively, is immaterial, please also reflect this in the representation letter. Please attach a schedule of the uncorrected errors to the representation letter. The unadjusted errors detected to date are included at Appendix 3.

#### Material weaknesses in internal control

- 21** I have identified weaknesses in the design or operation of an internal control that might result in a material error in your financial statements. These weaknesses may be symptomatic of broader weaknesses in your control environment and are set out below.
- 22** I have not provided a comprehensive statement of all weaknesses which may exist in internal control, nor of all improvements which may be made. Further matters which are of less significance to those charged with governance will be included in our Final Accounts Report to officers.

### Internal Audit

- 23** The Council's Internal Audit function is not compliant with local government internal audit standards. All principal local authorities subject to the Accounts and Audit Regulations 2003 (as amended) must make provision for internal audit in accordance with CIPFA's Code of Practice for Internal Audit in Local Government in the United Kingdom 2006.
- 24** We conducted our triennial review of the Council's Internal Audit function in 2008/09 and found evidence of weaknesses or non-compliance in each of the 11 standards contained in the Code of Practice. As a result of our review we concluded that we were not able to place reliance on the work of Internal Audit, and this was reflected in our supplementary audit opinion plan as referred to earlier in this Report.
- 25** The specific details of non-compliance will be reported to management in our Final Accounts Report but, by way of illustration, the 2008/09 Internal Audit Plan was not approved by members until November 2008 when it should be approved before the start of the year.
- 26** We recognise that in 2008/09 the Council addressed shortfalls in the capacity of its Internal Audit function to deliver their audit plan by utilising external consultants.

#### Recommendation

- R8** Address the areas of non compliance with CIPFA's Code of Practice for Internal Audit in Local Government in the United Kingdom 2006.

### Fixed assets

- 27** We determined that internal controls within the fixed asset system were inadequate to provide assurance over all assertions implicit in the financial statements. This impacted on our audit strategy and supplementary fee request.
- 28** The asset register is not kept up to date during the year; there was no service manager review of the register to confirm the existence of assets held and no independent review of year end fixed asset journals.
- 29** Issues noted in 2008/09 which are indicative of inadequate controls in this area include:-
- the number of garages provided to the District Valuer as at 1 April 2008 was overstated by 202;
  - two council houses appeared in the asset register even though they had been sold in previous years;
  - sixty garages demolished during 2008/09 had been impaired via the revaluation reserve rather than the income and expenditure account which is not SORP compliant;
  - officers were unable to provide a clear audit trail between the value of the windows programme allocated to individual properties and a supplier's invoice. The final 2008/09 invoice for windows supplied by the supplier was £118k less than their valuation spreadsheet; and

- instructions to the valuer are potentially out of date as they are not updated on an annual basis. The instructions are not sufficiently comprehensive.

**30** The fixed asset register is still held on spreadsheet and controlled by one key officer. It does not hold all the required fields for each individual asset, e.g. accumulated depreciation relating to the difference between historical cost depreciation and current value depreciation and accumulated impairment relating to the difference between historical cost impairment and current value impairment. 2008/09 is the second year of 'revaluation reserve' accounting under the SORP and it places increasingly significant demands on the information required from councils' fixed asset registers as more revaluations and impairments are carried out. Without significant work it is unlikely that the current spreadsheet methodology will provide sufficiently accurate figures for the financial statements in the medium term.

Recommendation	
<b>R9</b>	Review the fixed asset register against the requirements of the SORP to ensure it remains fit for purpose. Implement specialist fixed asset software as and when budgets permit.
<b>R10</b>	Update the fixed asset register on a monthly basis. Reconcile the register to the general ledger and other property records such as Academy and Codeman.
<b>R11</b>	Conduct a service manager review of the asset register on an annual basis.
<b>R12</b>	Identify and implement controls to ensure that disposals are recorded completely and accurately in the asset register and financial statements.

### Income and accounts receivable

- 31** Controls surrounding the raising of invoices are weak. There is no signatory list detailing which officers are authorised to raise invoice request forms (IRF).
- 32** Internal controls do not enable officers to confirm that all income has been accounted for. IRF's are not sequentially numbered. IRF numbers could be raised via computer in order that all invoice requests are logged. This would provide a better audit trail, and help ensure that income is complete.
- 33** Additionally, whilst invoices are sequentially numbered, they are not checked for sequence gaps to ensure completeness. Invoices should be checked for sequence gaps on a regular basis to ensure that all debts have been invoiced.

Recommendation	
<b>R13</b>	Strengthen controls over invoice request forms by introducing:- <ul style="list-style-type: none"> <li>• a list of approved signatories who are authorised to raise IRFs; and</li> <li>• sequential numbering and checking for completeness of processing.</li> </ul>
<b>R14</b>	Conduct regular checks for gaps in the sequence of sundry sales invoices

### Accounts payable

- 34** Internal controls do not provide full assurance that all purchase invoices have been accounted for. Supplier statements from major suppliers are not reconciled to the

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accounts payable system on a regular basis and there is no central log for invoices received.

**35** The authorised signatory list was not kept up to date. A member of staff who left the Council in October 2008 was still on the authorised signatories list at the year end.

**36** We were not able to rely on the Councils authorisation controls. We found instances where the control was not operating as expected:-

- a verbal purchase order was placed with a supplier for wheelie bins before the requisition had been approved, the order was not recorded in the purchasing system and there was no documentation supporting delivery of the goods;
- a manual cheque had been raised without being approved by an authorised signatory;
- an invoice had been approved for payment by an officer not on the authorised signatory list.

**37** Failure in authorisation controls of this nature represents a fraud risk.

### Recommendation

**R15** Reconcile supplier statements from major suppliers on a monthly basis

**R16** Investigate the breaches in purchase controls that we have identified and ensure that they are not endemic. Implement a correctly controlled purchasing process to eliminate the risks involved with unauthorised purchases being made. Requisitions, orders, and deliveries should all be documented and filed appropriately.

**R17** Review signatory lists regularly to ensure that staff changes are reflected promptly and date the list to ensure processing staff are using up to date information.

## Payroll

**38** Internal controls do not provide sufficient assurance regarding the existence of employees. A regular circularisation of budget holders to confirm staff on the payroll are genuine employees is recommended.

**39** The payroll payment schedule was not properly authorised in all instances.

### Recommendation

**R18** Design and implement an internal control which provides assurance that only genuine employees are on the Council's payroll.

**R19** Ensure the payroll payment schedule is properly authorised before allowing payment to proceed.

## Property Maintenance

**40** Authorisation controls were not seen to be operating effectively and could not be relied upon for our work. The Council's controls include the requirement for work programmes in excess of £200 to be approved by a senior officer but we understand that this control is not exercised. If this control is routinely bypassed in practice then an



alternative control should be identified to ensure that only properly approved work is undertaken by contractors.

- 41** We also noted that the same person can enter and approve orders on the McDonnell Douglas system and there is no secondary review of cost coding.

#### Recommendation

**R20** Review the design of authorisation controls within McDonnell Douglas property maintenance system and consider the need to reinforce or amend the control.

**R21** Segregate duties such that the same person does not approve and enter orders in the McDonnell Douglas system. Implement a secondary review of cost coding of orders.

### Housing rents

- 42** The internal control environment does not provide assurance that all rental income is collected due to insufficient monitoring of voids in the Academy system. Voids that have been incorrectly entered on the system would not be detected. The voids team stopped monitoring voids regularly in 2008/09. Previously houses with void status were downloaded from Academy and agreed to supporting documentation. This control identified any houses which should not be in void status. The voids team currently hold a spreadsheet of void properties outside of Academy but this only monitors voids they are aware of and would not pick up any erroneous entries in Academy.

#### Recommendation

**R22** Agree the validity of voids by agreeing houses with void status in Academy to supporting documentation.

### Council tax and NNDR

- 43** The control environment does not provide sufficient assurance that all liable properties have been billed. During our walkthrough of the annual bill run for National Non Domestic Rates (NNDR) and Council tax bills we noted that there was no documented check that the number of bills from the Northgate system agreed to the number of bills actually printed. Similarly control testing found that the bill control sheet was not always completed during the year.
- 44** The control environment does not provide assurance that all discounts and reliefs granted are valid:
- we did not identify any controls operating in 2008/09 for checking the validity of discounts and reliefs granted for Council tax or NNDR, although we understand that additional resource has been identified in 2009/10 to ensure that checks are made; and
  - we identified one instance where a senior officer approved 20% discretionary relief for a charity in which she had an interest as a trustee.



### Recommendation

**R23** Reconcile the number of bills to be printed to the number on the system, once all bill reports have been run and before information is sent to the printing contractor.

**R24** Ensure the new resource within the revenues team is utilised to confirm the validity of discounts and reliefs in respect of council tax and NNDR.

**R25** Ensure that officers are not allowed to grant discounts in favour of organisations where they have a real or perceived conflict of interest.

### Car parking income

- 45** The control environment does not provide assurance that car park income is complete or accurate. Whilst audit tickets collected from machines are reconciled to the cash collected from the machine sometimes audit tickets do not have any information on them and/or the cash collected is overwritten on the audit tickets to ensure they match. This issue has been raised previously by Internal Audit. This is a fraud risk as cash could be taken from the machines without trace.

### Recommendation

**R26** Fix the ticket machines so that audit tickets produce the correct information. Improve reconciliation procedures.

### Reconciliations

- 46** Monthly reconciliations between the accounts receivable (AR) and accounts payable (AP) ledgers and the equivalent general ledger control accounts are not yet adequate as they only reconcile monthly movements rather than the overall balances (other than at the year end when a full reconciliation is carried out). This means that the full list of reconciling items is not obtained or followed up each month. We noted that the differences between the cumulative balances were not static throughout the year.
- 47** Reconciliations between the general ledger and the supporting records of investments were not performed regularly which increases the risks over the completeness and accuracy of investments.

### Recommendation

**R27** Reconcile the Oracle AR and AP balances (not just the movements) to the general ledger control accounts every month. Investigate and correct the reconciling items.

**R28** Reconcile general ledger investment accounts to supporting records on a monthly basis.

## Related party transactions

**48** There remain weaknesses in the year end procedures to complete the related party disclosures in the financial statements:

- we noted one senior officer who failed to notify that he is a director of a company in which the Council has a significant shareholding; and
- a Member declared an interest in the Council's register which was omitted from the working paper used to compile the financial statements note. It was not immediately clear whether it was a material interest.

### Recommendation

**R29** Additional training/instruction should be provided to members and senior officers in advance of them being requested to complete the Related Party Transaction disclosures forms for 2009/10.

**R30** Provide additional training to the finance staff responsible for preparing the related party disclosures and ensure that they instigate checks to ensure the disclosures are complete and consider materiality to both parties.

## Letter of representation

**49** Before I issue my opinion, auditing standards require me to obtain appropriate written representations from you and management about your financial statements and governance arrangements. Appendix 4 contains the draft letter of representation I seek to obtain from you.

## Accounting practice and financial reporting

**50** I consider the qualitative aspects of your financial reporting. Table 3 contains the issues I want to raise with you.

**Table 3**

Issue or risk	Finding
The financial statements did not agree to the general ledger. When compiling the statements four entries were excluded.	<p>The omission affected the Statement of Movement in the General Fund Balance (SMGFB) and the net cost of services by £666,300 and has been subsequently corrected by officers.</p> <p>Many of the errors found during the audit related to the process of appropriately generating the statement balances from the general ledger in terms of the necessary classifications for the statements and the</p>

Issue or risk	Finding
	robustness of this process should be reviewed as referred to earlier in this report.
<p>Members are yet to provide input into the classification of assets as operational or non-operational (on which the SORP provides clear guidance). There is a risk that fixed assets and depreciation are both understated due to buildings being misclassified as non-operational rather than operational. Assets may be held that are surplus to requirements and/or do not represent good value for money as non-operational investment properties.</p>	<p>During 2008/09 we agreed with officers that the Theatre Royal would be better classified as an operational building. Previously it had been classified as a non-operational investment property with a nil value. As an operational property it was valued at £14m.</p>
<p>The Council continues to hold significant balances in suspense and holding accounts where the use of an earmarked reserve may be more appropriate.</p> <p>In particular, the Council maintains two cash suspense accounts which hold cash receipts not yet posted to the ledger. One of these accounts holds miscellaneous income received via the PARIS system while the other includes unidentified cash receipts. At the year-end balances remained on both of these accounts.</p>	<p>The excessive use of suspense accounts has been a feature of our previous reports and is a continuing issue with audit differences found in respect of the treatment of the Urban Culture fund.</p> <p>While our testing did not identify any misclassification issues from a review of the cash suspense accounts, the failure to allocate monies received to the correct accounts before producing the accounts increases the risk that debtors and creditors are not recorded accurately in the balance sheet. The Council should ensure that all suspense and holding accounts, including those relating to cash, are cleared and transactions posted to the correct accounts, as part of the year-end process.</p>
<p>Contingent liabilities</p>	<p>The contingent liabilities note in the financial statements contained disclosures from previous years which on investigation were deemed to have only a remote likelihood of crystallising.</p>
<p>Officers did not run a report from</p>	<p>When the report was obtained for audit purposes it</p>

Issue or risk	Finding
Northgate showing the housing benefit overpayments due to the Council as at 31 March 2009.	<p>became clear that the financial statements were misstated by £261k.</p> <p>This is a repeat of an error made in the 2007/08 closedown process.</p>
Officers have been unable to fully reconcile all of the gains and losses in the statement of total recognised gain and losses (STRGL) to the movement in net worth in the balance sheet.	There are £795k losses accounted for in the reserves which have not been identified. There is a risk therefore that the income and expenditure account deficit is understated by this amount.

Recommendation
<b>R31</b> Officers should formally consider the allocation of assets as operational or non-operational including attaining member approval. Ensure the officers and members determining the allocation are aware of the SORP requirements.
<b>R32</b> As part of the year-end process clear all suspense and holding accounts, including those relating to subsidiary information systems, and post transactions to correct accounts.
<b>R33</b> Include the requirement within the closedown plan to run the supporting reports for housing benefits overpayments as at 31 March and to reconcile them to the general ledger.
<b>R34</b> Analyse movements on reserves with sufficient detail to be able to reconcile total gains and losses to the movement in balance sheet reserves.

### Other matters

**51** We have identified the following other matters that we require you to consider.

**Table 4 Other matters**

Issue or risk	Finding
The total value of the pension fund managed by Norfolk County Council at 31 March 2009 was less than the actuary's estimate by £2,028k, as a result of a further deterioration in stock	<p>The value of the overstatement has been calculated as £2,028k (based on the Council's percentage of the overall fund).</p> <p>No adjustment is required in Norwich</p>

Issue or risk	Finding
<p>markets.</p> <p>This was identified during the audit of the pension fund accounts by Norfolk County Council's auditors, after production of the actuary's report and the deadline for completion of the statement of accounts. Consequently, the Council's fund assets are less than the FRS 17 figures provided by the actuary (which are necessarily provided on an estimated basis).</p>	<p>City Council's accounts for this item.</p>

## Use of resources

I am required to consider how well the Council is managing and using its resources to deliver value for money and better and sustainable outcomes for local people, and give a scored use of resources judgement.

I am also required to conclude whether the Council put in place adequate corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money (VFM) conclusion.

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### Use of resources judgements

- 52** In forming my scored use of resources judgements, I have used the methodology set out in the [use of resources framework](#). Judgements have been made for each key line of enquiry (KLOE) using the Audit Commission’s current four point scale from 1 to 4, with 4 being the highest. Level 1 represents a failure to meet the minimum requirements at level 2.
- 53** I have also taken into account, where appropriate, findings from previous use of resources assessments (updating these for any changes or improvements) and any other relevant audit work.
- 54** The Council’s use of resources scores have been subject to both local and national quality assurance processes and will be formally notified to the Council on 19 October 2009. The key findings and conclusions for the three themes are summarised in Appendix 5.
- 55** The economic downturn and banking crisis is having a very significant impact on public finances and the bodies that manage them. The impact on treasury management strategies has been immediate, but there are wider and more fundamental impacts on the ability of public sector bodies to fund service delivery and capital programmes, including pressures on income streams. There are further challenges for policy priorities where patterns of demand for services are changing.
- 56** I have reflected on the wider environment, specific issues and risks and the Council’s response.
- 57** The financial position of the Council is becoming increasingly challenging, in particular:
- During 2008/09:
    - the Council has experienced reduced income from investments, planning and other fees and at the same time additional cost pressures caused by increased demand for its services and the concessionary bus fares scheme;
    - the general fund balance has fallen from £9.9m to £7.5m;
    - capital receipts did not reach anticipated levels and are expected to continue to fall significantly; and

## Appendix 1 – Draft Independent Auditor’s report to Members of Norwich City Council

- in her report to Executive on 16 September 2009 the Chief Executive commented that ‘the Council is facing one of the largest financial challenges to its General Fund budget across the country’.
- For future financial periods (2009/10 onwards) the Council has assessed that it:
  - faces annual losses of £1.4m in investment income, £300,000 in commercial rents, £500,000 in planning fees and land charges and £300,000 in parking revenues;
  - will incur additional costs of £1.9m as a result of nationwide changes to the concessionary fares scheme;
  - faces increasing demand for benefits payments, and a greater requirement to invest in economic incentives;
  - is forecasting a fall of £11.5m in its cash balances to £16.5m over the next five years;
  - needs to save £7.9m between 2009 and 2014, with the majority of these savings over the next 2 years in order to prevent a general fund deficit.

**58** The Council is responding to this challenge and the latest medium term financial strategy actively considers the impact of the economic downturn. The implications of the funding shortfalls appear to be understood and the challenges faced are being acknowledged by the Council as a whole. The 2009/10 budget incorporated £4m of savings and efficiencies and subsequently the Council agreed to use a further £4.25m of reserves. This allowed the Council more time to consider its strategy in achieving savings with minimal impact on services in the short term. However reserves are reduced to such a level that the Council will not be able to call on them again without breaching its reserves policies. A provisional timetable is in place to achieve the required savings and a full plan is to be presented to full Council in December 2009 following consultations with financial advisors and the public.

**59** Though the economic downturn is presenting specific issues and risks to the Council, I am satisfied that it is taking appropriate steps to respond to this. However, this is an area I will continue to consider closely when assessing how the Council makes effective use of resources during my 2009/10 audit, particularly given the weaknesses in financial reporting set out in Appendix 5.

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### Value for money (VFM) conclusion

**60** I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission. From 2008/09, the Audit Commission will specify each year, which of the use of resources Key Lines of enquiry (KLOE) are the relevant criteria for the VFM conclusion at each type of audited body. My conclusions on each of the areas assessed in 2008/09 are set out in Appendix 5.

**61** I have identified weaknesses in your arrangements in respect of three of the criteria as set out in Appendix 5.

- 62** I have identified weaknesses in your arrangements in respect of three of the eight criteria assessed. I therefore intend to issue a qualified conclusion. I am currently considering the form of my opinion and will obtain peer review before determining whether it should be an ‘except for’ VFM opinion or an ‘adverse’ opinion.
-



# Appendix 1 – Draft Independent Auditor’s report to Members of Norwich City Council

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## Opinion on the financial statements

I have audited the Authority accounting statements and related notes of Norwich City Council for the year ended 31 March 2009 under the Audit Commission Act 1998. The accounting statements comprise the Income and Expenditure Account, the Statement of Movement on the General Fund Balance, the Balance Sheet, the Statement of Total Recognised Gains and Losses, the Cash Flow Statement, the Housing Revenue Account, the Statement of Movement on the Housing Revenue Account, the Collection Fund and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of Norwich City Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 49 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

## Respective responsibilities of the Head of Finance and auditor

The Head of Finance’s responsibilities for preparing the financial statements in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008 are set out in the Statement of Responsibilities for the Statement of Accounts.

My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the accounting statements present fairly, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008 the financial position of the Authority and its income and expenditure for the year.

I review whether the governance statement reflects compliance with ‘Delivering Good Governance in Local Government: A Framework’ published by CIPFA/SOLACE in June 2007. I report if it does not comply with proper practices specified by CIPFA/SOLACE or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered, whether the governance statement covers all risks and controls. Neither am I required to form an opinion on the effectiveness of the Authority’s corporate governance procedures or its risk and control procedures

I read other information published with the accounting statements, and consider whether it is consistent with the audited accounting statements. This other information comprises the Explanatory Foreword. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the accounting statements. My responsibilities do not extend to any other information.

### **Basis of audit opinion**

I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounting statements and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the accounting statements and related notes, and of whether the accounting policies are appropriate to the Authority’s circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the accounting statements and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the accounting statements and related notes.

### **Opinion**

In my opinion the Authority financial statements present fairly, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008, the financial position of the Authority as at 31 March 2009 and its income and expenditure for the year then ended.

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## **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

## Appendix 1 – Draft Independent Auditor’s report to Members of Norwich City Council

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

*Wording subject to review and agreement*

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### Certificate

I certify that I have completed the audit of the accounts in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Andy Perrin  
District Auditor

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

Date

# Appendix 2 – Adjusted amendments to the accounts

The following non-trivial misstatements were identified during the course of my audit and the financial statements have been adjusted by management. I bring them to your attention to assist you in fulfilling your governance responsibilities.

**Table 5**

		Income and Expenditure Account		Balance Sheet	
Adjusted misstatements	Nature of Adjustment	Dr £000s	Cr £000s	Dr £000s	Cr £000s
Fixed assets – other land and buildings	Theatre Royal was valued at £nil when classified as non-operational asset which was not SORP compliant. On reclassification as an operational asset it was revalued at £14m.			14,000	311
Capital Adjustment Account (CAA)				311	2,520
Revaluation Reserve	In 2007/08 £2.52m of capital expenditure was impaired which can be reversed as a result of the reclassification.  The asset is subject to depreciation and £311k is charged in 2008/09.				11,480
Cultural Environmental & Planning - expenditure		311	2,520		
Statement of Movement in the GF balance (SMGF)		2,520	311		
Reclassification within the debtors note	Amounts due from agency and government departments, and other local authorities misclassified as debtor accruals.			5,542 1,430	6,982
Government Grants Debtors	LABGI income recognised twice.	566			566
Net cost of services: Income Expenditure	Income and expenditure were both overstated due to the inclusion of internal recharges.	3,050	3,050		
Loss on disposal	A property which had been sold	283			

## Appendix 2 – Adjusted amendments to the accounts

		Income and Expenditure Account		Balance Sheet	
Adjusted misstatements	Nature of Adjustment	Dr £000s	Cr £000s	Dr £000s	Cr £000s
SMGF Fixed assets CAA	during the year had not been removed from the statements or the fixed asset register.		283	283	283
Net cost of services: Income Expenditure	Service area income and expenditure both understated as government grant income was netted off expenditure rather than shown as income.	1,297	1,297		
Reclassification within the creditors note	Adjustment for concessionary bus fares was incorrectly posted as an accrual.			2,008	2,008
Debtors Creditors	Prepayments in respect of concessionary bus fares incorrectly netted off sundry creditors. A related prior year accrual was not reversed			711 511	511 711
Suspense and holding accounts Debtors: Housing rents Accruals Local authorities Net Cost of services Income Expenditure	Misclassification of holding accounts and omission of income and expenditure from I&E in relation to the Urban Culture Fund.				1,142
				392 492 258	
		492	492		
Debtor accruals Creditor accruals	Year end correcting journal incorrectly posted.			3,455	3,455
Creditors Debtors	Receipts in advance from 2007/08 not reversed in 2008/09.			386	386
Reclassification between debtors and creditors	Adjustment instigated by officers.			93	93
Reclassification between short and long term investments	Interest income misallocated to long term investments.			60	60
Reclassification within creditors note	Inconsistent treatment of salaries control account compared to 2007/08.			924	924
Reclassification within statement of movement in the general fund balance note	Misclassification of government grants deferred relating to Revenue Expenditure Financed from Capital Under Statute (REFCUS)	2,717	2,717		
Fixed assets	Two properties included in the				107

## Appendix 2 – Adjusted amendments to the accounts

		Income and Expenditure Account		Balance Sheet	
Adjusted misstatements	Nature of Adjustment	Dr £000s	Cr £000s	Dr £000s	Cr £000s
CAA Loss on disposal SMGF	financial statements which had been disposed of in previous years.	107	107	107	
HRA & General Fund Interest payable Interest receivable	Adjustments required to the HRA item 8 debits and credits when they are calculated in accordance with statutory guidance.	153	153		
HRA Income: Non-dwelling rents Other contributions	Initiated by officers on recognition that car park income had been misclassified.	58	58		
Net cost of services SMGF Government grants E&U Ref 32	Initiated by officers. Elements of a post trial balance journal were omitted from the financial statements.	666	666		
Reclassification of net cost of services	Initiated by officers on realisation that a post trial balance journal was no longer required.	45	45		
Debtors accruals Interest receivable	Correcting journal from 2007/08 was not reversed.		245	245	
Housing rents bad debt provision Housing rent income	Debtor written off against income rather than the specific bad debt provision creating a misstatement of rental income and housing rent bad debt provision.		314	314	
Net Cost of services SMGF – impairment Revaluation reserve CAA	60 garages were demolished during the year. The impairment was incorrectly charged to the revaluation reserve rather than the income and expenditure account.	150	150	150	150
CAA Major repairs reserve	Voluntary revenue provision should be charged to the CAA.			57	57
Revaluation reserve CAA Net cost of service - HRA impairment SMGF	When assets that have revalued are disposed of any surplus revaluation should be transferred to the CAA. This was not done in respect of council dwellings.	24	24	100 24	24 100
Long term debtors Net cost of services	Housing benefit overpayment debtors in the general ledger were not reconciled to the benefits system as part of the accounts production process. This adjustment represents the difference between the two systems which officers have not yet been able to reconcile.		261	261	

## Appendix 2 – Adjusted amendments to the accounts

		Income and Expenditure Account		Balance Sheet	
Adjusted misstatements	Nature of Adjustment	Dr £000s	Cr £000s	Dr £000s	Cr £000s
Reclassification between debtors and creditors	Brought forward NELM balance incorrectly classified as a debtor			613	613
HRA Income Transfer from GF	Being internal transfer from the general fund misclassified as income.	689	689		
HRA Income Creditors	Omission of week 53 housing rent adjustment to ensure correct cut off.	651			651
Other housing services - expenditure Debtors	Associated subsidy correction		371		
Other housing services - income Creditors		341		371	341
Creditor accruals Net cost of service	A 2007/08 accrual was reversed out twice	63			63
<b>Total impact on the deficit for the year in the Income and Expenditure Account</b>		<b>328</b>			
<b>Total impact on the General Fund</b>		<b>150</b>			
<b>Total impact on the Housing Revenue Account</b>		<b>280</b>			

# Appendix 3 – Unadjusted misstatements in the accounts

The following misstatements were identified during the course of my audit and the financial statements have not been adjusted by management. I bring them to your attention to assist you in fulfilling your governance responsibilities. If you decide not to do so, please tell us why in the representation letter. If you believe the effect of the uncorrected errors, individually and collectively, is immaterial, please reflect this in the representation letter. Please attach a schedule of the uncorrected errors to the representation letter.

**Table 6**

Description of error	Accounts misstated	Value of error £Million
Unidentified gains and losses in the statement of total recognised gain and losses (see the body of the report)	Unable to determine where the errors lie based on information reviewed to date	0.79dr
Extrapolated estimated error from audit sample testing. Unitary status accrual was based on budgeted amounts rather than actual costs incurred by the authority.	Creditors Net cost of services	0.66cr
Extrapolated estimated error from audit sample testing. The level of S106 revenue maintenance funds released to the income and expenditure account was understated.	Creditors Net cost of services	0.22cr
When council dwellings are disposed of officers use an average beacon value to determine the carrying value of the asset disposed. This led in 2008/09 to an estimated £142k understatement of profit on disposal and impairments.	Fixed assets disclosure CAA disclosure Income and expenditure Impairments Profit on disposal of fixed assets	0.14cr
Extrapolated estimated error from	Debtors: suspense and holding	0.13dr



### Appendix 3 – Unadjusted misstatements in the accounts

Description of error	Accounts misstated	Value of error £Million
audit sample testing. Officers continue to process transaction through suspense and holding accounts rather than the income and expenditure account.	accounts I&E impact estimated at £0.059m	
<b>Net impact on the deficit for the year</b>		<b>0.1cr</b>

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# Appendix 4 – Draft letter of representation

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

## **Norwich City Council - Audit for the year ended 31<sup>st</sup> March 2009**

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 31st March 2009.

### **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 presents fairly the financial position and financial performance of the Council and for making accurate representations to you.

### **Uncorrected misstatements**

I confirm that I believe that the effects of the uncorrected financial statements misstatements listed in the attached schedule 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 as follows;

- *reason 1 etc;*
- *reason 2*

### **Supporting records**

## Appendix 4 – Draft letter of representation

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.

The Council has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

### **Assets**

The following, where applicable, 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.

### **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 the [insert date] 2009.

Signed

Barry Marshall

Stephen Little

Head of Finance

Chair of Audit Committee

Date

Date

# Appendix 5 – Use of resources key findings and conclusions

The following tables summarise the key finding and conclusions for each of the three use of resources themes.

**Table 7**      **Managing finances**

## Key findings and conclusions

### Financial planning:

The Council integrates its financial and corporate planning processes as evidenced by the fact that its service plans form part of the budget setting and Medium Term Financial Strategy (MTFS) processes. Whilst medium term financial planning continues to develop at the Council, a Corporate Improvement Board (CIB), which met in April 2009, is now maintaining focus on this, which is especially important given the challenging financial position that the Council faces. A new MTFS, which takes account of strategic objectives and local and national priorities, was revisited by Members in April 2009 following a significant amount of reworking by officers, and there has been some staff/public involvement in this process, together with some good attempts to consult with the public on the 2009/10 budget constraints. Growth bids and/or cost savings are reviewed via a 'Star Chamber' challenge approach to ensure a consistent approach with the Council's overall strategy and objectives. Other strategies are gradually being brought into line with the MTFS where inconsistencies have been found. The MTFS incorporates the Council's latest policy on reserves, although this is not set out in a separate 'reserves strategy'. Adequate treasury management arrangements are in place.

The Council's spending remains within its reserves levels but 2008/09 has seen an overspend on both the General Fund (GF) and the Housing Revenue Account (HRA). Whilst this is of significance the Council is actively managing cost reductions via the CIB to ensure reserves are not eroded by more than that included in the MTFS and that pressures on services are managed. The Council is clearly aware of cost pressures and is being proactive over a medium term to improve the situation using the reserves as a buffer in the meantime, but this remains a key risk for the Council.

Recognition of individual and collective responsibilities for financial management and values and the development of financial skills remains less well developed. Budget reporting to the Executive in 2008/09 was not as timely as it should

have been, but improved late in the year and the CIB needs to ensure continued focus. There is a corporate development programme which promotes financial literacy and skills in the Council to ensure staff outside the finance role develop their financial skills, and some evidence of financial training being given, but a full skills gap review has not yet been completed.

### Understanding costs and achieving efficiencies:

The council is using performance and financial information, including limited benchmarking data against other authorities in some service areas, to support the decision making process, but this requires further development. Costs for key services are reviewed and it has been identified that some, such as benefit administration and waste collection, are costly relative to their performance. Investment and improved processes in both areas are beginning to deliver some improvements in performance, leading to better value for money. The Council introduced new service and financial planning guidelines for 2008/09 that involved a three-year planning time frame with detailed one-year action plans fed by costing information. Linkage between the capital strategy, the asset management plan and the medium term financial strategy are now giving the council a better understanding of the whole-life costs and long-term impact of its decisions. An emphasis on efficiency savings is developing through sessions where Heads of Service present their plans and are challenged on the costs, value for money and performance measures laid out in those plans. The Council, as part of the “Aiming for Excellence” programme, is actively exploring the use of business process re-engineering techniques through the service improvement team. However, the Council narrowly failed to achieve its national savings target this year, although it has been successful in previous years.

### Financial reporting:

We consider that the Council is not meeting minimum standards in terms of financial reporting. As noted above, regularity and timeliness of budget monitoring and forecasting at Member level has continued to be a weakness in 2008/09, although there has been some more recent improvement. However, it is unclear whether the information provided by the financial monitoring and forecasting system is accurate enough to support decision making. In-year financial monitoring and forecasting information is not reconciled to the financial information reported externally to stakeholders at the year-end, and there have been material amendments in both the 2007/08 and 2008/09 financial accounts. Internal audit have not reviewed budgetary control in recent years which reduces the Council's assurance that budget monitoring and forecasting is reliable. The review of, and action regarding, the financial performance of certain partnerships has previously been a weakness and continues to require improvement.

The Executive considers financial and performance information in separate reports and it is difficult to conclude that the Council has an integrated approach to collecting and producing financial and non-financial performance data.

Whilst the Council's processes around the preparation of the financial accounts and associated working papers has shown

## Appendix 5 – Use of resources key findings and conclusions

some improvement, it has started from a low baseline and the accounts presented to the Audit Committee were subsequently materially amended in advance of the audit. As reflected in the body of this report, additional material audit amendments have been required, and the volume of audit differences found remains at an unacceptably high level. Working papers to support the financial accounts, whilst improving, are still not fit for purpose and their production is not yet an engrained part of the accounts preparation process.

Publishing reports is stronger but remains underdeveloped. The Council has considered possible barriers to accessing information reports and reports are available in other formats on request. The INTRAN translation service is advertised on the home page but this could be done in a more accessible way, such as advertising it in a range of languages. The Council understands and is complying with the equalities legislation when publishing information and there is a dedicated equality and diversity page on the Council's website. However, the Council cannot demonstrate that, through engaging with its local communities, it knows what their needs are for accessing information and has responded to these in its external reporting. Although there is evidence of general consultation, there is little evidence that the Council has identified the community's specific needs for accessing information and consultations have not specifically considered financial reports.

<b>KLOE 1.1 (financial planning)</b> <b>Score</b> <b>VFM criterion met</b>	<b>2</b> <b>Yes</b>
<b>KLOE 1.2 (understanding costs and achieving efficiencies)</b> <b>Score</b> <b>VFM criterion met</b>	<b>2</b> <b>Yes</b>
<b>KLOE 1.3 (financial reporting)</b> <b>Score</b> <b>VFM criterion met</b>	<b>1</b> <b>No</b>

Table 8      Governing the business

**Key findings and conclusions****Commissioning and procurement:**

The Council has consulted widely with local communities, partners and stakeholders in the creation of the Corporate Plan and of the Sustainable Community Strategy. It plans to use information from the Place survey to further refine its knowledge of needs at ward level and of those groups most at risk of disadvantage. This is giving an understanding of local needs and priorities that are reflected in decisions to commission and procure services and in the specifications drawn up for those services. Opportunities for greater cooperation with neighbouring authorities have been used to commission shared services such as the building control service and the joint mediation service with local housing providers.

The Council's service improvement team is working to a programme based on the priorities in the corporate plan to improve the customer experience of services and deliver enhanced value for money. The implementation of the Norwich Connect programme has seen the development of a single contact number to improve customer access and experience. The Council's procurement strategy and plan are based on national guidelines. The procurement team has built a good understanding of the market and actively manage relationships with suppliers, for example by holding "meet the buyer" events and encouraging regular dialogue. As part of the procurement strategy the Council is committed to providing local suppliers with information, allowing them to compete fairly for business, and is providing support to the third sector through being a partner in developing the Third Sector Guide for Public Sector Commissioning in Norfolk and running commissioning seminars for community and voluntary sector groups. High-spending non-contract areas are reviewed and, where possible, savings are sought through developing contracts or framework agreements.

The Council's processes to ensure that all procurement options are fully considered before issuing tenders is still developing, although, where a competitive tender process has been identified as a preferred option, bids are evaluated on the most economically advantageous tender, taking in to account governance and legal requirements and the whole life costs of the procurement. Formal governance structures are in place for large-scale strategic contracts such as CityCare and Norwich Connect that are now beginning to deliver improvements in the contract management process.

Processes to review service competitiveness are weak and merit further focus. The Council is at a very early stage in developing the processes that will allow it to institute reviews that may deliver service improvements and better value for money. It has recently undertaken a supplier spend analysis and is developing a contracts database as the first steps in having baseline information available to measure improvements in cost performance.



## Appendix 5 – Use of resources key findings and conclusions

### Data quality and the use of information:

The Council is working to improve the quality of its data. The performance team is working with staff to emphasise the importance of data quality & this has delivered improvements in data quality arrangements. Issues arising from reviews of data quality are raised with senior managers for discussion with individual services. Governance procedures cover data quality arrangements for key partnerships, including risk assessments. A new information sharing protocol has been developed for the LSP.

Members & officers receive information that supports decision-making and scrutiny. Quarterly performance reports present clear, user-friendly information on the delivery of priorities. Investment in new services or enhancement to existing ones is aided by the use of a standard business case proforma. However the lack of an electronic management performance system increases the use of manual intervention to produce information.

Data on systems is generally managed with controlled and secure access, with improvements to procedures having been made following an internal audit. A number of business continuity plans have been developed by the Council but there is limited evidence that they are regularly reviewed or tested.

There are corporate targets for managing performance and monthly service reports show performance against outcomes from strategic objectives which feed quarterly reports to the corporate management board, the Council and the Local Strategic Partnership (LSP). Whilst project management to ensure the timely delivery of expected outcomes is still developing the Council's performance reports provide information to keep areas of under-performance under review and the Council can demonstrate that it is taking appropriate action to achieve improvements.

### Good governance:

The principles of good governance are in place with a constitution which is fit for purpose. Members and senior officers are clear about their respective roles, with a protocol for member-officer relations in place and codes of conduct for both groups. Members and senior officers receive induction and tailored development.

Staff induction and manager refresher sessions include sessions on probity and governance. The Standards Committee is appropriately constituted and compliant, but its impact could be improved, lacking regular meetings with the chief executive or leader nor having addressed a full council meeting or published an annual report on its work. The members' register of interests is publicly available, but could be better publicised and made available on the website. However, the complaints procedure for the public is well publicised and available on the website and is accessible in a variety of formats. The whistleblowing policy has been given a higher profile and is available to staff in leaflet and poster form as well as on the intranet.

The Council has identified its key partnerships and is using a recently developed toolkit to ensure they have an appropriate, documented form of governance, including information sharing, although this requires further development and governance arrangements are variable.

### Risk management and internal control:

Risk management arrangements at the Council are not yet sufficiently well developed to reach level 2 under the new UoR framework. An approved risk management strategy has been in place since 2007, corporate business risks identified and a strategic risk register is in place which it reviews annually. Risks are assessed for likelihood and impact. The partnership team maintains a separate risk register. Key risks (partnership level and organisational level) from this register are included in the strategic risk register.

However:

- the Council is not managing its corporate business risks in line with its risk management strategy. The strategic risk register does not detail the actions to be taken to mitigate identified risks;
- the Council has not explicitly linked its strategic and business risks to strategic objectives;
- risks in service plans are not always assigned to specific individuals & the required actions to mitigate the risks are not always made clear; and
- not all those involved in risk management arrangements have received relevant training;

Whilst the Council has a number of the arrangements in place to promote and ensure probity and propriety we consider that, on balance, level 2 arrangements are not met. There is no proactive fraud work programme other than for benefits; there has been no risk analysis of need (although this is proposed for 2009/10) and the Council is therefore unable to demonstrate if counter fraud is effectively resourced. Fraud risk is not yet an embedded part of strategic risk management arrangements.

We determined in 2008 that the Council had "inadequate" arrangements in place to maintain a sound system of internal control, and we consider that arrangements are still not sufficiently improved. Whilst many of the basic arrangements are in place (Audit Committee, assurance framework, standing orders, standing financial instructions, scheme of delegation & arrangements to ensure compliance with relevant laws and regulations) there remain weaknesses in internal financial controls for key systems, and we continue to be only able to place a relatively low level of reliance on controls at the Council as part of our audit. Additionally, as noted in the main body of our report, the 2008/09 triennial review of Internal Audit (IA) found weaknesses in all IA standards and whilst IA delivery has improved, delivery is not complete and has only been achieved by outsourcing a number of reviews. The corporate business continuity plan has been progressed in the year but is not yet embedded and an external review identified weaknesses with arrangements. Whilst a number of business continuity plans have been developed there is limited evidence that they are regularly reviewed or tested.

### **KLOE 2.1 (commissioning and procurement)**

#### **Score**

**2**

## Appendix 5 – Use of resources key findings and conclusions

VFM criterion met	Yes
KLOE 2.2 (data quality and use of information)	
Score	2
VFM criterion met	Yes
KLOE 2.3 (good governance)	
Score	2
VFM criterion met	Yes
KLOE 2.4 (risk management and internal control)	
Score	1
VFM criterion met	No

**Table 9** Managing resources

Key findings and conclusions
<p>Workforce planning:</p> <p>Although the Council recognises the need to identify skill &amp; knowledge gaps to ensure delivery of quality services, plans to analyse and address these gaps are still in development. Training budgets have been devolved to enable local decisions to be made on priorities and proactive recruitment has already taken place in some areas of skills shortage. Staff surveys consistently rate the Council as a good employer &amp; it promotes itself through open days &amp; working with other councils on recruitment fairs. A new appraisal process has been introduced that significantly improved the percentage of staff being appraised. Sickness absence is closely monitored, resulting in levels amongst the best nationally.</p> <p>A key weakness is that the Council has not yet developed a medium-term workforce plan integrated with corporate &amp; business planning. Workforce planning has recently been incorporated into annual service planning, so that service plans include data on staff numbers, but they are unable to show the skills &amp; resources needed to deliver strategic objectives. The Council has not yet been able to identify the staff numbers required to meet its medium-term priorities &amp; objectives. Some</p>

## Appendix 5 – Use of resources key findings and conclusions

services in the process of delivering improvement plans, such as housing & planning have developed more detailed workforce plans that will be used as a template in other areas. As a result of a recent recruitment freeze, use of agency staff, including costs, is being monitored & managed through the vacancy management panel & all requests for agency staff cover must be justified.

Although the Council is committed to delivering organisational change sensitively, evidence from surveys show that staff feel neither supported nor engaged. A change toolkit for managers has been developed to ensure change is introduced consistently across the Council and the reasons for changes are communicated to staff through the staff magazine & via managers' cascades but the staff survey shows that this has not yet impacted on staff's negative view of change management whether the council manages change effectively. Relationships with trade unions are good & they are consulted on issues, particularly around organisational change, although there is limited evidence of their involvement in managing change.

Policies have only recently been put in place to fully ensure compliance with equalities legislation and duties. All managers were trained in 2008 to implement diversity policies and practice, and receive ongoing support from equality 'champions'. The Council is making efforts to ensure its workforce is more representative of the community it serves. It has been relatively slow to adopt the equality standard for local government having only improved its assessment to reach level 2 by March 2009. The Council has yet to complete its local pay review; a revised proposal has been presented to the trade unions who are still considering its implications.

<b>KLOE 3.1 (effective use of natural resources)</b> <b>Score</b> <b>VFM criterion met</b>	<b>n/a – not assessed in 2008/09</b> <b>n/a – not assessed in 2008/09</b>
<b>KLOE 3.2 (strategic asset management)</b> <b>Score</b> <b>VFM criterion met</b>	<b>n/a – not assessed in 2008/09</b> <b>n/a – not assessed in 2008/09</b>
<b>KLOE 3.3 (workforce planning)</b> <b>Score</b> <b>VFM criterion met</b>	<b>1</b> <b>No</b>

# Appendix 6 – Action Plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
7	R1 Ensure that the Whole of Government Accounts pack is submitted, even if un-audited, by 1 October 2009. Ensure that a final version which is consistent with the financial statements is submitted for audit at the earliest opportunity.	3				
7	R2 Provide fit for purpose supporting working papers for the cash flow statement at the earliest opportunity.	3				
8	R3 Set out a clear rationale regarding the need for any additional impairment charge for elements of 'other land and buildings' currently included in the accounts at depreciated replacement cost at 1 April 2008. Reflect any significant adjustments in the financial statements.	3				
8	R4 Obtain the necessary clarification from the Actuary regarding the need for any provision in excess of the 'usual' FRS 17 pension liability for the pre-contract pension obligations of staff transferred to CityCare in	3				

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
	2000. Reflect any significant adjustments in the financial statements.					
8	R5 Provide a summary note of the meeting with CLG in respect of New Deal including a consideration of any impact on connected balances and disclosures in the financial statements.	3				
12	R6 Review and understand all audit adjustments made. Put in place appropriate procedures to ensure that common errors are not repeated. This should include appropriate cascade training to those associated with the financial statements preparation process.	3				
12	R7 Produce appropriate working papers as part of the preparation of the financial statements. Sufficient scrutiny should be applied to the appropriateness of the transactions and balances so that corrective action can be taken as part of the closedown process.	3				
13	R8 Address the areas of non compliance with CIPFA's Code of Practice for Internal Audit in Local Government in the United Kingdom 2006.	3				
14	R9 Review the fixed asset register against the requirements of the SORP to ensure it remains fit for purpose. Implement specialist fixed asset software as and when budgets permit.	2				
14	R10 Update the fixed asset register on a	2				

## Appendix 6 – Action Plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
	monthly basis. Reconcile the register to the general ledger and other property records such as Academy and Codeman.					
14	R11 Conduct a service manager review of the asset register on an annual basis.	2				
14	R12 Identify and implement controls to ensure that disposals are recorded completely and accurately in the asset register and financial statements.	2				
14	R13 Strengthen controls over invoice request forms by introducing:- <ul style="list-style-type: none"> <li>a list of approved signatories who are authorised to raise IRFs; and</li> <li>sequential numbering and checking for completeness of processing.</li> </ul>	2				
14	R14 Conduct regular checks for gaps in the sequence of sundry sales invoices	2				
15	R15 Reconcile supplier statements from major suppliers on a monthly basis	3				
15	R16 Investigate the breaches in purchase controls that we have identified and ensure that they are not endemic. Implement a correctly controlled purchasing process to eliminate the risks involved with unauthorised purchases being made. Requisitions, orders, and deliveries should all be documented and filed appropriately.	3				
15	R17 Review signatory lists regularly to ensure that staff changes are reflected promptly and date the list to ensure processing	2				

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
	staff are using up to date information.					
15	R18 Design and implement an internal control which provides assurance that only genuine employees are on the Council's payroll.	2				
15	R19 Ensure the payroll payment schedule is properly authorised before allowing payment to proceed.	2				
16	R20 Review the design of authorisation controls within McDonnell Douglas property maintenance system and consider the need to reinforce or amend the control.	2				
16	R21 Segregate duties such that the same person does not approve and enter orders in the McDonnell Douglas system. Implement a secondary review of cost coding of orders.	2				
16	R22 Agree the validity of voids by agreeing houses with void status in Academy to supporting documentation.	2				
17	R23 Reconcile the number of bills to be printed to the number on the system, once all bill reports have been run and before information is sent to the printing contractor.	3				
17	R24 Design and implement controls to confirm the validity of discounts and reliefs in respect of council tax and NNDR.	3				
17	R25 Ensure that officers are not allowed to grant discounts in favour of organisations where they have a real or perceived conflict of interest.	3				



## Appendix 6 – Action Plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
17	R26 Fix the ticket machines so that audit tickets produce the correct information. Improve reconciliation procedures.	3				
17	R27 Reconcile the Oracle AR and AP balances (not just the movements) to the general ledger control accounts every month. Investigate and correct the reconciling items.	2				
17	R28 Reconcile general ledger investment accounts to supporting records on a monthly basis.	2				
18	R29 Additional training/instruction should be provided to members and senior officers in advance of them being requested to complete the Related Party Transaction disclosures forms for 2009/10.	2				
18	R30 Provide additional training to the finance staff responsible for preparing the related party disclosures and ensure that they instigate checks to ensure the disclosures are complete and consider materiality to both parties.	2				
19	R31 Officers should formally consider the allocation of assets as operational or non-operational including attaining member approval. Ensure the officers and members determining the allocation are aware of the SORP requirements.	3				
19	R32 As part of the year-end process clear all suspense and holding accounts, including	3				

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
	those relating to subsidiary information systems, and post transactions to correct accounts.					
20	R33 Include the requirement within the closedown plan to run the supporting reports for housing benefits overpayments as at 31 March and to reconcile them to the general ledger.	3				
20	R34 Analyse movements on reserves with sufficient detail to be able to reconcile total gains and losses to the movement in balance sheet reserves.	2				

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# The Audit Commission

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The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

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