ITEM 7

Annual governance report - Update

Norwich City Council

Audit 2011/12

Contents

Key messages

This report summarises the findings from the 2011/12 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

At 3 October 2012 the audit is substantially complete and upon member approval of the final version of the financial statements, at, or shortly after the Audit Committee meeting on 15 October 2012, and receipt of the letter of representation, I expect to issue an unqualified opinion.

My audit identified five material errors or agreed adjustments which are detailed in appendix 3 where not separately referred to in my report. My audit identified a further 23 non-trivial errors which have been amended with the exception of the errors listed in appendix 2. The corrected errors and agreed adjustments reduced the general fund reserve by £4.6 million. **Updated position: following the impact of recharges between the general fund and the Housing Revenue Account (HRA) the impact was reduced to £3.6 million.**

An increased focus on the arrangements for preparing the financial statements has reduced the time required to complete the audit in 2011/12 when compared with recent years. However whilst the Council has improved its financial reporting arrangements, there remains room for further improvement.

Value for money (VFM)

I expect to conclude that the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Securing financial resilience

I consider that the Council has continued to secure financial resilience. Based on my audit findings the general fund balance has potentially fallen marginally below the prudent level of reserves agreed by Cabinet following the agreement of a ‘spend to save’ arrangement in 2011/12, although this is subject to resolution of a proposed transfer from the Housing Revenue Account. I have yet to consider the Council's justification for this proposed transfer, which would increase the general fund reserve above the agreed prudent reserves level, The Council expects to achieve savings of £15 million from the 'spend to save' arrangement in the five years from 2012/13 and is already starting to achieve those savings. **Updated position: I subsequently agreed with officers that the proposed transfer to the HRA was not required. However due to the impact of other recharges between the general fund and the HRA as a result of audit adjustments, the audited general fund balance is above the prudent level of reserves agreed by Cabinet.**

Securing economy, efficiency and effectiveness.

I have concluded that the Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness. It has prioritised its resources within tighter budgets by achieving cost reductions, and improving efficiency and productivity.

Certificate

I will issue my audit certificate concluding the 2011/12 audit once work on the Whole of Government Accounts (WGA) is complete.

I expect to complete the outstanding work and report my findings to management by 31 October 2012. I plan to issue my certificate by 31 October 2012. **Updated position: I issued a qualified 'disagreement' report on the Council's WGA pack on 30 October 2012. This was because the WGA consolidation pack was not fully consistent with the audited statutory financial statements. A significant issue leading to this conclusion was the fact that the Department for Communities and Local Government (CLG) pre-populated the WGA pack with opening 2010/11 WGA balances. These opening balances did not reflect the final audited 2010/11 WGA pack which was not submitted until after CLG populated the 2011/12 pack. I also issued my certificate concluding the audit on 30 October 2012.**

Before I give my opinion and conclusion

My report includes only matters of governance interest that have come to my attention in performing my audit. I have not designed my audit to identify all matters that might be relevant to you.

Independence

I can confirm that I have complied with the Auditing Practices Board's ethical standards for auditors, including ES 1 (revised) - Integrity, Objectivity and Independence.

I am not aware of any relationships that may affect the independence and objectivity of the Audit Commission, the audit team or me, that I am required by auditing and ethical standards to report to you.

The Audit Commission's Audit Practice has not undertaken any non-audit work for the Authority during 2010/12.

I ask the Audit Committee to:

- take note of the adjustments to the financial statements included in this report (appendices 2 and 3);
- approve the letter of representation (appendix 4), on behalf of the Authority before I issue my opinion and conclusion; and
- agree your response to the proposed action plan (appendix 6).

Financial statements

The Council's financial statements and annual governance statement are important means by which the Council accounts for its stewardship of public funds. As elected 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

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.

This year, the Council's responsible financial officer signed the financial statements and certified that it presented a true and fair view on 29 June in advance of the 30 June deadline. This is a significant improvement on the previous year where the Head of Finance was not in a position to sign the financial statements until 28 July. Whilst the accounts preparation for 2010/11 was more onerous due to the implementation of International Financial Reporting Standards (IFRS) for the first time, an increased focus on the arrangements for preparing the financial statements has made a significant difference to meeting the deadline this year.

Although the Council has made a significant improvement in its financial reporting arrangements there is more to be done. The accounts presented for audit were not fully supported by adequate working papers and contained:

- five material issues that were adjusted for;
- 23 non-material but non-trivial errors, 18 of which were adjusted for;
- inconsistencies between different elements of the statements;
- imbalances in the Movement in Reserves Statement (MiRS) and Cash Flow Statement;
- a number of disclosure errors and omissions, including comparative information for some notes and the MiRS;
- some changes to audited comparative disclosures which had not been agreed as prior period adjustments. Such changes should generally not be made as they are not required by accounting standards and increase audit review time.

Officers have worked with me to agree the necessary changes to the accounts. At 3 October officers are drafting a revised set of financial statements reflecting those changes. Consequently I have yet to carry out my final review processes to ensure that they are in line with my expectations. I envisage that I will have completed this before the Audit Committee on 15 October, and will provide a verbal update to the Committee at that meeting. As a result, I have been unable to give my audit opinion and value for money conclusion by the 30 September statutory deadline. I anticipate being able to do so shortly after the 15 October Audit Committee, and in advance of the transition of the audit to the Council's new auditor, Ernst & Young. **Updated position: I ensured that the changes to the accounts which would impact on my audit opinion were adequately resolved before issuing my opinion on 26 October 2012.**

Last year I raised a concern in my Annual Governance Report that much of the financial statements preparation process lies with the Chief Accountant. I still consider this to be an issue the Council should address. The Council's finance function became part of a shared service agreement with LGSS on 12 April 2012, and a new Chief Finance Officer was appointed. It is important that, once the 2011/12 accounts are complete, the Council takes stock and considers the level of support that the Chief Accountant needs to further improve the financial reporting process.

The deadline for the submission of the audited Whole of Government Accounts (WGA) consolidation pack is 5 October 2012. Given the ongoing revisions to the financial statements at 3 October I have not been able to meet the audit deadline for WGA. I will complete my work during October and currently envisage that I will complete this before 31 October. Until my work on WGA is complete I am unable to provide the closure certificate confirming completion of my audit. However, subject to satisfactory clearance of the outstanding matters, I am able to give my opinion on the financial statements and the value for money certificate. Appendix 1 has been drafted on the basis that I will give my audit opinion and value for money conclusion in advance of the WGA return and certificate. **Updated position: I issued a qualified 'disagreement' report on the Council's WGA pack on 30 October 2012. This was because the WGA consolidation pack was not fully consistent with the audited statutory financial statements. A significant issue leading to this conclusion was the fact that the Department for Communities and Local Government (CLG) pre-populated the WGA pack with opening 2010/11 WGA balances. These opening balances did not reflect the final audited 2010/11 WGA pack which was not submitted until after CLG populated the 2011/12 pack. I also issued my certificate concluding the audit on 30 October 2012.**

Status of the financial statements audit

At 3 October my team has completed most of the audit work. The main areas of ongoing audit work for members to be aware of are:

- Agreement of the final adjustments back to the revised financial statements once these are received from officers. This will include final checks on the Cash Flow Statement and Movement in Reserves Statement which have been impacted by audit adjustments. **Updated position: this is now complete. I ensured that the changes to the accounts which would impact on my audit opinion were adequately resolved before issuing my opinion.**

- Consideration of a proposed £1.8 million transfer from the Housing Revenue Account reserve to the General Fund reserve – at 3 October we have not yet received the Council's rationale for this. **Updated position: As noted above I have agreed with officers that this transfer would not be appropriate.**
- Agreement of the Council's proposed accounting treatment in respect of an invoice received from the Norfolk Pension Fund for pension contributions unpaid by a contractor before it went into administration. **Updated position: this is now agreed.**
- I am awaiting an updated position on the historic cost of garages to satisfy myself that there has been no material misstatement of the financial statements entries connected with valuation movements. **Updated position: I have agreed with officers that the revaluation reserve was understated by £1.5 million. I have added an additional uncorrected error to Appendix 2 to reflect this position.**
- The audit team are clearing residual matters arising from my review of audit work performed. **Updated position: residual matters have been cleared.**

I will update the Audit Committee at the 15 October meeting regarding progress on the outstanding areas of work.

Uncorrected errors and uncertainties

Officers have worked with me to agree the necessary changes to the accounts and I anticipate that there will be few uncorrected errors in the final version of the statements. I will provide an update to the 15 October Audit Committee should this position change.

At 3 October most of the non-trivial errors that the Council have declined to amend relate to extrapolations of sample errors across the whole population. These are summarised at appendix 2. As there is a degree of uncertainty with extrapolated errors, officers have stated that they do not consider this an appropriate basis for amending the financial statements. This is consistent with their approach in earlier years.

Officers will need to discuss the unadjusted errors and uncertainties with the Audit Committee to ensure that they agree their intention not to amend the financial statements. The reasons for this will need to be included in the letter of representation. **Updated position: following completion of my residual work I agreed an updated version of Appendix 2 with officers and the Chair of the Audit Committee. The updated appendix is included in this report.**

Corrected errors and agreed adjustments

At 3 October my audit has detected five material errors or agreed adjustments and 18 non-material but non trivial errors in the financial statements which officers have agreed to correct. The material errors and adjustments are set out in appendix 3 where not separately referred to in my report.

Of the errors and adjustments identified, 11 affected the reported level of general fund reserve, with an estimated net reduction of £4.6 million at 3 October. **Updated position: the final impact was £3.6 million.** This reduction primarily relates to:

- an understatement of the Council's Minimum Revenue Provision which reflects the cost of debt used to finance capital expenditure. Officers overlooked this provision (other than an element relating to its Private Finance Initiative) when preparing the financial statements;
- the termination of the Council's Private Finance Initiative (PFI) relating to IT provision; and
- the settlement of an outstanding dispute with the Department for Communities and Local Government (CLG) regarding New Deal grant monies following an agreement reached with CLG after the financial statements had been prepared.

Recommendation
R1 Before presenting the financial statements for audit the Council should ensure that it ■ fully reviews the draft statements against the requirements of the Code of Practice on Local Authority Accounting; ■ allows more time to conduct a review of the statements for inconsistencies between the primary statements and the notes; ■ performs thorough addition checks on the statements and notes, and rectifies the statements for errors detected; ■ allows time for a detailed comparison to the prior year figures to be completed as this would identify potential omissions, such as the omission of part of the Minimum Revenue Provision; ■ has not restated comparatives unless these are required under accounting standards or the Code of Practice; and ■ ensures that supporting working papers are complete and appropriate, including a reasonable level of third party supporting evidence.

Significant risks and my findings

I reported to you in my 2011/12 Audit Plan the significant risks that I identified relevant to my audit of your financial statements. In Table 2 I report to you my findings against each of these risks.

Table 1: **Risks and findings**

Risk	Finding
Preparation of the financial statements The 2010/11 audit remained protracted because of the number of audit issues arising, including technical accounting issues, arithmetical errors and internal inconsistencies. I reported material and significant amendments to the financial statements in my Annual Governance Report. The Council has indicated its commitment to improving the drafting of the financial statements, including using the Local Government Shared Services (LGSS) arrangements. However, there remains a risk the Council will not prepare a set of signed financial statements, and working papers, that I consider to be suitable for audit by 30 June 2012. Consequently there is a risk that: ■ the Council will miss the audit deadline of 30 September; ■ I will decide the audit should be deferred until November and be undertaken by Ernst and Young; and ■ the fee indicated in my April 2011 fee letter will need to be increased	I carried out a mainly substantive audit to address risks arising from the errors detected in the previous year's financial statements. Where my 2011/12 audit findings are significant they are included in this report. I made comments earlier in this report on the financial statements presented for audit. I worked with officers to ensure that their financial statements preparation processes were on track for them to prepare a set of financial statements by 30 June 2012. I also provided officers with a list of working paper requirements. As a result of this monitoring I concluded in July 2012 that the financial statements and working papers were of a sufficient standard to enable the audit to start, although I continued to discuss outstanding matters with officers. Whilst further improvement to the financial statements preparation process and working papers is still required, the Council has made a significant advance from 2010/11 when I was unable to provide my audit opinion until April 2012. At 3 October I envisage that I will be in a position to provide my audit opinion and value for money conclusion in mid October. I have therefore determined that I do not need to make a statutory recommendation under Section 11 of the Audit Commission Act 1998. The issues detected during my audit have required additional audit time to be spent and an additional fee will be required, although the scale of this is significantly less than in recent years and reflects the improvements I have seen. This is discussed further later in this report.
Housing Revenue Account refinancing The government has reformed local authority housing finance by adopting a self-financing model from 1 April 2012.	I have agreed the detail on the settlement payment to the department for Communities and Local Government notification, and considered the related disclosures. My testing has not identified any significant issues to bring to your attention.

Risk	Finding
This has been achieved through a one-off settlement payment to central government in March 2012. This will adjust the HRA debt of the Council. Because of the size and timing of the HRA reform there is risk the financial statements will be materially misstated, although guidance was published in March 2012 on the necessary accounting entries.	
Heritage assets The 2011/12 Code adopts the requirements of FRS 30 Heritage Assets. A heritage asset is a tangible asset with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture. There is a risk the Council will: ■ fail to identify all of its heritage assets; ■ recognise heritage assets on its balance sheet that do not belong to the Council; and ■ misclassify heritage assets as operational assets and vice versa.	I evaluated the arrangements you put in place to recognise and value heritage assets. I carried out testing to satisfy myself that you have recognised, valued and disclosed material heritage assets in your financial statements. My testing identified that the Council had not fully accounted for the implementation of FRS 30 as a prior period adjustment. The inclusion of £2.3 million statues and fountains had been shown as a 2011/12 valuation adjustment. Officers agreed to amend the financial statements to present a fully compliant position.

Significant weaknesses in internal control

It is the Council's responsibility to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. My responsibility as your auditor is to consider whether the Council has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

I have tested the controls of the Authority only to the extent necessary for me to complete my audit. I am not expressing an opinion on the overall effectiveness of internal control. I have reviewed the Annual Governance Statement and can confirm that:

- it complies with the requirements of CIPFA/SOLACE Delivering Good Governance in Local Government Framework; and
- it is consistent with other information that I am aware of from my audit of the financial statements.

In my audit plan I stated that I did not plan to rely on controls for my 2011/12 audit due to the financial reporting errors found in previous audits.

The following weaknesses in internal control are only those I have identified during the audit that are relevant to preparing the financial statements.

Table 2: **Internal control issues and my findings**

Description of weakness	Potential impact	Management action
Internal Audit performance and findings The Council's in-house internal audit function has failed to fully deliver its audit plan for a number of years, and this remained the case in 2011/12. The internal audit resource continued to be used on reactive work on the New Deal historical claims issues during 2011/12 When the Head of Internal Audit provided his opinion, only 35 per cent of audits had been delivered. The Head of Internal Audit's opinion gave only 'limited assurance' in terms of the Councils internal control arrangements.	Internal Audit's work is vital in ensuring that controls are robust and appropriately applied. Their findings are key to supporting the Council's Annual Governance Statement. The Council has continued to compensate for limited in-house internal audit resource by outsourcing a number of system reviews to private sector audit firms. Many reports received only limited assurance.	The Audit Committee should review the internal audit arrangements to ensure that the limited delivery of the internal audit programme is not repeated in 2012/13. We are aware of two changes that will impact this: ■ from 12 April the Internal Audit function forms part of the shared service arrangement with LGSS; and ■ a settlement was reached with CLG on New Deal in September 2012 and so should not require further internal audit resource. The Audit Committee should also consider internal audit reports where limited or no assurance is given and hold officers to account for the delivery of agreed actions.
Collection Fund Our testing of a sample of creditors uncovered a higher number of errors than we would normally expect. Many of these were linked to council tax and NNDR entries stemming from	Not reconciling the general ledger position to the underlying systems increases the risk of error in the financial statements. We carried out sufficient audit procedures to assure ourselves that the financial statements	Officers should review the adequacy of year end processes in respect of the collection fund and ensure that reconciliations are robust and accounting practice is in line with CIPFA's Code of Practice.

Description of weakness	Potential impact	Management action
the Collection Fund. Further investigation determined that officers did not fully reconcile the position per fund 17 (the collection fund) on the general ledger to the Council's underlying council tax and NNDR system, Northgate.	were not materially misstated. As a consequence we agreed errors with officers as follows: ■ the inter-fund debtor between the general ledger and fund 17 of £1.3 million was removed ■ the NNDR balance at the year end was overstated by £1.2 million ■ Council tax receipts in advance were over stated by £0.1 million ■ Council tax income in the comprehensive income and expenditure statement was overstated by £74,000	
Fixed asset register and accounting for property plant and equipment Annual Governance Reports in previous years have commented on weaknesses in the spreadsheets used as a fixed asset register. I continue to have these concerns. My audit work on the revaluation reserve initially indicated a material (£15.8 million) understatement. It subsequently became clear that the reason for this was that the Council has not correctly maintained the historic cost records on its fixed asset register. At 3 October I am awaiting an updated position on the historic cost of garages to satisfy myself that there has been no material misstatement of the financial statements entries connected with	The continuing weaknesses put the Council in danger of misstating entries connected with property, plant and equipment in the financial statements. **Updated position: following further investigation of the historical cost records in relation to garages I noted that the revaluation reserve was understated by £1.5m. I have added a further uncorrected error to appendix 2.**	As soon as possible officers should: ■ review the historical cost data in the fixed asset register and ensure it is up to date including disposals, transfers and write backs of impairments and downward revaluations; and ■ reconcile the amount of impairments and downward revaluations available for write back through the Comprehensive income and expenditure account to the difference between the carrying value of assets and the depreciated historical cost of assets excluding any impairment or downward revaluation. In response to the issue raised in my 2010/11 Annual Governance report, officers commented

Description of weakness	Potential impact	Management action
valuation movements.		that *'Following the ICT arrangement with LGSS, Norwich City Council will be able to take advantage of the systems and expertise within LGSS. The provision of a fixed asset register will be progressed as part of the overall finance systems development'*. We understand that the Council is already investigating this with LGSS and recommend that this be progressed as soon as possible.

Recommendation

R2 The Audit Committee should

- review the internal audit arrangements to ensure that the limited delivery of the internal audit programme is not repeated in 2012/13.
- consider internal audit reports where limited or no assurance is given and the extent to which it holds officers to account for the delivery of agreed actions.

R3 Review the adequacy of year end processes in respect of the collection fund and ensure that reconciliations are robust and accounting practice is in line with CIPFA's Code of Practice.

R4 Officers should:

- Review the historical cost data in the fixed asset register and ensure it is up to date including disposals, transfers and write backs of impairments and downward revaluations.
- Reconcile the amount of impairments and downward revaluations available for write back through the Comprehensive income and expenditure account to the difference between the carrying value of assets and the depreciated historical cost of assets excluding any impairment or downward revaluation.
- Progress the provision of a fixed asset register.

Other matters

I am required to communicate to you significant findings from the audit and other matters that are significant to your oversight of the Council's financial reporting process including the following.

- Qualitative aspects of your accounting practices
- Matters specifically required by other auditing standards to be communicated to those charged with governance. For example, issues about fraud, compliance with laws and regulations, external confirmations and related party transactions; and
- Other audit matters of governance interest.

I have included the matters I wish to raise with you in table 3 below.

Table 3: **Other matters**

Issue	Finding
De-recognition of Components Under the CIPFA Code of Practice the Council's should separately depreciate significant components of property, plant and equipment from 1 April 2010. The Code also requires, regardless of whether separate components are accounted for, that where improvements are carried out, the carrying values of the replaced components should be de-recognised. In 2010/11 the Council determined that it did not have any material components which would need to be depreciated separately other than land. It also determined that no de-recognition adjustments were required on the basis that the replaced components would have negligible carrying	The Council obtained a more detailed 'componentised' valuation from its external valuers in order to determine whether or not the carrying value of property components that were being replaced should be derecognised in line with the Code of Practice. This valuation has not been used in the Council's balance sheet as it was prepared after the financial statements were drafted. The revised valuation indicated that the overall impact on the housing valuation was only £1.2 million and the impact on any individual beacon group was immaterial. We noticed that the valuation did not cover all components which are commonly capitalised by the Council (in particular roof repairs where the valuer's view was that these were repaired to avoid extensive overhaul/replacement). However, the Council does make such expenditure which it ordinarily capitalises. Whilst this is not material in 2011/12 I recommend the Council should obtain percentage upward/downward adjustments for all components that are being capitalised and request their valuer to cover those variants in any subsequent valuation. Alternatively the Council should view such expenditure as repairs and maintenance which should be accounted for in the Comprehensive Income and Expenditure Statement.

Issue	Finding
value In my 2010/11 AGR I reported that the Council needed to review, refine and expand its rationale and treatment before producing the 2011/12 financial statements.	
Missing disclosures As referred to earlier in the report, the financial statements presented for audit included some omissions.	Missing disclosures included: ■ A Movement in Reserves (MiRS) statement for 2010/11 (a primary statement). ■ Information on capital commitments at 31 March 2012. ■ Material elements of the Private Finance Initiative note. ■ Comparative information for some notes, including the related party transactions note. ■ A prior period amendment note relating to changes to the presentation of Cultural, Environmental and Planning categories which are now required to be disclosed separately on the face of the Comprehensive Income and Expenditure Account. I also noted that the restated comparatives included a presentational error which should have been picked up by addition checks. ■ The HRA refinancing was not reflected in the material items of income and expenditure note in the initial financial statements. The note required amendment and clarification regarding issues relating to 2011/12 and those to 2010/11. My audit team agreed corrections to the notes as necessary for the statements to present a true and fair view.
Segmental reporting – resource allocation disclosure The resource allocation note disclosure was not compliant with the Code of Practice.	The Code requires a disclosure note to reconcile the amounts reported to those that make decisions about resource allocation (in the Council's case this is the Cabinet) and the amounts reported in the Comprehensive Income and Expenditure Account (CIES). These will be different as: ■ some amounts included in the CIES will not have been reported to the Cabinet – including adjustments carried out in preparing the draft financial statements, and equally

Issue	Finding
	■ some amounts may have been reported to management that are not included in the CIES. The resource allocation disclosure in the draft financial statements only represented amounts included in the CIES and was therefore materially incorrect. It was not based on amounts reported to the Council's Cabinet. My team agreed the necessary changes to the note with officers.
Capital Financing disclosures The capital expenditure and capital financing note presented for audit included material errors.	I reported concerns in my 2010/11 Annual Governance Report regarding the Council's disclosures and calculation of the capital financing requirement. My work this year also uncovered material and immaterial errors in the presentation of this note, and the calculation of the underlying Minimum Revenue Provision. I have agreed amendments with officers. However, given that the presentation of this note and the underlying working papers has been an issue in recent years I recommend that additional review of this note should be carried out in advance of presenting the 2012/13 financial statements for audit.
Exit packages and termination benefits disclosures The exit packages note, which forms part of the officer's remuneration note, and is new for 2011/12, was understated.	The exit packages note did not include all departure costs (such as pension strain) as required by the Code of Practice. In addition the exit package disclosure note had not been reconciled to the termination benefits disclosure note. I agreed revisions to both notes with officers.
Accounting for property additions at the year end Repairs costs in the Housing Revenue Account and Comprehensive Income and Expenditure Account were overstated due to misclassification of capital as revenue at the year end. Property additions were similarly understated.	Our audit sample testing detected that officers incorrectly accounted for capital expenditure as revenue expenditure at the year end where they considered there was insufficient information to determine which assets the capital expenditure related to. The capital expenditure is initially written off through revenue expenditure. As additional information becomes available in the following financial year, the write off is reversed and the amounts taken to capital additions. At our request officers carried out additional analysis of the £2.9 million written off at 31 March 2012 and determined that £2.3 million should have been capitalised. At 3 October we are

Issue	Finding
	auditing the proposed amendment. Because of the way the Housing Revenue Account is financed, there is no impact on either the general fund or housing revenue account reserves. The Council should review its approach to accounting for capital additions around the year end. It should consider what information it needs from its contractors well in advance of the 2012/13 financial statements preparation process and agree revisions to invoicing practices.
HRA investment property The Council continues to account for £3.8 million of investment property within the HRA.	IAS 40 defines investment property as property held to earn rentals or for capital appreciation or both rather than for (a) use in the production or supply of services or for administrative purposes; or (b) sale in the ordinary course of business. It is unclear whether the Council's current treatment of its investment property within the HRA is appropriate treatment given the statutory nature of the HRA versus the limited definition of investment property within IAS 40. Officers should consider whether the investment property currently accounted for within the HRA: ■ should be held within the Council’s General Fund Balance, obtaining the appropriate consents for such a transfer; ■ or whether it does not meet the definition of investment property and should instead be reclassified as other land and buildings within the HRA.

Recommendation	
R5	Obtain percentage upward/downward adjustments for all components that are being capitalised and request the valuer to cover those variants in any subsequent valuations. Alternatively view such expenditure as repairs and maintenance and charge it to the Comprehensive Income and Expenditure Statement
R6	Conduct a detailed review of the capital expenditure and financing note in advance of presenting the 2012/13 financial statements for audit.
R7	Review the Council's approach to accounting for capital additions around the year end to ensure capital expenditure is treated as capital and revenue expenditure is treated as revenue. Consider at an early stage what information the Council needs from its contractors and agree any necessary revisions to invoicing practices.
R8	Consider whether the investment property currently accounted for within the HRA: ■ should be held within the Council's General Fund Balance, obtaining the appropriate consents for such a transfer; or ■ If it does not meet the definition of investment property then it should be reclassified as other land and buildings within the HRA.

Whole of Government Accounts

Alongside my work on the financial statements, I also review and report to the National Audit Office on your Whole of Government Accounts return. The deadline for the submission of the audited Whole of Government Accounts (WGA) consolidation pack is 5 October 2012. Given the ongoing revisions to the financial statements at 3 October I have not been able to meet the audit deadline for WGA. I will complete the procedures specified by the National Audit Officer during October and currently envisage that I will complete this before 31 October. Until my work on WGA is complete I am unable to provide the closure certificate confirming the completion of the accounts. **Updated position: I issued a qualified 'disagreement' report on the Council's WGA pack on 30 October 2012. This was because the WGA consolidation pack was not fully consistent with the audited statutory financial statements. A significant issue leading to this conclusion was the fact that the Department for Communities and Local Government (CLG) pre-populated the WGA pack with opening 2010/11 WGA balances. These opening balances did not reflect the final audited 2010/11 WGA pack which was not submitted until after CLG populated the 2011/12 pack. I also issued my certificate concluding the audit on 30 October 2012.**

Letter of representation

Before I issue my opinion, auditing standards require me to ask you and management for written representations about your financial statements and governance arrangements.

A standard letter of representation is included at Appendix 4. Should officers choose not to amend all the audit errors referred to at Appendix 2, and you concur with the approach, you will need to tell me why in the representation letter. **Updated position: I received an appropriate letter of representation before giving my opinion on the financial statements.**

Value for money

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

I assess your arrangements against the two criteria specified by the Commission. In my 2011/12 Audit Plan I reported to you the significant risks that were relevant to my conclusion. I have set out below my conclusion on the two criteria, including the findings of my work addressing each of the risks I identified.

I intend to issue an unqualified conclusion stating that the Council has proper arrangements to secure economy, efficiency and effectiveness in the use of its resources. I include my draft conclusion in Appendix 1.

In reaching my conclusion, I have considered the implications of the material amendments to the accounts, the consequential late audit opinion, and the necessary further improvements to financial reporting as referred to earlier in this report. I have concluded that, whilst the Council still needs to improve, I have seen satisfactory progress such that this does not impact on my value for money conclusion.

Table 4: **Value for money conclusion criteria and my findings**

Criteria	Risk	Findings
1. Financial resilience The organisation has proper arrangements in place to secure financial resilience. Focus for 2011/12: The organisation has robust systems and processes to manage effectively financial risks and opportunities, and to	**HRA reform** There is a risk to the financial resilience of the Council if the new financing arrangements are not properly managed. Under the new system, local authorities no longer receive housing subsidy or major repairs allowance income. Instead they will fund all HRA revenue and capital expenditure from existing resources.	The Council has saving and efficiency plans, which take into account the impact of the recession and the reduction in funding for local government. It has reviewed its priorities and strategic direction in light of the current financial pressures it faces, and has involved staff and stakeholders in this process. I considered the impact of my audit findings on the Council's level of general fund reserve. As referred

Criteria	Risk	Findings
secure a stable financial position that enables it to continue to operate for the foreseeable future.	On 1 February 2012, the government published self-financing valuations, based on assumptions about rental income and the expenditure required to maintain the housing stock over a 30-year period, and the payments required to implement the self-financing of council housing. The government also published limits on the amount of housing debt that each local authority can hold. **Reduced funding** Because of the current economic climate, and in common with other public sector organisations, the Council will be required to meet challenging savings and spending reduction targets.	to earlier in this report, the general fund reserve has decreased by £4.6 million from that presented in the draft 2011/12 financial statements **Updated position: the impact was revised down to £3.6 million following agreed recharges to the HRA**. Consequently, as at 3 October 2012, I have raised with officers a concern that the reserve has fallen to £0.2 million below the prudent level of £3.0 million set out in the Council's medium term financial strategy (MTFS) and re-affirmed by Cabinet in June 2012 . This is still being agreed with officers. Officers are also proposing a transfer of £1.8 million from the Housing Revenue Account to the general fund which would mean that the prudent level of reserves is exceeded. At 3 October I had not received the detail of the proposal from officers and have therefore not been able to consider whether the transfer is appropriate. I will update the Audit Committee at the 15 October meeting regarding the resolution of this issue The Council planned to draw on its general fund reserve by £0.3 million in 2012/13 and this will not be possible if the £1.8 million transfer is not made. **Updated position: I agreed with officers that the proposed transfer was not appropriate. Following agreement of all audit adjustments the general fund in the audited financial statements is £0.8 million above the prudent level**. A contributory factor to the 2011/12 decrease in the reserve was the Council's decision to terminate its PFI deal early to take advantage of a local authority partnership arrangement with LGSS. The Council's

Criteria	Risk	Findings
		Cabinet approved the business plan for the changes in arrangements on a 'spend to save' basis. The 2011/12 costs are outweighed by significant projected total savings of £15 million, which are expected to be made in the five years from 2012/13 onwards. Whilst it is early in the new arrangements, the Council appears to be already starting to realise these savings. Given this, I have determined that the Council's current reduction in its general fund reserve does not impact on my conclusion on financial resilience. The Council will need to closely monitor the level of its general fund reserve and update its MTFS for the impact of the 2011/12 reduction in available reserves. This is particularly important, as the prudent level of the general fund reserve for 2012/13 was agreed by Cabinet at a significantly higher level of £5.5 million in September 2012. The Council should also ensure that it revisits its treasury management strategy following the termination of its PFI, as this will impact on the authorised level for external debt. Aside from the 2011/12 impact of the PFI termination, the Council has maintained its record of achieving its budget savings. As part of my work I also evaluated management's oversight of HRA reforms, including the medium-term financial plan and treasury management strategy implications, and the transactions required by the Council. My work has not identified any

Criteria	Risk	Findings
		significant issues to bring to your attention.
2. Securing economy efficiency and effectiveness The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness. Focus for 2011/12: The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.	**HRA reform** See comments under financial resilience above.	Senior management continue to provide strong leadership to ensure resources are prioritised and the focus is put on spending reductions where possible. Service reviews and business process redesign have been undertaken to find efficiencies in delivery of functions. It continues to work in partnership and is active in learning from others. It sought a Local Government Association peer challenge which commended the Council on being a 'learning organisation'. The Council has taken measures to identify and implement cost reduction programmes, both in the short and medium term, consulting on these where appropriate. This has included the early termination of its IT PFI contract to take advantage of a local authority partnership arrangement with LGSS. The new arrangement is also being used to strengthen the Council's finance and internal audit functions. These arrangements are still settling in, and will continue to require monitoring by the Corporate Leadership Team (CLT) to ensure they are operating effectively. The new arrangements are key to securing cost reductions in the MTFS, whilst taking advantage of the wider benefits of this new resource. The Council has restructured its CLT, and there is clear responsibility for the oversight of the LGSS arrangement via the executive head of business

Criteria	Risk	Findings
		relationship management. I noted that the Council’s business case was purely focussed on cash and spread the costs of exiting the existing PFI arrangement over five years, whilst in reality the cash outflow will all be in 2012/13. The business case did not separately consider the aspects of the settlement which might impact revenue (and the general fund reserve) and those which were capital in terms of settling the existing PFI creditor. These weaknesses would not appear to have a material impact on the outcome, but there are some lessons that the Council could learn when drawing up future business cases. I have evaluated management’s oversight of HRA reforms, including the medium-term financial plan and treasury management strategy implications, and the transactions required by the Council. My work has not identified any significant issues to bring to your attention.

Recommendation
R9 Fully revisit the Council’s medium term financial strategy following conclusion of the 2011/12 financial statements. Assess the impact of the reduction in the general fund balance on the Councils future plans, and ensure the minimum level of general fund balance agreed with members is achieved.

Fees

I reported my planned audit fee in my letter of 26 April 2011 and in the 2011/12 Audit Plan.

As a consequence of the issues found during the course of my audit, and discussed earlier in this report, I will require an additional fee to complete my audit. As a number of areas of work are still being concluded, including the consideration of a revised set of financial statements, I am not yet in a position to determine my final audit fee, but have included an estimate below. I will provide an update to the Audit Committee at their 15 October meeting, and the fees will be included in my Annual Audit Letter which I will issue by the end of October. **Updated position: the final audit fee is £206,087 as set out below. As this figure has not changed I have not had to refer to it in my Annual Audit Letter which I issued on 26 October 2012.**

The additional fee of approximately £30,000 should be put in the context of the need for additional fees in previous years which were:

- 2010/11 – additional fee of £125,645; and
- 2009/10 – additional fee of £60,200.

My work on the Council's claims and returns is also part complete at 3 October. At this stage I do not anticipate a significant variance to the planned fee for claims and returns.

Table 5: **Fees**

	Original scale fee (£)	Planned fee 2011/12 (£)	Expected fee 2011/12 (£)
Audit	176,087	176,087	206,087
Claims and returns		93,814	93,814
Non-audit work		0	0
Total		269,901	299,901

The Audit Commission has already paid a rebate of £14,087 to reflect attaining internal efficiency savings, reducing the net estimated amount payable to the Audit Commission to £285,814.

Appendix 1 – Draft independent auditor’s report

INDEPENDENT AUDITOR’S REPORT TO THE MEMBERS OF NORWICH CITY COUNCIL

Opinion on the Authority financial statements

I have audited the financial statements of Norwich City Council for the year ended 31 March 2012 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

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 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Chief Financial Officer and auditor

As explained more fully in the Statement of the Chief Financial Officer’s Responsibilities, the Chief Financial Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the accounting statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board’s Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Financial Officer; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on financial statements

In my opinion the financial statements:

- give a true and fair view of the financial position of Norwich City Council as at 31 March 2012 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

Opinion on other matters

In my opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the accounting statements.

Matters on which I report by exception

I report to you if:

- in my opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;
- I issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- I designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- I exercise any other special powers of the auditor under the Audit Commission Act 1998.

I have nothing to report in these respects

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

Respective responsibilities of the Authority and the auditor

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 to review regularly the adequacy and effectiveness of these arrangements.

I am required under Section 5 of the Audit Commission Act 1998 to satisfy myself that the Authority has made proper arrangements 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 relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

I report if significant matters have come to my attention which prevent me from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. 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.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

I have undertaken my audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2011, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for me to consider under the Code of Audit Practice in satisfying myself whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

I planned my work in accordance with the Code of Audit Practice. Based on my risk assessment, I undertook such work as I considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2011, I am satisfied that, in all significant respects, Norwich City Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

Delay in certification of completion of the audit

I cannot formally conclude the audit and issue an audit certificate until I have completed the work necessary to issue my assurance statement in respect of the authority's Whole of Government Accounts consolidation pack. I am satisfied that this work does not have a material effect on the financial statements or on my value for money conclusion.

Rob Murray

District Auditor

Audit Commission,

3rd Floor,

Eastbrook,

Shaftesbury Road,

Cambridge,

CB2 8BF

[ ] October 2012

Appendix 2 – Uncorrected errors

I identified the following errors during the audit which management have not addressed in the revised financial statements.

		Statement of comprehensive income and expenditure		Balance sheet	
Item of account	Nature of error	Dr £'000s	Cr £'000s	Dr £'000s	Cr £'000s
Short term creditors Net cost of services	Extrapolation of errors based on a sample test of short term creditors. The actual error was £596,000 and related to a 2010/11 accrual that had not been reversed.		 1,295	1,295	
Updated position: **Surplus / deficit on revaluation of non-current assets** **Revaluation reserve brought forward balance**	**A painting worth £800,000 was not accounted for in the 2007 valuation of heritage assets plus other immaterial errors.**	**851**			 **851**
NCS: HRA Expenditure **Financing and Investment Income and Expenditure**	**The Council's policy is to charge any subsequent downward revaluation of assets held for sale to other operating expenditure rather than the revaluation reserve or net cost of services.**		**323** **446**		

		Statement of comprehensive income and expenditure		Balance sheet	
Surplus / deficit on revaluation of non-current assets			1,351		
Other operating expenditure		2,120			
NCS: Corporate and Democratic Core expenditure	Misclassification of past service costs and curtailments in respect of the pension fund.		1,061		
NCS: Non-distributed costs		1,061			
Revaluation Reserve	Misstatement of the revaluation reserve and capital adjustment account due to incorrect accounting for the historical cost of garages.				1,509
Capital Adjustment Account				1,509	
Other (not analysed)	Other errors (all individually below 10 percent of materiality)	362	790	826	398
Total		4,394	5,266	3,630	2,758

		Cash flow statement	
Item of account	Nature of error	Dr £'000s	Cr £'000s
Investing Activities	The adjustment to short term debtors in respect of capital items accounted for the whole of the closing debtor rather than just the in-year movement. This overstated the impact on PPE	894	
Adjustments for			894

		Cash flow statement	
items included in the net surplus or deficit on the provision of services that are investing and financing activities	purchased by £894,000		
Financing Activities Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	Movements in short term debtors did not correctly identify the movement in the NNDR debtor of £1.777 million as a financing activity.	1,777	1,777
Financing Activities Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	The movements in short term creditors did not correctly identify the movement in the NNDR creditor, Airport accrual and amount due to the precepting authorities.	794	794
Investing Activities Adjustments for items included in the net surplus or deficit on the provision of services that are investing and	The movement in short term creditors relating to the purchase of property plant and equipment was unsupported. I found it was overstated by £1.03 million.	1,030	1,030

		Cash flow statement	
financing activities			
Total		**4,495**	**4,495**

Appendix 3 – Corrected errors

I identified the following errors during the audit which management have addressed in the revised financial statements.

		Statement of comprehensive income and expenditure		Balance sheet	
Item of account	**Nature of error**	**Dr £'000s**	**Cr £'000s**	**Dr £'000s**	**Cr £'000s**
HRA Expenditure: Repairs and Maintenance	Officers temporarily wrote off capital expenditure to revenue on the basis that they were unable to identify which assets the expenditure related to in the knowledge that this would be reversed in the following year. In my view a more appropriate treatment would be to capitalise such costs as assets under construction.		2,352		
Property plant and equipment – assets under construction				2,352	
Movement in Reserves Statement (MiRS):					
Capital Adjustment Account (CAA)					2,352
General Fund (GF)				2,352	
Property plant and equipment	After presenting the financial statements for audit, officers identified that they had revalued some community assets in error. This was not in line with the Council's accounting policy which is to carry these assets at depreciated historic cost.			2,083	
Net cost of services			2,083		
MiRS:					
GF					2,083
Revaluation reserve				2,083	

		Statement of comprehensive income and expenditure		Balance sheet	
Property plant and equipment	Additions to the PFI asset were accounted for on the basis of estimated lifecycle costs per the PFI accounting model. Such costs should be replaced with actual expenditure. The actual capital expenditure on these assets was much lower than anticipated in the model.				1,845
Net cost of services		1,845			
MiRS:					
GF					1,845
CAA				1,845	
Surplus / deficit on revaluation of non current assets	The upward revaluation in respect of certain heritage assets was recognised in 2011/12 rather than as a prior year adjustment to the brought forward balances.	2,281			
MiRS:					
GF					2,281
In year revaluations				2,281	
Revaluation reserve brought forward					2,281
Totals		**7,044**	**4,435**	**13,810**	**16,419**

Appendix 4 – Draft letter of management representation

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

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other officers of Norwich City Council, the following representations given to you in connection with your audit of the Authority's financial statements for the year ended 31 March 2012.

Compliance with the statutory authorities

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

Uncorrected misstatements

The effects of uncorrected financial statements misstatements summarised in the 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;
- reason 2 etc;

Supporting records

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

Internal control

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

Irregularities

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

I also confirm that I have disclosed:

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

Law, regulations, contractual arrangements and codes of practice

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

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

Accounting estimates including fair values

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

Related party transactions

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

Subsequent events

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

Comparative financial statements

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

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

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

Signed on behalf of Norwich City Council

I confirm that the this letter has been discussed and agreed by the Audit Committee on [date]

Signed

Caroline Ryba

Chief Finance Officer

Date

Appendix 5 – Glossary

Annual Audit Letter

Letter issued by the auditor to the Authority after the completion of the audit that summarises the audit work carried out in the period and significant issues arising from auditors' work.

Annual Governance Report

The auditor's report on matters arising from the audit of the financial statements presented to those charged with governance before the auditor issues their opinion and conclusion.

Annual Governance Statement

The annual report on the Authority's systems of internal control that supports the achievement of the Authority's policies aims and objectives.

Audit of the accounts

The audit of the accounts of an audited body comprises all work carried out by an auditor under the Code to meet their statutory responsibilities under the Audit Commission Act 1998.

Audited body

A body to which the Audit Commission is responsible for appointing the external auditor.

Auditing Practices Board (APB)

The body responsible in the UK for issuing auditing standards, ethical standards and associated guidance to auditors. Its objectives are to establish high standards of auditing that meet the developing needs of users of financial information and to ensure public confidence in the auditing process.

Auditing standards

Pronouncements of the APB that contain basic principles and essential procedures with which auditors must comply, except where otherwise stated in the auditing standard concerned.

Auditor(s)

Auditors appointed by the Audit Commission.

Code (the)

The Code of Audit Practice for local government bodies issued by the Audit Commission and approved by Parliament.

Commission (the)

The Audit Commission for Local Authorities and the National Health Service in England.

Ethical Standards

Pronouncements of the APB that contain basic principles relating to independence, integrity and objectivity that apply to the conduct of audits and with which auditors must comply, except where otherwise stated in the standard concerned.

Financial statements

The annual statement of accounts that the Authority is required to prepare, which report the financial performance and financial position of the Authority in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom.

Internal control

The whole system of controls, financial and otherwise, that the Authority establishes to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

Materiality

The APB defines this concept as 'an expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole. A matter is material if its omission would reasonably influence the decisions of an addressee of the auditor's report; likewise a misstatement is material if it would have a similar influence. Materiality may also be considered in the context of any individual primary statement within the financial statements or of individual items included in them. Materiality is not capable of general mathematical definition, as it has both qualitative and quantitative aspects'.

The term ‘materiality’ applies only to the financial statements. Auditors appointed by the Commission have responsibilities and duties under statute, as well as their responsibility to give an opinion on the financial statements, which do not necessarily affect their opinion on the financial statements.

Significance

The concept of ‘significance’ applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit of the financial statements. Significance has both qualitative and quantitative aspects.

Those charged with governance

Those entrusted with the supervision, control and direction of the Authority. This term includes the members of the Authority and its Audit Committee.

Whole of Government Accounts

A project leading to a set of consolidated accounts for the entire UK public sector on commercial accounting principles. The Authority must submit a consolidation pack to the department for Communities and Local Government which is based on, but separate from, its financial statements.

Appendix 6 – Action plan

Recommendation 1	
Before presenting the financial statements for audit the Council should ensure that it: ■ fully reviews the draft statements against the requirements of the Code of Practice on Local Authority Accounting; ■ allows more time to conduct a review of the statements for inconsistencies between the primary statements and the notes; ■ performs thorough addition checks on the statements and notes, and rectifies the statements for errors detected; ■ allows time for a detailed comparison to the prior year figures to be completed as this would identify potential omissions, such as the omission of part of the Minimum Revenue Provision; ■ has not restated comparatives unless these are required under accounting standards or the Code of Practice; and ensures that supporting working papers are complete and appropriate, including a reasonable level of third party supporting evidence.	
Responsibility	Chief Finance Officer
Priority	High
Date	2012/13 year end process
Comments	Year end planning and improvements to year end processes will ensure scrutiny and in depth review takes place.

Recommendation 2	
The Audit Committee should ■ review the internal audit arrangements to ensure that the limited delivery of the internal audit programme is not repeated in 2012/13. ■ consider internal audit reports where limited or no assurance is given and the extent to which it holds officers to account for the delivery of agreed actions.	
Responsibility	**Chair of Audit Committee**
Priority	High
Date	**On-going**

Comments	**As discussed and agreed at Audit Committee on 15 October 2012**

Recommendation 3

Review the adequacy of year end processes in respect of the collection fund and ensure that reconciliations are robust and accounting practice is in line with CIPFA's Code of Practice.

Responsibility	Chief Accountant
Priority	High
Date	November 2012
Comments	Issues with the Collection Fund processes will be reviewed and detailed guidance notes, flowcharts and processes will be issued.

Recommendation 4

Officers should:

- Review the historical cost data in the fixed asset register and ensure it is up to date including disposals, transfers and write backs of impairments and downward revaluations.
- Reconcile the amount of impairments and downward revaluations available for write back through the Comprehensive income and expenditure account to the difference between the carrying value of assets and the depreciated historical cost of assets excluding any impairment or downward revaluation.
- Progress the provision of a fixed asset register.

Responsibility	Senior Technical Accountant
Priority	High
Date	End November
Comments	Historical data will be corrected for issues described and full reconciliation done. An outline business case for a FAR is currently with LGSS for consideration.

Recommendation 5

Obtain percentage upward/downward adjustments for all components that are being capitalised and request the valuer to cover those variants in any subsequent valuations. Alternatively view such expenditure as repairs and maintenance and charge it to the Comprehensive Income and

Expenditure Statement	
Responsibility	Chief Accountant/Senior Technical Accountants
Priority	April 2013
Date	Medium
Comments	The valuers do not consider roofs to be a component but a constituent part of the property and the council is guided by them on this matter. A valuation will be done on the council dwellings in the same manner as the second one obtained for 11/12.
Recommendation 6	
Conduct a detailed review of the capital expenditure and financing note in advance of presenting the 2012/13 financial statements for audit.	
Responsibility	Finance Control Manager
Priority	Medium
Date	30 June 2013
Comments	Systems and procedures involved in producing the note will be updated prior to year-end, and the content of the draft note reviewed before submission for audit.
Recommendation 7	
Review the Council's approach to accounting for capital additions around the year end to ensure capital expenditure is treated as capital and revenue expenditure is treated as revenue. Consider at an early stage what information the Council needs from its contractors and agree any necessary revisions to invoicing practices.	
Responsibility	Finance Control Manager
Priority	High
Date	31 December 2012
Comments	Specific issues encountered in the 2011/12 accounts are not expected to recur, so that the extent of any uncertainties involved is expected to be significantly lower in future years. Finance will work with Property Services and contractors to achieve the requisite clarity at an early stage.
Recommendation 8	

Consider whether the investment property currently accounted for within the HRA:

- should be held within the Council's General Fund Balance, obtaining the appropriate consents for such a transfer; or
- If it does not meet the definition of investment property then it should be reclassified as other land and buildings within the HRA.

Responsibility	Chief Accountant/Finance Control Manager
Priority	Medium
Date	31 October 2012
Comments	Work has been carried out by the Senior Technical Accountant and Housing Finance Manager, review of their conclusions outstanding.

Recommendation 9

Fully revisit the Council's medium term financial strategy following conclusion of the 2011/12 financial statements. Assess the impact of the reduction in the general fund balance on the Councils future plans, and ensure the minimum level of general fund balance agreed with members is achieved.

Responsibility	Finance Control Manager
Priority	High
Date	31 October 2012
Comments	The impact of the 2011/12 outturn on the MTFS will be brought into the MTFS very shortly, and plans formulated to ensure that the council's balances are restored to or maintained at a level in excess of the prudent minimum.

If you require a copy of this document in an alternative format or in a language other than English, please call:
0844 798 7070

www.audit-commission.gov.uk

October 2012