

Annual governance report

Norwich City Council

Audit 2009/10

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.

Ladies and Gentlemen

2009/10 Annual Governance Report

I am pleased to present the results of my audit work for 2009/10.

I discussed and agreed a draft of the report with the Chief Executive and Head of Finance on 18 October 2010 and updated it as issues have been resolved.

My report sets out the key issues that you should consider before I complete the audit.

It asks you to:

- consider the matters raised in the report before approving the financial statements (pages 3 to 27);
- take note of the adjustments to the financial statements 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);
- 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).

Yours faithfully

Rob Murray
District Auditor

18 October 2010

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Key messages

This report summarises the findings from the 2009/10 audit which is substantially complete. It includes the messages arising from my audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources.

| Financial statements | Results | Page |
|---|---------|-------|
| Unqualified audit opinion ⁱ | Yes | 6-9 |
| Financial statements free from material error ⁱⁱ | No | 10-13 |
| Adequate internal control environment ⁱⁱⁱ | No | 13-19 |
| Value for money | Results | Page |
| Adequate arrangements to secure value for money | No | 24-27 |

Audit opinion and financial statements

1 My opinion was not given by the deadline of 30 September 2010 due to the number of issues that remained outstanding at the time.

2 My report sets out work that is outstanding at 13 October. Provided that those issues are satisfactorily resolved so that the financial statements are not materially misstated, I intend to issue an unqualified opinion by 31 October 2010. I will continue to work with officers to resolve the outstanding matters, and provide an update at the 26 October Audit Committee meeting.

Value for money

3 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.

i See glossary

ii See glossary

iii See glossary

4 I identified weaknesses in your arrangements in respect of two of the nine criteria assessed. I intend to issue a qualified 'except for' conclusion on your value for money arrangements.

Audit fees

5 The audit fees charged to date for the 2009/10 audit are shown in table 1. The fee for the audit is higher than the original agreed fee plan which Audit Committee members received in June 2009. I provided my Opinion Audit Plan to the Head of Finance and Chief Executive in early August 2010. This stated that an additional fee of £21,000 was required to address the risks which had arisen since the original fee plan was issued. It commented that the fee would need to be increased further should the issues we found in the financial statements audit recur.

6 As referred to above the audit is still in progress at 13 October. Due to the substantial number of issues that I have been required to consider during my audit a further additional fee will be required. The additional audit fee is not reflected in table 1 below. As audit work is still ongoing I am not yet in a position to estimate, with certainty, the final fee. However I expect the total fee will be similar to the amount charged in 2008/09 which was £249,900. I will provide an update at the 26 October Audit Committee meeting.

Table 1: **Audit fees**

| | Actual billed to date | Proposed per original audit and inspection plan |
|------------------------------|-----------------------|---|
| Financial Statements | £148,474 | £127,474 |
| Use of Resources | £42,525 | £42,525 |
| Whole of Government Accounts | £4,864 | £4,864 |
| Total audit fee | £195,863 | £174,863 |

Independence

7 I can confirm that there were no relationships giving rise to a threat to independence, objectivity and integrity.

Next steps

This report identifies the key messages that you should consider before I issue my financial statements opinion, value for money conclusionⁱ, and audit closure certificateⁱⁱ. 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.

8 I ask the Audit Committee to:

- consider the matters raised in the report before approving the financial statements (pages 3 to 27);
- 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 that management has declined to amend or set out the reasons for not amending the errors (Appendix 3);
- approve the letter of representationⁱⁱⁱ 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).

ⁱ See glossary

ⁱⁱ See glossary

ⁱⁱⁱ See glossary

Financial statements

The Council's financial statements and annual governance statementⁱ 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 13 October my audit is substantially complete but members should be aware that:

- work is ongoing to resolve remaining audit queries (see further comments below); and
- the audit team are clearing residual matters arising from the review process currently being completed.

11 The deadline for the submission of the audited Whole of Government Accounts (WGA) consolidation pack was 1 October 2010. Due to the delay in issuing my opinion on the Council's financial statements the audit deadline for WGA was not met. The Council did not submit an unaudited pack until 3 September 2010. The deadline for submission was 30 July 2010. The Council needs to produce a revised WGA pack which is consistent with the audited financial statements at the earliest opportunity.

Outstanding matters

12 I will continue to work with officers to resolve the outstanding matters, and will provide an update at the 26 October Audit Committee meeting. The residual work is summarised in the following paragraphs.

ⁱ See glossary

Annual governance statement (AGS)

13 In my view the AGS is not fully consistent with my knowledge and experience of the Council. I have asked officers to redraft certain parts of the AGS, including the reference to the Head of Internal Audit opinion.

Capital grants and contributions

14 Officers have not yet provided an auditable breakdown of capital contributions deferredⁱ and unapplied capital grants and contributionsⁱⁱ held in the balance sheet. These balances represent income received to finance capital expenditure. The combined total of these balances is material at £10.145m. There is a risk that elements of the balances are unsupported and may need to be eliminated.

Fixed asset valuations

15 I have requested that officers reconsider the valuation basis of two properties.

Private Finance Initiative (PFI)

16 The 2009 SORP included a number of changes impacting the 2009/10 financial statements, including the early adoption of International Financial Reporting Interpretations Committee (IFRIC) 12 on service concessionsⁱⁱⁱ. This resulted in a prior period adjustment^{iv} for the information technology services contract with Steria being brought on to the balance sheet. I am currently unable to conclude that the assets and associated accounting entries financed under the PFI agreement with Steria are correct. I am waiting for:

- the Council's assessment of how the assets in the PFI scheme meet the definition of infrastructure as per the Statement of Recommended Practice (SORP) and an explanation as to why they do not meet the definition of vehicles, plant and equipment;
- the Council's assessment of how they are meeting the requirement of Financial Reporting Standard (FRS)15^v and the SORP to depreciate the assets in accordance with similar assets held by the Council; and
- evidence to support the actual lifecycle^{vi} costs incurred for replaced assets and a list of assets provided.

17 I am also waiting for officers to provide evidence that the Council has considered the possibility that other contractual arrangements may be captured by the early adoption of IFRIC12.

ⁱ See glossary

ⁱⁱ See glossary

ⁱⁱⁱ See glossary

^{iv} See glossary

^v See glossary

^{vi} See glossary

Cash flow statement

18 I am not yet in a position to conclude that the revised cash flow statement received on 11 October is free from material error. I have yet to complete my review of:

- the reconciliation of the surplus for the year to net revenue cash flows;
- the treatment of the cash flows in relation to the PFI assets and liabilities;
- interest paid and received; and
- changes to the cash flow statement following changes to the SORP in respect of council tax and national non-domestic rates (NNDR).

New Deal for Communities grant claim and transactions with the North Earlham, Larkman and Marlpit (NELM) Development Trust

19 Officers are yet to provide a comprehensive statement that sets out the position with NELM and Communities and Local Government (CLG) who provide the New Deal for Communities funding. I am aware of correspondence with CLG in respect of my earlier qualification letters on the New Deal grant claims. The financial statements include a contingent liability disclosure in respect of the qualified grant claims. I require the following:

- assurance that the statements are consistent with the general ledger;
- key correspondence with CLG to enable me to form a view on the likelihood of recovery of amounts granted by CLG; and
- a reconciliation of amounts due to and from NELM and CLG including the position on capital receipts that have been withheld by the Council.

Connaught Partnerships Limited administration

20 Connaught was awarded a number of contracts by the Council starting 1 April 2010, including the provision of housing repairs, maintenance and improvement services. In September 2010 Connaught Partnerships Limited went into administration.

21 I understand that when the contractor went into administration it crystallised an obligation of the Council in regard to pension liabilities. The Council is liable to make good the pension liability in respect of those employees, who were previously direct employees of the Council, and were in a position under the Local Government pension scheme to immediately draw their pension on redundancy. It is also responsible to make good any unpaid pension contributions.

22 The Head of Finance indicated this affected 65 Connaught staff and sought an indication of the likely cost to the Council. This was estimated by the pension fund as £810,000. The Head of Finance has not provided for this liability on the basis that he believes it will be incorporated in future actuarial valuations of the pension fund and paid over a period of 20 years. In addition, unpaid pension contributions of approximately £140,000 have not been provided for in the financial statements.

23 I have asked to see a copy of the admission agreement and a summary of the Head of Finance's view why no provision is required. I need this so I can consider whether this represents the full extent of any liability, and to ensure that the financial statements are not materially misstated.

Other matters

24 I am awaiting responses on questions raised in relation to possible litigation and claims and events occurring after the balance sheet date.

25 I am yet to receive a revised set of financial statements with agreed audit adjustments. These will need to be checked for accuracy before I issue my opinion.

Recommendations

R1 Produce a final version of the Whole of Government Accounts pack for audit consistent with the financial statements at the earliest opportunity.

R2 Provide all outstanding audit evidence at the earliest opportunity.

Errors in the financial statements

26 Officers continue to develop the year end closedown processes supporting the production of the financial statements, but further improvements are required. Certain staff changes have been put in place including a new Chief Accountant. This financial reporting year was challenging due to the implementation of IFRIC 12 and the consequent prior period adjustment to bring the Steria PFI on balance sheet. There were also changes to the accounting requirements for council tax and NNDR. This has undoubtedly been a drain on an already constrained financial reporting function.

27 I am encouraged that most of the errors in the financial statements I encountered were technical financial reporting issues. This indicates that concerns raised in earlier years on the quality of the underlying accounting information are largely resolved. However, the Council's financial reporting function is reliant on the Chief Accountant and the level of technical skill in the supporting finance team is not yet adequate. This affects the Council's ability to produce a high quality set of financial statements in line with the 30 June statutory timescale.

28 Officers continued to change the financial statements during my audit, as they completed their own internal review, and as a result of the queries my audit team raised. The Income and Expenditure surplus in the financial statements approved by the Audit Committee increased by £622,000 (8 per cent) in the version provided for audit on 30 July 2010. This has impacted on the efficiency of my audit, and consequently on the fee. I will need to invoice the Council with a significant additional fee as discussed earlier in my report.

29 The draft financial statements provided for audit on 30 July 2010 also contained a high number of arithmetical errors and internal inconsistencies. An independent officer should review the statements prior to audit to ensure they are internally consistent and arithmetically correct. This is something I have recommended for a number of years.

Recommendations

R3 Review the Council's financial reporting function capacity and consider how it can be further strengthened to enable a high quality set of financial statements to be produced in line with the 30 June statutory timescale.

R4 Perform a quality control review on the financial statements before presenting them for audit. Use a SORP-based disclosure checklist to minimise the number of disclosure related errors and omissions. Pay particular attention to areas of accounting that have changed from the prior year.

Adjusted amendments - primary financial statements

30 A number of material and non-material misstatements were identified during the course of my audit and the financial statements have been adjusted by management. The errors are included at Appendix 2. All errors have been included unless clearly trivial in nature. 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 high. I provide an explanation of the more significant amendments below.

Fixed assets valuation

31 Council dwellings were overstated by £4.8 million. The District Valuer's (DV) valuation of council dwellings was £722.9 million; whereas the value per the draft statements was £727.7 million.

Recommendation

R5 Reconcile the fixed asset register to valuations undertaken during the year prior to presenting the statements for audit.

Concessionary Bus Charges

32 The financial statements included £6.6 million of income collected from other district councils under the concessionary bus scheme in its Income and Expenditure account, together with the related expenditure. This overstated both the income and expenditure of the Council. The Council acts as agent in this regard and should only disclose its own share of the expenditure. Income and expenditure relating to the other district councils should be included in the disclosure note on agency payments.

Statement of total recognised gains and losses (STRGL)

33 Officers had not completed their work on the STRGL by the time they presented the financial statements to the Audit Committee. I received a completed version on 3 September 2010; however it contained the following material errors:

- the 'other gains and losses' line included an unexplained gain of £5.3 million and the total movement differed from the movement in net worth in the balance sheet by £4.5 million; and
- the revised STRGL included errors in the footnote for the cumulative impact of the prior period adjustments.

Recommendation

R6 The STRGL is one of the primary statements. Ensure it is materially correct by reconciling the total recognised gain or loss to the movement in the net worth since the previous audited set of financial statements. Ensure that it meets the requirements of the SORP.

Cash flow statement

34 As noted above, our work on the cash flow statement is currently being concluded. The financial statements presented to Audit Committee included a cash flow statement, but officers have revised this at various stages during the course of my audit. A number of figures have been materially changed.

- Capital grants received as part of capital activities has moved from £9.5 million to zero and other capital cash receipts have moved from zero to £4.9 million.
- The amount included for net increase in short term deposits as part of management of liquid resources has moved from £6.7 million to £0.1 million.
- Repayments of amounts borrowed as part of financing has moved from zero to £5 million.
- The required SORP changes in regards to PFI, NNDR and council tax had not been correctly reflected in the cash flow statement.

35 This is the third consecutive year that I have reported concerns with the adequacy of the cash flow statement included in the financial statements.

Recommendation

R7 The cash flow is one of the primary statements. Ensure that the figures included are materially correct by checking their consistency with other parts of the financial statements. Ensure that it meets the requirements of the SORP. These processes should be carried out before the financial statements are presented for Audit Committee approval.

Adjusted amendments - note disclosures

36 In addition to the amendments to the primary financial statements a number of material and non-material misstatements and disclosure amendments were required to the notes to the financial statements. The financial statements have been adjusted by management. I provide an explanation of the more significant amendments below.

Presentation of impairments and impairment reversal

37 Reversals of impairments incurred in previous years were not separately disclosed from current year impairments in the fixed asset note as required by FRS15; the amounts were disclosed net. Impairment reversals in 2009/10 amounted to £22.6 million.

38 Similarly the impairment amount disclosed in the notes to the HRA was a net figure. The note should have disclosed the impairment reversal and impairment charges as £33.9 million and £23.96 million respectively.

PFI Disclosure note

39 The amount disclosed in the long term contracts note for the Steria PFI was understated by £24.6 million. The Council quoted a value of £85 million for the total cost of the contract. However, the total unitary charge payments profiled over the life of the contract, per the PFI accounting model, is £109.6 million.

Recommendation

R8 Verify figures disclosed in narrative notes before presenting the statements for audit.

Unadjusted misstatements in the financial statements

40 A limited number of misstatements identified during the course of my audit have not 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 financial statements are appropriate, please tell me 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 are included at Appendix 3.

Important weaknesses in internal control

41 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.

42 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 the Audit Committee will be included in a separate report to officers. I have not revisited all matters reported in earlier Annual Governance Reports. The Council should review and assess progress on earlier agreed action plans.

Effectiveness of internal audit

43 As set out in my opinion audit plan, my triennial review of the in-house internal audit function carried out in 2008/09 identified some weaknesses in arrangements. The action plan to address the weaknesses has not yet been implemented, and I was again unable to place any reliance on the work of internal audit as an effective internal control as a result of this.

44 A number of the financial systems reviews were outsourced to other providers in the year. Our audit process considers the overall arrangements in which such outsourced activities are carried out, including the role of the Head of Internal Audit in the Council and the oversight of specific outsourced arrangements.

45 The timeliness of internal audit work and reporting is not yet effective:

- as at 14 June 2010 only seven finished reports were available for my review;
- most internal audit reports were finalised after the year end; and
- of 28 planned Internal Audit assignments, only eight were completed at the time the AGS was approved by the Audit Committee.

46 Whilst the Audit Committee received reports in their March, May and June meetings on the 2010/11 planning process, they did not receive formal updates on the progress with the 2009/10 internal audit plan. This is not appropriate given the concerns we have previously raised regarding internal audit.

Head of Internal Audit annual report

47 At 13 October the Head of Internal Audit had not provided the Audit Committee with a formal view on the adequacy and effectiveness of the internal control environment within the Council. The annual report is a requirement of the CIPFA code of practice for internal audit in local government.

48 The Head of Internal Audit's annual report should be written before the AGS is compiled. The AGS presented for approval erroneously included reference to the Head of Internal Audit's annual report, and I have asked for this to be amended.

Recommendations

R9 Complete the actions necessary to ensure that the internal audit function complies with CIPFA standards.

R10 Review the programming of internal audit work. Finalise internal audit reports before the year end wherever possible. Regularly report progress on annual internal audit plans to the Audit Committee.

R11 The Head of Internal Audit should prepare an annual report which formally documents his opinion on the adequacy and effectiveness of the internal control environment. The report should be presented to the Audit Committee before the AGS is approved.

Fixed assets accounting systems

49 I noted some improvements in the controls for fixed assets, including involvement of service managers in a review of the assets held on the register. However, I found issues within fixed assets which:

- impacted on the amount of audit work and delayed the completion of the audit;
- are indicative of weak year-end controls; and
- have the potential to lead to material misstatement.

These are set out below.

- The Council's own reconciliation to the financial statements held in the fixed asset register did not work.
- The first fixed asset register provided for audit did not include PFI assets and also differed from the fixed asset note in the financial statements when PFI was excluded.
- A revised fixed asset register received to support the 3 September version of the financial statements did not reconcile fully to the financial statements.
- A £164,000 entry in the fixed asset register was inconsistent with the revaluation reserve reported in the financial statements. The statements were correct.
- Information supplied to the professional valuer was inaccurate and out of date. The valuation included a property which had been sold during the year. Although the Council correctly excluded this valuation from the statements it is clearly inefficient.
- Five properties were valued as non-operational when they were shown as operational in the fixed asset register. I asked the Council to reconsider the value of two of these properties in case they were materially misstated.
- There are weaknesses in the spreadsheets used as a fixed asset register. I have previously recommended that the Council review the fixed asset register against the requirements of the SORP to ensure it is fit for purpose, but this has not yet been completed. The weaknesses put the Council in danger of overstating the Income and Expenditure account surplus in future years as the register logs the amount of impairment available to reverse when valuations change. One issue is that the fixed asset register does not consistently take account of depreciation written back on revaluation. There was no impact on the statements in 2009/10, but there is a risk that, if the register is left uncorrected, material errors will occur in future years.

Recommendations

- R12** Review the adequacy of the current system for recording fixed assets against the requirements of the SORP. Consider investing in bespoke software.
- R13** On at least a quarterly basis, reconcile the fixed asset register to the general ledger. At the year end reconcile the register to the detail of the fixed asset note in the statements (not just the total balances) including the revaluation reserve. Investigate and correct any differences before presenting the financial statements for audit.
- R14** Include PFI assets held by the Council in the asset register.
- R15** Consider, annually, whether valuation instructions are fit for purpose and contain accurate up to date information. In particular, review schedules of property to be valued for accuracy and consistency with the fixed asset register before the valuation takes place.
- R16** Review the impairments charged to the Income and Expenditure account in previous years as logged in the fixed assets register. Amend the amounts available for reversal through the Income and Expenditure account where the depreciation adjustment has been incorrectly accounted for.
-

Accounts receivable

50 I made a number of recommendations to the Council in my 2008/09 Annual Governance Report. Limited progress has been made. I was unable to place significant reliance on the internal control environment within this system and had to conduct less efficient audit procedures in order to gain the assurance needed to give my opinion. Key findings are set out below.

- I recommended in 2008/09 that the Council strengthen controls over invoice request forms (IRF). The Council agreed to implement improvements by December 2009.
- I also recommended that officers conduct regular checks for gaps in the sequence of sundry sales invoices.

51 The proposed improvements had not been put in place by the time I conducted my pre statements audit in July 2010. I therefore reiterate my recommendations here.

Recommendations

- R17** Run a weekly report of invoices raised and investigate gaps in sequence.
- R18** Prepare, check and update regularly a list of signatories approved to raise IRFs.
-

Recommendations

R19 Instigate the proposed system whereby IRF requestors are emailed with confirmation that their invoice has been raised.

Reconciliations

52 Other than on fixed assets, my audit did not detect any material issues on reconciliations supporting the figures in the financial statements. Additionally I noted some improvements on the processes for key reconciliations such as accounts receivable. However, I found some continued weaknesses in reconciliation processes as set out below.

53 Reconciliations between the accounts receivable system and the general ledger are not reviewed and signed off. The same is true of the accounts payable reconciliation to the general ledger.

54 During 2009/10 the payroll reconciliation between the payroll provider, Avarto and the general ledger was not undertaken monthly.

55 Officers agreed to reconcile investment records to the general ledger on a monthly basis. This did not happen during 2009/10.

56 We did not receive a breakdown of rent allowance/housing benefit overpayments recoverable from ongoing entitlement which fully reconciled to the general ledger. The general ledger was £234,000 higher than the supporting information.

57 The reconciliation of year end housing rent debtors between the supporting system and the general ledger had an unexplained difference of £41,933 (2008/09 - £46,908). There is a risk that HRA dwelling rents may be understated in the absence of a full reconciliation.

Recommendations

R20 Reconciliations should be signed off by the preparer once completed. They should then be reviewed by an independent person, and signed to evidence this review.

R21 Reconcile the general ledger to Avarto payroll and investment records monthly.

R22 Provide breakdowns of the rent allowance/housing benefit overpayments debtors that reconcile to the general ledger for future audits.

R23 Revisit the reconciliation of year end housing rent debtors to determine whether the unexplained difference can be resolved.

Payroll

58 Expected changes to payroll details may not be accurately reflected in payroll records. Officers receive a monthly a list of leavers, starters and other changes from Avarto. This list is compared with the instructions sent to Avarto to ensure that changes have been made correctly. However no evidence is maintained of this control, and I am unable to test its effectiveness or place reliance on it.

59 Unauthorised amendments can potentially be made to payroll details. A payroll change/transfer form, once completed, should be signed by the preparer and authoriser. I noted that there is no authorised signature on these forms. A preparer could, in theory, put through unauthorised changes.

Recommendations

R24 Keep records of the monthly check between Avarto leavers, starters and changes list and the original payroll instructions.

R25 Responsible officers should sign the payroll change/transfer form to evidence that all and any amendments to payroll details are suitably authorised.

Non Housing Revenue Account (HRA) property maintenance

60 I reported a number of weaknesses within the non-HRA property maintenance system in 2008/09 including that the requirement for work orders over £200 to be approved by a senior officer is not routinely carried out. Consequently work orders can be self-authorised. The Council considered that alternative controls would prevent fraud, but agreed that there was no evidence of these controls. The position remains the same in 2009/10. I note that the McDonnell Douglas system used for these transactions has been decommissioned from 1 April 2010. The Council should consider the adequacy of controls in the replacement system for accounting for these transactions.

Recommendation

R26 Consider the adequacy of controls in the replacement system for accounting for non-HRA property maintenance transactions and ensure they are fit for purpose.

Cash suspense accounts

61 The Council maintains two suspense accounts which hold unidentified cash receipts. One holds miscellaneous income and the other unidentified cash receipts. The balances on these accounts were £352,000 and £244,000 respectively as at 31 March 2010 and both were included within creditors. Although my work did not detect any material misstatements, not allocating monies received to the correct accounts before producing the financial statements increases the risk that debtors, creditors and income are misstated.

Recommendation

R27 Clear down cash suspense accounts as part of year-end financial statements production process.

Key areas of judgement and audit risk

62 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 |
|---|---|
| Our cumulative knowledge and updated systems walkthroughs in 2009/10 confirmed that there were some ongoing weaknesses in both the design and the operation of some controls. This continues to limit my ability to rely on systems controls to provide audit assurance. Further strengthening of the underlying control environment is required. | I carried out additional substantive audit testing to address the gaps in controls assurance in 2009/10. |
| Our triennial review of the in-house Internal Audit function in 2008/09 detected weaknesses in arrangements. This meant that we were unable to rely on Internal Audit's work. The action plan to address the weaknesses has not yet been implemented, so the issues continue to impact the 2009/10 audit. | See comments in the section on internal control arrangements above. |
| Additionally, many Internal Audit reports on the main accounting systems are not yet finalised. The Head of Internal Audit has yet to issue his overall opinion to support the comments made in the AGS. | The weaknesses in the in-house Internal Audit function continue to affect my assessment of the control environment at the Council, and my value for money conclusion which is discussed later in this report. |
| | Whilst I am unable to place reliance on controls work carried out by Internal Audit, I have considered the findings from their reviews to inform the risks for my audit opinion. |

| Issue or risk | Finding |
|---|--|
| <p>The 2008/09 audit was protracted due to the number of audit issues arising. Material and significant amendments to the financial statements were reported in our Annual Governance and Report.</p> <p>Neither the Head of Finance nor the Audit Committee formally signed or dated the financial statements presented to us for audit for 2009/10. Our initial review of the financial statements is already raising some issues.</p> | <p>Whilst I anticipated increased reliance on controls where appropriate when preparing my initial fee letter, I have had to adopt a highly substantive audit approach in 2009/10 to ensure that material errors in the 2008/09 financial statements did not recur.</p> <p>I fed back a 20 page list of issues from my initial review of the financial statements for officer consideration. I have since raised additional concerns as my planned audit work was completed. The most significant of these are set out earlier in this report.</p> <p>I concluded that financial reporting arrangements are still not adequate and this is reflected in my value for money conclusion.</p> |
| <p>Whilst we noted some improvements, working papers were inadequate in 2008/09. This led to a protracted audit whilst sufficient, appropriate audit evidence was gathered.</p> | <p>We agreed input into a financial statements planning workshop to facilitate necessary improvements.</p> <p>There has undoubtedly been some improvement in the financial statements closedown processes and in the preparation of some working papers. But this has been inconsistent and the level of error in the financial statements remains high.</p> <p>There were particular weaknesses in working papers connected to fixed assets and other capital transactions. The Council used a new Capital Accountant in 2009/10, with limited handover, and this has undoubtedly impacted. Additionally, the Council had to account for its PFI on balance sheet for the first time this year.</p> |
| <p>The 2009 SORP included a number of changes impacting the 2009/10 financial statements, including:</p> <ul style="list-style-type: none"> ■ as a billing authority, changes in the way the Council recognises council tax and business rates (NNDR) expenditure, debtors and creditors within their financial statements; ■ a new disclosure for senior officer remuneration; and ■ early adoption of IFRIC 12 on service concessions. | <p>There were no material errors impacting on the reported surplus for the changes to council tax and NNDR, but I agreed additional disclosures with officers in respect of the prior period adjustment note and classifications in the financial statements.</p> <p>I found no issues with the new disclosures for senior officer remuneration.</p> <p>I My work on PFI arrangements, now accounted for under IFRIC 12, is ongoing in respect of three issues as set out earlier in my report. These need to be resolved before I issue my opinion.</p> |

| Issue or risk | Finding |
|---|--|
| | <p>In addition to these issues I agreed revisions to the financial statements in respect of:</p> <ul style="list-style-type: none"> ■ the necessary financial instruments disclosures; ■ the gains and losses recognised in the Income and Expenditure note; ■ additions to the PFI disclosure note in order to comply with the SORP; and ■ inaccuracies in the restated disclosures in the long term contracts note (as discussed earlier in this report) and the Capital Adjustment Account note. <p>I am also awaiting confirmation of the overall process the Council has used to identify arrangements which may fall under IFRIC 12.</p> |
| <p>Work is not likely to be complete on the Council's grant claims by the time we reach our opinion on the financial statements.</p> <p>We are aware of correspondence from the Department of Communities & Local Government (CLG) in respect of earlier qualification letters on the New Deal grant claims.</p> <p>Settlement of the benefit subsidy claim for 2008/09 remains outstanding, and the Department for Works and Pensions (DWP) may potentially reclaim subsidy in response to the qualification letter.</p> | <p>I carried out sufficient testing to provide enough obtained sufficient assurance for my opinion on the financial statements where the grant claim work is not yet complete.</p> <p>I assessed the latest position with the DWP in respect of the benefit subsidy claim for 2008/09. The DWP have recently requested some additional work to be carried out on the 2008/09 claim. I have considered the risk of material misstatement if the issues included in our qualification letter are not resolved. I am satisfied that the financial statements would not be materially misstated if subsidy were reclaimed.</p> <p>As set out earlier in this report, I have yet to assess the latest position with CLG in respect of the earlier qualification letters on the New Deal grant claims. I am awaiting a summary of the position from the Council.</p> |
| <p>The Council's significant contracts with CityCare ceased on 31 March 2010. There was a legal challenge over a contract award to Connaught, resulting in a financial settlement.</p> | <p>I have assessed the appropriateness of the financial settlement and do not consider there is any impact for my opinion on the financial statements or my value for money conclusion.</p> |

Accounting practice and financial reporting

63 I consider the non-numeric content of your financial reporting. Table 3 contains the issues I want to raise with you where these have not been raised elsewhere in my report.

Table 3:

| Issue or risk | Finding |
|---|--|
| <p>The format and adequacy of the Explanatory Foreword continues to be weak. We have reported this issue in previous years but there has been little progress.</p> <p>Members of the Audit Committee also commented that the Explanatory Foreword was difficult to understand.</p> <p>Our main audit requirement is to ensure figures are consistent with the financial statements.</p> | <p>The purpose of the Explanatory Foreword is to offer interested parties an easily understandable guide to the most significant matters reported in the financial statements. The style adopted is not sufficiently user friendly.</p> <p>No explanation of the major variances to budget was provided. This should be done in the final version of the financial statements.</p> |
| <p>The arrangements for certification and adoption of the financial statements did not comply with statutory Accounts and Audit Regulations.</p> | <p>The Audit Committee considered the financial statements for approval before the responsible financial officer had signed and dated them as presenting a true and fair view of the financial position of the Council as at 31 March 2010 and its income and expenditure for the year then ended.</p> <p>The chair of the Audit Committee did not sign and date the financial statements at the approval meeting.</p> <p>If the committee do not wish to approve the financial statements a 2006 amendment to the regulation allows them 20 days to hold a further meeting at which the financial statements will be considered.</p> <p>If they are still not able to approve the financial statements they would need to publish a statement as to why they cannot approve the document.</p> |
| <p>Agreement of the financial statements to the underlying accounting system.</p> | <p>The audit trail from the general ledger to the financial statements was not clear in respect of NELM, the statement of the movement on the general fund and collection fund.</p> |
| <p>Financial instrument disclosures were materially inaccurate.</p> | <p>Officers agreed to amend the financial statements in this regard.</p> |

Recommendations

- R28** Review the Explanatory Foreword, ensure that it is user friendly and that all information required by the SORP is included.
- R29** Review the arrangements for certification and adoption of the financial statements for compliance with the statutory Accounts and Audit regulations.
-

Letter of representation

64 Before I issue my opinion, auditing standards require me to ask you and management for written representations about your financial statements and governance arrangements. Appendix 3 contains the draft letter of representation.

Value for money

I am required to decide whether the Council put in place satisfactory corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money conclusion.

Value for money conclusion

65 I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission. I have shown my conclusions on each of the areas in Appendix 5.

66 I have identified weaknesses in two of the nine criteria assessed as set out in Table 4.

67 I intend to issue a qualified conclusion stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in the use of resources, except in the areas highlighted in Table 4. Appendix 1 contains my draft report.

Table 4: **Value for money conclusion: criteria assessed as inadequate**

| Criterion | Finding |
|--------------------------------------|--|
| Financial reporting | Not met. The Council's arrangements to prepare financial statements that meet statutory and financial reporting requirements are not yet adequate. |
| Risk management and internal control | Not met. Whilst I have seen improvements in the Council's risk management arrangements, internal control is not yet adequate. |

Criteria assessed as inadequate

Financial reporting

68 The audit of the 2008/09 statement of accounts identified a number of material errors and qualitative financial reporting issues, indicating that the financial statements preparation process was not sufficiently robust. I saw some improvements in the Council's preparation for the 2009/10 financial statements. But the comments included earlier in my report show that the financial statements continue to contain material errors and do not consistently meet financial reporting requirements. The audit deadline was not met due to this. I have made recommendations earlier in my report in respect of this.

69 2010/11 will be increasingly challenging as local government financial statements have to be prepared under International Financial Reporting Standards (IFRS). Whilst the council has produced a high-level project plan to move to IFRS, I have not yet seen a sufficiently detailed plan to conclude that the Council is on track to meet the reporting requirements. The Audit Committee should engage with officers on the speed of progress and ensure that IFRS transition plans are on track. The Council must restate the 31 March 2009 balance sheet and 2009/10 financial statements without delay if it is to have enough time to meet IFRS reporting requirements.

70 There is improvement in financial monitoring and forecasting information, and the use of this information to monitor performance. But this remains an area of focus for the Council, particularly in the current economic climate. Whilst the corporate management team receive detailed budget reports on a monthly basis, and took action to manage an £8 million budget gap in 2009/10, the timeliness of financial reporting to members is not yet adequate. The Executive only received three budget monitoring reports during 2009/10, although they saw additional reports on budget setting.

71 I am unclear whether the budget monitoring and forecasting information is accurate enough for decision making as the financial information reported externally at year end continues to be subject to material amendments on audit. There is early evidence that the financial monitoring of the new Homes and Communities Agency partnership is better than that for existing partnerships, where there continue to be weaknesses.

Risk management and internal control

72 I now consider performance to be adequate in counter-fraud and corruption and risk management arrangements. But there are continued weaknesses in the internal control environment that should be addressed.

73 Whilst the Council has many of the basic internal control arrangements in place I continue to see instances where controls are not complied with in the key financial systems. Improvement plans arising from previous audits have not been consistently implemented by the Council. I reported in 2008/09 that the Council's in-house Internal Audit function was not fully compliant with CIPFA requirements. The Council has only recently developed an action plan to address this and without evidence of significant progress, my concerns remain. The Council outsourced some of the financial system reviews to help address Internal Audit delivery. However timeliness of Internal Audit work remains a concern, with most reports on key financial systems not available by mid-March, and the Head of Internal Audit had not provided his annual opinion for 2009/10 by mid October 2010. The Audit Committee must take an active role in improving the functioning and status of Internal Audit within the Council, including the arrangements to ensure adequate overall quality control of work, whether outsourced or not. I am only able to place a low level of reliance on the Council's internal control arrangements given these weaknesses. This has an impact on the fee that I have to charge the Council for my audit opinion.

Other matters

74 The Council's financial planning arrangements are adequate. However, the Council's General Fund balance based on the latest version of the 2009/10 financial statements stands at £4.494 million which is slightly below the minimum level of £4.542 million agreed with members, and less than the position forecast at October 2010 of £5 million. Whilst the £4.542 million included a specific risk of £0.4 million that has since been resolved and is no longer required, it is clear that the Council must carefully monitor the position given the scale of pressures facing public bodies in the current economic climate.

75 I have referred to the administration of the Council's new contractor for the provision of housing repairs, maintenance and improvement services earlier in this report. I have considered the implications of this for my opinion on how well the Council commissions and procures its services, and consider that the arrangements are adequate. The Council has let emergency contracts to ensure that service provision continues until a new contractor is appointed. The Council will need to revisit its medium term financial strategy to consider the impact of the changed arrangements.

Recommendation

R30 Review the project plan and timetable for the preparation of financial statements under IFRS. Agree dates with external audit by when the 31 March 2009 balance sheet and 2009/10 financial statements will be restated and available for audit. The Audit Committee should engage with officers on the speed of progress and ensure that IFRS transition plans are on track.

Recommendation

R31 Review the timetable for providing budget monitoring information to Executive. Arrangements would be strengthened if Executive received a summary budget monitoring report on a monthly basis. Ensure that a balance sheet position is reported on a regular basis - we would suggest quarterly.

Glossary

Annual governance statement

76 Governance is about how local government bodies ensure that they are doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner.

77 It comprises the systems and processes, and cultures and values, by which local government bodies are directed and controlled and through which they account to, engage with and, where appropriate, lead their communities.

78 The annual governance statement is a public report by the Council on the extent to which it complies with its own local governance code, including how it has monitored the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.

Audit closure certificate

79 A certificate that I have completed the audit following statutory requirements. This marks the point when I have completed my responsibilities for the audit of the period covered by the certificate.

Audit opinion

80 On completion of the audit of the accounts, auditors must give their opinion on the financial statements, including:

- whether they give a true and fair view of the financial position of the audited body and its spending and income for the year in question;
- whether they have been prepared properly, following the relevant accounting rules; and
- for local probation boards and trusts, on the regularity of their spending and income.

Capital contributions deferred

81 This represents amounts received to finance capital expenditure that has been incurred. The balance is released into the Income and Expenditure account over the useful life of the asset which it has financed.

Financial Reporting Standard 15 'Tangible Fixed Assets'

82 This FRS sets out the principles of accounting for the initial measurement, valuation and depreciation of tangible fixed assets, with the exception of investment properties.

Internal control environment

83 Any measure used by management to protect assets, promote the accuracy of records, ensure adherence to company policies, or promote operational efficiency; the totality of all internal controls represents the internal control environment.

Letter of representation

84 A requirement of management to make certain confirmations about the financial statements.

Lifecycle costs

85 These are fixed asset additions under the PFI.

Material error

86 A characterisation of the magnitude of a financial statement item's effect on a Council's overall financial condition and performance. An item is material when its size is likely to influence decisions of investors or creditors.

On balance sheet

87 Accounting category shown on the balance sheet, such as a finance lease.

Prior period adjustment

88 Material adjustments applicable to prior years arising from changes in accounting policies or from the correction of fundamental errors.

Qualified

89 The auditor has some reservations or concerns.

Unapplied capital grants and contributions

90 Amounts received to finance capital expenditure that has yet to be incurred. This is shown as a liability in the balance sheet.

Service concessions

91 Where the asset is provided by a private operator and the Council has control or regulates what the operator must provide, to whom it must provide, and at what price.

Unqualified

92 The auditor does not have any reservations.

Value for money conclusion

93 The auditor's conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Appendix 1 Independent auditor's report to the Members of Norwich City Council

Opinion on the accounting statements

I have audited the Authority accounting statements and related notes of Norwich City Council for the year ended 31 March 2010 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 published by the Audit Commission in April 2008.

Respective responsibilities of the Head of Finance and auditor

The Head of Finance's responsibilities for preparing the accounting statements in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice are set out in the Statement of Responsibilities for the Statement of Accounts.

My responsibility is to audit the accounting 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 give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of 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 accounting 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 accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial position of the Authority as at 31 March 2010 and its income and expenditure for the year then ended.

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 for principal local authorities specified by the Audit Commission and published in May 2008 and updated in October 2009. I report if significant matters have come to my attention which prevent me from concluding that the Authority has made such proper arrangements. I am not required to consider, nor have I considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Qualified conclusion

I have undertaken my audit in accordance with the Code of Audit Practice. In so doing, I identified the following.

- The Authority did not have appropriate arrangements for regular and timely budget monitoring and forecasting at Member level. Additionally, the review of the financial performance of certain partnerships required improvement.
- The Authority did not have appropriate arrangements to prepare accounts that met statutory requirements, financial reporting standards and gave a true and fair view of the financial performance and position of the Council without the need for material and significant amendments following audit.
- Arrangements to maintain a sound system of internal control were not adequate. There were weaknesses in some internal financial controls for key systems. The Internal Audit function was not fully compliant with Internal Audit standards and work was not completed to plan. The Head of internal Audit did not issue his annual opinion in advance of the Authority completing its Annual Governance Statement.

Having regard to the criteria for principal local authorities specified by the Audit Commission and published in May 2008 and updated in October 2009, I am satisfied that, in all significant respects, Norwich City Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2010 except for:

- timely and reliable financial reporting that meets the needs of internal users, stakeholders and local people; and
- managing its risks and maintaining a sound system of internal control.

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.

Rob Murray
Officer of the Audit Commission

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

October 2010

Appendix 2 Amendments to the draft accounts

I identified the following misstatements during my audit and managers have made the necessary adjustments. I bring them to your attention to aid 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 |
| Council dwellings - impairment | Being adjustments required to separate reversals of impairments made in previous years from current year impairments | | | | 22,606 |
| Council dwellings - impairment reversal | | | | 22,591 | |
| Other land and buildings - impairment | | | | | 303 |
| Investment properties - impairment | | | | | 1,376 |
| Investment properties - impairment reversal | | | | 1,628 | |
| Surplus assets - impairment reversal | | | | 8 | |
| Surplus assets - Revaluation | | | | 43 | |
| Other | | | | 15 | |
| Non-operational assets Impairment | Reduction in value required to reflect notional disposal costs | 486 | | | 486 |
| SMGF - impairment | | | 486 | | |
| CAA | | | | 486 | |
| Fixed asset: council dwellings | Adjustment required to make council dwellings agree to DV valuation | | | | 4,786 |

| | | Income and Expenditure Account | | Balance sheet | |
|--|--|--------------------------------|-------|---------------|-------|
| Net cost of services | | 4,786 | | | |
| SMGF | | | 4,786 | | |
| CAA | | | | 4,786 | |
| Highways roads and transport: Income | Agency income being shown as principal in respect of concessionary bus fares. | 6,558 | | | |
| Highways roads and transport: Expenditure | | | 6,558 | | |
| Creditors | Change required to the profile of the contribution received from the Home and Communities Agency | | | 1,984 | |
| Long term creditors | | | | | 1,984 |
| Council dwellings - reclassifications | Being dwellings resolved to sell as at 31 March 2010 | | | | 1,889 |
| Surplus assets - reclassifications | | | | 1,889 | |
| SMHRAB - difference between any other items... | Misclassification of the amortisation of premiums in the SMHRAB | | 647 | | |
| SMHRAB - amortisation of premiums | | 647 | | | |
| Revaluation reserve | Invalid transfer between revaluation reserve and CAA relating to 2006/07 qualification issue | | | 2,299 | |
| CAA | | | | | 2,299 |
| Pension liability | Being change to pension reserve in respect of added years paid | | | 1,144 | |
| Net cost of services | | | 1,142 | | |
| Mousehold Heath precept | | | 2 | | |
| SMGFB | | 897 | | | |
| SMHRAB | | 247 | | | |
| Pension reserve | | | | | 1,144 |
| In 2008/09 | Makes 2008/09 comparatives consistent with changed 2009/10 presentation. | 2,717 | | | |
| SMGF - government grants deferred amortisation | | | | | |
| SMGF - REFCUS | | | 2,717 | | |
| Various | Other adjustments less than | 955 | 1,042 | 532 | 445 |

| | Income and Expenditure Account | Balance sheet |
|---|--------------------------------------|---------------|
| 10% of materiality | | |
| Overall impact (excluding officer adjustments): | | |
| Surplus for the year - decrease | 4,128 87 | |
| Net worth -decrease | | |

Appendix 3 Unadjusted misstatements in the accounts

I identified the following misstatements during my audit, but management has not adjusted the financial statements. I bring them to your attention to help you in fulfilling your governance responsibilities. If you decide not to amend, please tell us why in the representation letter. If you believe the affect 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 affected | Value of error £ million |
|--|--|--|
| Uncertainty surrounding the validity of the balances carried forward in the balance sheet within unapplied capital grants and contributions, and capital contributions deferred. | Unapplied capital grants and contributions Capital contributions deferred Net cost of services SMGF - government grants deferred amortisation Capital adjustment account | Awaiting information from officers |
| Two properties classified as operational assets in the financial statements were valued as non-operational assets. | Other land and buildings. Other accounts will be dependent on the information provided by the valuer. | Awaiting revised valuation from the valuer |
| Uncertainty surrounding the position with NELM and CLG | Creditors Debtors Net cost of services | Awaiting information from officers |
| Uncertainty surrounding the accounting treatment of assets financed by PFI. | Infrastructure assets Vehicles, plant and equipment | Awaiting information from officers |

| Description of error | Accounts affected | Value of error £ million |
|--|--|------------------------------------|
| | Net cost of services SMGF - depreciation CAA | |
| Audit of the cash flow statement is not yet complete | <ul style="list-style-type: none"> ■ Reconciliation of the surplus for the year to net revenue cash flows | Awaiting information from officers |
| Uncertainty surrounding the completeness of provisions in respect of the administration of Connaught Partnership | <ul style="list-style-type: none"> ■ Provisions ■ Net cost of service ■ SMGF ■ Pension reserve | £0.95 |
| Aggregate of other unadjusted errors which are between 1-10 per cent of materiality | <ul style="list-style-type: none"> ■ Various | £0.22 |

Appendix 4 Draft letter of representation

To:

Mr R Murray
District Auditor
Audit Commission
Regus House
1010 Cambourne Business Park
Cambourne
Cambridge
CB23 6DP

Norwich City Council - Audit for the year ended 31 March 2010

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other officers of Norwich City Council, the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2010.

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 give a true and fair view of 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

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.

Fair values

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

Assets

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

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

Compensating arrangements

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

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 26 October 2010.

Signed

Signed

Barry Marshall

Stephen Little

Head of Finance

Chair of Audit Committee

Date

Date

Appendix 5 Value for money conclusion

| KLOE | Met |
|--|-----|
| Managing finances | |
| Planning for financial health | Yes |
| Understanding costs and achieving efficiencies | Yes |
| Financial reporting | No |
| Governing the business | |
| Commissioning and procurement | Yes |
| Use of information | Yes |
| Good governance | Yes |
| Risk management and internal control | No |
| Managing resources | |
| Natural resources | Yes |
| Workforce | Yes |

Appendix 6 Action plan

| Recommendations | |
|--|--|
| Recommendation 1 | |
| Produce a final version of the Whole of Government Accounts pack for audit consistent with the financial statements at the earliest opportunity. | |
| Responsibility | |
| Priority | |
| Date | |
| Comments | |
| Recommendation 2 | |
| Provide all outstanding audit evidence at the earliest opportunity. | |
| Responsibility | |
| Priority | |
| Date | |
| Comments | |
| Recommendation 3 | |
| Review the Council's financial reporting function capacity and consider how it can be further strengthened to enable a high quality set of financial statements to be produced in line with the 30 June statutory timescale. | |
| Responsibility | |
| Priority | |
| Date | |
| Comments | |
| Recommendation 4 | |
| Perform a quality control review on the financial statements before presenting them for audit. Use a SORP-based disclosure checklist to minimise the number of disclosure related errors and omissions. Pay particular attention to areas of accounting that have changed from the prior year. | |
| Responsibility | |
| Priority | |
| Date | |
| Comments | |
| Recommendation 5 | |

Reconcile the fixed asset register to valuations undertaken during the year prior to presenting the statements for audit.

Responsibility

Priority

Date

Comments

Recommendation 6

The STRGL is one of the primary statements. Ensure it is materially correct by reconciling the total recognised gain or loss to the movement in the net worth since the previous audited set of financial statements. Ensure that it meets the requirements of the SORP.

Responsibility

Priority

Date

Comments

Recommendation 7

The cash flow is one of the primary statements. Ensure that the figures included are materially correct by checking their consistency with other parts of the financial statements. Ensure that it meets the requirements of the SORP. These processes should be carried out before the financial statements are presented for Audit Committee approval.

Responsibility

Priority

Date

Comments

Recommendation 8

Verify figures disclosed in narrative notes before presenting the statements for audit.

Responsibility

Priority

Date

Comments

Recommendation 9

Complete the actions necessary to ensure that the internal audit function complies with CIPFA standards.

Responsibility

Priority

Date

Comments

Recommendation 10

Review the programming of internal audit work. Finalise internal audit reports before the year end wherever possible. Regularly report progress on annual internal audit plans to the Audit Committee.

Responsibility

Priority

Date

Comments

Recommendation 11

The Head of Internal Audit should prepare an annual report which formally documents his opinion on the adequacy and effectiveness of the internal control environment. The report should be presented to the Audit Committee before the AGS is approved.

Responsibility

Priority

Date

Comments

Recommendation 12

Review the adequacy of the current system for recording fixed assets against the requirements of the SORP. Consider investing in bespoke software.

Responsibility

Priority

Date

Comments

Recommendation 13

On at least a quarterly basis, reconcile the fixed asset register to the general ledger. At the year end reconcile the register to the detail of the fixed asset note in the statements (not just the total balances) including the revaluation reserve. Investigate and correct any differences before presenting the financial statements for audit.

Responsibility

Priority

Date

Comments

Recommendation 14

Include PFI assets held by the Council in the asset register.

Responsibility

Priority

Date

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| Comments | |
| Recommendation 15 | |
| Consider, annually, whether valuation instructions are fit for purpose and contain accurate up to date information. In particular, review schedules of property to be valued for accuracy and consistency with the fixed asset register before the valuation takes place. | |
| Responsibility | |
| Priority | |
| Date | |
| Comments | |
| Recommendation 16 | |
| Review the impairments charged to the Income and Expenditure account in previous years as logged in the fixed assets register. Amend the amounts available for reversal through the Income and Expenditure account where the depreciation adjustment has been incorrectly accounted for. | |
| Responsibility | |
| Priority | |
| Date | |
| Comments | |
| Recommendation 17 | |
| Run a weekly report of invoices raised and investigate gaps in sequence. | |
| Responsibility | |
| Priority | |
| Date | |
| Comments | |
| Recommendation 18 | |
| Prepare, check and update regularly a list of signatories approved to raise IRFs. | |
| Responsibility | |
| Priority | |
| Date | |
| Comments | |
| Recommendation 19 | |
| Instigate the proposed system whereby IRF requestors are emailed with confirmation that their invoice has been raised. | |
| Responsibility | |
| Priority | |
| Date | |

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|---|--|
| Comments | |
| Recommendation 20 | |
| Reconciliations should be signed off by the preparer once completed. They should then be reviewed by an independent person, and signed to evidence this review. | |
| Responsibility | |
| Priority | |
| Date | |
| Comments | |
| Recommendation 21 | |
| Reconcile the general ledger to Avario payroll and investment records monthly. | |
| Responsibility | |
| Priority | |
| Date | |
| Comments | |
| Recommendation 22 | |
| Provide breakdowns of the rent allowance/housing benefit overpayments debtors that reconcile to the general ledger for future audits. | |
| Responsibility | |
| Priority | |
| Date | |
| Comments | |
| Recommendation 23 | |
| Revisit the reconciliation of year end housing rent debtors to determine whether the unexplained difference can be resolved. | |
| Responsibility | |
| Priority | |
| Date | |
| Comments | |
| Recommendation 24 | |
| Keep records of the monthly check between Avario leavers, starters and changes list and the original payroll instructions. | |
| Responsibility | |
| Priority | |
| Date | |
| Comments | |

Recommendation 25

Responsible officers should sign the payroll change/transfer form to evidence that all and any amendments to payroll details are suitably authorised.

Responsibility

Priority

Date

Comments

Recommendation 26

Consider the adequacy of controls in the replacement system for accounting for non-HRA property maintenance transactions and ensure they are fit for purpose.

Responsibility

Priority

Date

Comments

Recommendation 27

Clear down cash suspense accounts as part of year-end financial statements production process.

Responsibility

Priority

Date

Comments

Recommendation 28

Review the Explanatory Foreword, ensure that it is user friendly and that all information required by the SORP is included.

Responsibility

Priority

Date

Comments

Recommendation 29

Review the arrangements for certification and adoption of the financial statements for compliance with the statutory Accounts and Audit regulations.

Responsibility

Priority

Date

Comments

Recommendation 30

Review the project plan and timetable for the preparation of financial statements under IFRS. Agree dates with external audit by when the 31 March 2009 balance sheet and 2009/10 financial statements will be restated and available for audit. The Audit Committee should engage with officers on the speed of progress and ensure that IFRS transition plans are on track.

Responsibility

Priority

Date

Comments

Recommendation 31

Review the timetable for providing budget monitoring information to Executive. Arrangements would be strengthened if Executive received a summary budget monitoring report on a monthly basis. Ensure that a balance sheet position is reported on a regular basis - we would suggest quarterly.

Responsibility

Priority

Date

Comments
