

**Report to Norwich Highways Agency Joint Committee**  
**24 March 2011**  
**Item No: 16**

**Audit of the Statement of Accounts**

Report by the Head of Finance

**Summary**

This report details the changes to the requirements to audit the final accounts of the Norwich Highways Agency Joint Committee for 2007/08 and subsequent years.

**Recommendation**

The Committee is requested to:

- Note the change in the audit arrangements detailed within the report and appendices and that there is no longer a requirement to produce a separate Statement of Accounts for the Norwich Highways Agency Joint Committee.

**1. Introduction**

- 1.1 The purpose of this report is to inform Members that the requirement to audit the Statement of Accounts for Norwich Highways Agency Joint Committee (NHAJC) has ceased.
- 1.2 The Statement of Accounts will no longer be produced and Members will therefore no longer be required to approve them in future years.

**2. Background**

- 2.1 The Norwich Highways Agency Joint Committee has produced annual statement of accounts since 2006/07 in accordance with Accounts and Audit Regulations. These accounts have subsequently been reported to committee and subject to external audit.
- 2.2 During the 2007/08 audit conducted in 2010, revised guidance was issued indicating, that due to the nature of the Norwich Highways Agency Joint Committee, there may not be a requirement to produce Statement of Accounts for the Joint Committee.

**3. Changes to Audit Requirements**

- 3.1 Head of Operations at the Audit Commission wrote to the Head of Finance at Norfolk County Council on the 23<sup>rd</sup> of December, regarding the audit of the accounts of Norwich Highways Agency Joint Committee.

- 3.2 In the letter, he detailed the reasons behind his provisional conclusion that no accounts would be required and therefore there would be no requirement for him to issue an audit opinion, conclusion or certificate.
- 3.3 He concluded that the arrangement is an agency arrangement, through which most of the functions covered by the agreement, while undertaken by Norwich City Council, are funded by Norfolk County Council. (Appendix A)
- 3.4 In response, the Head of Finance requested that the audit appointment be terminated in respect of the Norwich Highways Agency Joint Committee accounts 2007-08 and onwards. Also that the Audit Commission cease the audit of the 2007-08 accounts with immediate effect. (Appendix B)
- 3.5 Subsequently arrangements have been made internally within the Audit Commission (Appendix C) to formally determine that no audit appointment is needed for the year ended 31 March 2008 and subsequent years. This was confirmed to the Senior Committee Officer at Norwich City Council on 1 February 2011 (Appendix D).

#### **4. Resource Implications**

- 4.1 Due to the cessation of preparation and audit of the Statement of Accounts, there will be financial and staffing implications but no property or IT implications arising from this report.
- 4.2 The changes will reduce future audit fees and there will be some reduction to accounting workloads.

#### **5. Other Implications**

- 5.1 There are no legal, human rights, and communications implications arising from this report. The contents of this report do not directly impact on equality, in that it is not making proposals that will have an impact on equality of access or outcomes for diverse groups.

#### **6. Risk Implications/Assessment**

- 6.1 There are no risk implications arising from this report.

#### **7. Section 17 Crime and Disorder Act**

- 7.1 There are no implications of this report for the Crime and Disorder Act.

#### **8. Alternative Options**

- 8.1 There are no alternative options that the Norwich Highways Agency Joint Committee needs to consider.

## **9. Conclusion**

- 9.1 This report and the accompanying appendices detail the changes in the audit arrangements and consequently remove the requirement for members to approve annual statement of accounts.

## **10. Recommendation**

- 10.1 **The Norwich Highways Agency Joint Committee is requested to:**

- **Note the change in audit arrangements as detailed in the report and appendices and that there is no longer a requirement to produce a separate Statement of Accounts for the Norwich Highways Agency Joint Committee.**

### **Officer Contact**

If you have any questions about matters in this paper please get in touch with:

Name	Telephone Number	Email address
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**If you need this statement in large print, audio, Braille, alternative format or in a different language please contact Maria Fox on 01603 222806 or textphone 0344 8008011, and we will do our best to help.**



23 December 2010

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— Dear Paul

## **Audit of the Accounts of the Norwich Highways Agency Joint Committee**

As you are aware, I have been considering the requirements on me in respect of the 2007/08 accounts of the Norwich Highways Agency Joint Committee (NHAJC).

### **My analysis**

I have now reached a provisional conclusion that, in fact, no accounts are required for the NHAJC and, therefore, there is no requirement for me to issue an audit opinion, conclusion or certificate. In forming my provisional conclusion, I have considered the guidance available to me and consulted internally within the Audit Commission's Audit Practice.

I have undertaken a detailed analysis of the Highways Agency Agreement between Norfolk County Council and Norwich City Council, dated 4 July 2006, and the accounts presented for audit. Based on that analysis, I have concluded the arrangement is an agency arrangement through which most of the functions covered by the agreement, while undertaken by the City, are funded by the County. Equally, the assets and liabilities related to the agreement revert to the County at the end of the agreement. I have also concluded that the expenditure and income recognised in the draft accounts of the NHAJC relate to the functions undertaken as part of the agency arrangement. The Agency Agreement does not delegate to the NHAJC any powers to incur expenditure in the discharge of functions on behalf of the constituent authorities.

Paragraph 3.8 of the Code of Practice on Local Authority Accounting in the United Kingdom 2008: A Statement of Recommended Practice applies Application Note G of FRS 5: *Reporting the Substance of Transactions on Revenue Recognition*. This sets out the basic principles for the recognition and measurement of revenue, including the presentation of turnover as principal or agent. Paragraph G68 of Application Note G states:

*“Where the substance of a transaction is that the seller acts as agent, it should report as turnover the commission or other amounts received or receivable in return for its performance under the contractual arrangement. Any amounts received or receivable from the customer that are payable to the principal should not be included in the agent's turnover.”*

It is worth noting the Code of Practice in Local Authority Accounting in the United Kingdom 2010/11, based on IFRS, requires similar treatment.

If most of the expenditure and related income arising from the agreement is incurred as agent for the County, then it should not be recognised in the accounts of the NHAJC. Equally, expenditure incurred on behalf of the City, and reimbursed by the City, also represents an agency arrangement and should not be recognised in the accounts of the NHAJC.

If all such expenditure and income is excluded from the accounts of the NHAJC, there are no other transactions for the NHAJC recognise in its accounts. In my view, the income and expenditure currently recognised in the draft 2007/08 accounts of the NHAJC should be recognised in the accounts of the County and City.

If there are no transactions in the accounts of the NHAJC, there is no requirement for those accounts to be audited or for me to issue an audit opinion, conclusion or certificate.

The Audit Commission's recently revised Standing Guidance to auditors clarifies that, where the powers devolved to a joint committee do not include the power to incur expenditure in discharging the functions of the constituent authorities, there is no requirement to appoint an auditor.

### **Next steps**

If you agree with my conclusion as set out above, you would need to write to the Audit Commission asking for the termination of the audit appointment in respect of the accounts of the NHAJC from 2007/08 onwards. In doing so, it would be necessary to explain the basis on which you have reached the conclusion that no transactions fall to be recognised by the Committee.

I would be more than willing to work with you in the formulation of that application.

I would welcome the opportunity to discuss my provisional conclusion with you in order to bring this matter to an acceptable conclusion.

Yours sincerely



Andy Perrin  
Head of Operations

cc Harvey Bullen, Norfolk County Council  
Barry Marshall, Norwich City Council

PB/EK

Andy Perrin  
Head of Operations (Eastern)  
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28 January 2011

Dear Andy

**Re: Audit of the Accounts of the Norwich Highways Agency Joint Committee**

I am writing to request that the audit appointment in respect of the accounts for 2007-08 and onwards for the Joint Committee is terminated and that the Audit Commission cease the audit of the 2007-08 accounts.

Following receipt of the letter from Andy Perrin dated 23 December 2010 regarding the audit of the accounts of the Norwich Highways Agency Joint Committee, I have reviewed the status of the Joint Committee and the terms of the Agency Agreement.

Under the Agency Agreement, the County Council has delegated certain highways and transportation and associated functions relating to Norwich, to the City Council. The Joint Committee oversees these operations and advises the County Council on various highways and traffic matters in Norwich. There are 10 members, 5 appointed by each Council. The Agency Agreement does not delegate to the Joint Committee any power to incur expenditure in the discharge of functions on behalf of the constituent authorities.

Most of the expenditure and income shown in the Joint Committee accounts relates to functions undertaken as part of the agency arrangement. The Joint Committee acts as agent for the County Council in respect of these transactions. Equally, expenditure incurred on behalf of the City Council and reimbursed by the City Council also represents an agency arrangement and should not be recognised in the accounts of NHAJC.

Paragraph 3.8 of the Code of Practice on Local Authority Accounting 2008 applies Application Note G of FRS5: 'Reporting the Substance of Transactions'. This sets out the basic principles for the recognition and measurement of revenue, including the presentation of turnover as principal or agent. Paragraph G68 of Application Note G states:

*'Where the substance of a transaction is that the seller acts as agent, it should report as turnover the commission or other amounts received or receivable in return for its*

*performance under the contractual arrangement. Any amounts received or receivable from the customer that are payable to the principal should not be included in the agent's turnover.'*

If all such expenditure and income is excluded from the accounts of NHAJC, there are no other transactions to recognise in its accounts, and therefore no requirement for them to be audited.

I am of the opinion that there would be no financial transactions to include in a set of accounts for the joint committee and therefore no accounts for them to be audited. As such I am requesting that the audit appointment be terminated forthwith.

I am happy to discuss any issues you wish to raise in connection with this matter.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Paul Brittain', with a small dot at the end.

**Paul Brittain**  
Head of Finance

January 2011

Mr A Davies  
Senior Manager, Market and Appointments  
The Audit Commission  
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Dear Andrew

**NORWICH HIGHWAYS AGENCY COMMITTEE – APPOINTMENT OF AUDITOR**

On 12 August 2010, you notified the Audit Practice that you were appointing Rob Murray of the Commission's in-house practice as the engagement lead for the audit of the accounts of the Norwich Highways Agency Committee.

In my capacity as auditor for the year ended 31 March 2008, I have concluded, following a detailed re-examination, that there are no transactions of the Committee as opposed to the constituent councils. In forming my view I carefully reviewed the agreement between the parties establishing the Committee and the financial relationship between the two constituent councils. I sought and considered the advice of the Audit Practice's Technical Panel. I concluded that the answer to the question:

*"Do devolved powers include power to incur expenditure in discharging functions of the constituent AIBs?"*

contained in paragraph 21 of Appendix 16 of the Standing Guidance for Local Government bodies is 'no'. A summary of my consideration is contained in an annex to this letter.

My colleague, Rob Murray, has established that the terms of the agreement between the constituent councils is unchanged for subsequent years. I would therefore ask that the Commission determine that there is no audit appointment for the year ended 31 March 2008 and subsequent years.

Please contact me should you require further information.

Yours sincerely

Andy Perrin  
District Auditor

cc Rob Murray District Auditor



## Analysis of the Norwich Highways Agency Agreement

- 1.1. An analysis of the Highways Agency Agreement between the County and the City indicates it is an agency arrangement through which the majority of the functions of the agreement, while undertaken by the City, are funded by the County. Equally, the assets and liabilities incurred through the agreement revert to the County.
- 1.2. Paragraph G68 of Application Note G of FRS 5: Reporting the Substance of Transactions, states:
 

**G68** *Where the substance of a transaction is that the seller acts as agent, it should report as turnover the commission or other amounts received or receivable in return for its performance under the contractual arrangement. Any amounts received or receivable from the customer that are payable to the principal should not be included in the agent's turnover.*
- 1.3. If the arrangement between the County and the City is an agency arrangement, the City would only recognise in its accounts any expenditure that did not directly relate to the functions delegated to it by the County, for which full reimbursement is received. From the above analysis, such expenditure would appear to be limited to the costs of administering the NHAJC, for which the City appears to bear all the risk.
- 1.4. Turning to the NHAJC, the Income and Expenditure Statement for 2007/08 shows the following transactions:

	<b>£000</b>
Total Income	(1,875)
Total Expenditure	7,465
<b>Net cost of services</b>	<hr/> 5,590
Surpluses payable to Norfolk County Council	74
<b>Net Operating Expenditure</b>	<hr/> 5,664
Contribution from Norfolk County Council	(5,660)
Contribution from Norwich City Council	(4)
<b>Surplus/Deficit for the year</b>	<hr/> 0

- 1.5. This represents the substance of the arrangement, that is:
  - the functions to be delivered by the agreement are to be done so through the NHAJC, but there are no budgets or decision making powers delegated to the NHAJC;
  - for specified functions, any excess of income over reasonable expenditure is payable to the County;
  - the County reimburses the costs of delivering the functions specified in the agreement; and
  - the City bears the costs of administering the NHAJC.

- 1.6. Therefore, in substance the accounts of the NHAJC reflect the agency agreement between the County and the City. As such, therefore, the majority of expenditure and income of the NHAJC reflects that agency arrangement and should, in accordance with requirements of Paragraph G68 of FRS 5, be excluded.
- 1.7. Equally, the expenditure and income relating to the administration of the NHAJC by the City appears to be funded by the City which bears the risks. Again, in accordance with FRS 5, this represents an agency arrangement with the NHAJC acting as an agent for the City.
- 1.8. In conclusion, therefore, the accounts of the NHAJC simply reflect the expenditure incurred under the agency arrangement and the subsequent reimbursement by the County and the City. In accordance with FRS 5, that expenditure and related income should not be disclosed in the accounts. Therefore, there are no transactions requiring recognition by the Committee and, in accordance with Standing Guidance, no accounts fall to be audited.

1 February 2011

Ms J Rodger  
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— Dear Ms Rodger

### **Norwich Highways Agency Committee - Appointment of external auditor**

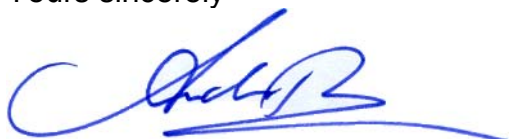
I am writing to advise you the Audit Commission is not required to appoint an auditor to audit the accounts of Norwich Highways Agency Committee (the Joint Committee).

The Commission has previously appointed Andy Perrin, and subsequently Rob Murray (both officers from the Commission in-house audit practice) as auditor to the Joint Committee. The appointments were made under section 3 of the Audit Commission Act 1998.

We made the appointments on the understanding the Joint Committee has delegated authority to incur expenditure on behalf of Norfolk County Council. We are now advised this is not the case, and Norwich City Council clearly acts only as agent for the County Council. The Joint Committee is, effectively, an oversight and monitoring body. The City Council will still record all the financial transactions of the Joint Committee in its accounts and report to the County Council, as set out in the agency agreement. The normal audits of the accounts of the councils will cover the transactions.

Please advise the Joint Committee of the change in the audit arrangements. I have copied this letter to Andy Perrin and Rob Murray, as well as Paul Brittain at the County Council and Barry Marshall at the City Council for information.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Andrew Davies'.

Andrew Davies  
*Senior Manager, Markets and Fees*

**cc** Andy Perrin/Rob Murray, Audit Commission  
Paul Brittain, Head of Finance, Norfolk County Council  
Barry Marshall, Head of Finance, Norwich City Council