

Annual Governance Report

South Norfolk District Council

Audit 2007-2008

September 2008



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Status of our reports

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

- any director/member or officer in their individual capacity; or
 - any third party.
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Summary

Purpose

- 1 This report summarises the findings from our 2007/08 audit, which is substantially complete. The report has been discussed with the Audit Committee on 26 September 2008. It identifies the key issues that you should consider before we issue our opinion on the financial statements, value for money conclusion and audit completion certificate.
- 2 This report includes only matters of governance interest that have come to our attention in performing our audit. Our audit is not designed to identify all matters that might be relevant to you.

Financial statements

- 3 We propose issuing an unqualified audit opinion on the financial statements before 30 September 2008. The Council has continued to improve the quality of the financial statements presented for audit, but there remains further scope for improvement.

Value for Money

- 4 Our work on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources is now substantially complete. We propose issuing an unqualified value for money conclusion before 30 September 2008.

Next steps

- 5 We asked the Audit Committee to:
 - consider the matters raised in the report; and
 - approve the representation letter on behalf of the Council, before we issue our opinion, conclusion and certificate.

Financial statements and Annual Governance Statement

- 6 The Council's financial statements and Annual Governance Statement are important means by which the Council accounts for its stewardship of public funds. As Council members you have final responsibility for the financial statements and Annual Governance Statement. It is therefore important that you consider our findings before we issue our opinion, value for money conclusion and certificate.
- 7 In planning our audit we identified specific risks and areas of judgement that we have focused on during our audit. We report to you the findings of our work in those areas.
- 8 In addition, auditing standards require us to report to you:
- the draft representation letter which we are asking management and you to sign;
 - our views about the Council's accounting practices and financial reporting;
 - errors in the financial statements;
 - any expected modification to our report;
 - weaknesses in internal control; and
 - certain other matters.

Key areas of judgement and audit risk

- 9 In planning our audit we identified key areas of judgement and audit risk that we have considered as part of our audit. Our summary of the risks identified at the time of planning and our findings are set out in Table 1.

Table 1 Key areas of judgement and audit risk

Issue or risk	Finding
<p>New Statement of Recommended Practice (SoRP) requirements for 2007. The most significant areas of change for the Council are:</p> <ul style="list-style-type: none"> • the financial instrument reporting requirements; and • the replacement of the Fixed Asset Restatement Account (FARA) and Capital Financing Reserve (CFR) with the Revaluation Reserve (RR) and Capital Adjustment Account (CAA). 	<p>Our audit findings confirm that apart from the issue mentioned in table 2 regarding 2006/07 comparative figures, the Council prepared its accounts in accordance with the new requirements of the SoRP.</p>

Financial statements and Annual Governance Statement

Issue or risk	Finding
There were significant changes to personnel responsible for the preparation of the 2007/08 financial statements and working papers.	No increased risks apparent on the receipt of the draft financial statements.
Significant matters arose in 2006/07 related to income reconciliation issues and inter authority accounting with CNC. A particular item resulting from these matters is the unidentified credit balance of £300k+.	Our audit identified that these issues have been addressed, with the exception of minor issues surrounding inter authority balances with CNC.
CNC has established a trading company during 2007/08. The need to produce group accounts in 2007/08 had yet to be assessed by officers.	Our audit confirmed that no group accounts were required for this trading company within the Council's accounts

Draft representation letter

10 Before we issue our opinion, auditing standards require us to obtain from you and management, written representations that:

- you acknowledge your collective responsibility for preparing financial statements in accordance with the applicable financial reporting framework;
- you have approved the financial statements;
- you acknowledge your responsibility for the design and implementation of internal controls to prevent and detect fraud and error;
- you have told me the results of your assessment of the risk that the financial statements might be materially misstated because of fraud;
- you have told me any actual or suspected fraud by management, employees with significant roles in internal control or others (where the fraud could have a material impact on the financial statements);
- you have told me of any allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, regulators or others;
- you have told me about all known actual or possible non-compliance with laws and regulations whose effects should be considered when preparing financial statements;
- you have assessed the reasonableness of significant assumptions, including whether they appropriately reflect management's intent and ability to carry out specific courses of action on behalf of the Council where relevant to the fair value measurements or disclosures;

- you are satisfied that all related parties requiring disclosure in the financial statements have been disclosed and that the disclosure is adequate; and
- cover areas where other sufficient appropriate evidence cannot reasonably be expected to exist, for example the completeness of the disclosure of contingent liabilities.

11 Appendix 1 contains the draft of the letter of representation we seek from you.

Accounting policies and financial reporting

12 We consider the qualitative aspects of your financial reporting and have not identified any significant issues to raise with you.

Errors in the financial statements

13 We identified errors in the financial statements (other than those of a trivial nature) and reported these to management. Management has agreed to adjust the financial statements for the errors identified in Table 2 below.

Table 2 Correction made to the financial statements

Error	Description
2006/07 comparative figures for the Revaluation Reserve and the Capital Adjustment Account	The SoRP required the Fixed Asset Restatement Reserve and the Capital Financing Account to be replaced by the Revaluation Reserve and the Capital Adjustment Account in 2007/08. In effecting this change, the SoRP required the 2006/07 comparative figures for the Capital Adjustment Account to be the sum of the closing balances of the Fixed Asset Restatement Reserve and the Capital Financing Account. The Council's accounts incorrectly showed a nil figure as the 2006/07 comparative figure for the Capital Adjustment Account whilst showing closing 2006/07 balances for the Fixed Asset Restatement Reserve and Capital Financing account of £(17,377)k and £43,653k respectively.
Accrued investment interest included in debtors	£825k was moved out from debtors with £705k being moved into long and short term investments and £120k in cash and bank. The implementation of the financial instrument financial reporting standards by the SoRP meant that the correct treatment for accrued investment interest is to include the interest on the value of the investment rather than within debtors. The movement of £120k interest to the cash and bank balance reflected that the interest had been received in the year and as such was not a debtor.

Financial statements and Annual Governance Statement

Error	Description
Council Tax Benefit income and expenditure included in the housing service head in the Income and Expenditure Account	Council Tax Benefit income and expenditure was included within housing head in the income and expenditure account. The Best Value Accounting Code of Practice (BV ACOP) requires income and expenditure associated with council tax benefit to be included in the Central Services head. As a result, £6.1m of income and £5.9m of expenditure was moved between these two heads in the income and expenditure account.
Preserved right to buy and VAT shelter receipts not reflected in the profit from the sale of fixed assets figure in the income and expenditure account	An amendment was required to the profit on the sale of fixed assets line in the income and expenditure account to correctly account for £1.6m income for the preserved right to buy receipts and the VAT shelter monies from Saffron Housing Trust. The change also required amendments to be made to the Statement of Movements in the General Fund Balance, the Statement of Total Recognised Gains and Losses and the Cashflow Statement.
Numerous changes made to the Cashflow Statement and associated notes	<p>Numerous changes were made to the Cashflow statement. The key changes were as follows.</p> <ul style="list-style-type: none"> • Reducing the housing benefits cash outflow and council tax cash inflow lines by £5.9m as there are no cashflows associated with the payment of council tax benefit to claimants (amounts are netted directly off council tax accounts). • Amending the movement in cash and bank figure to correctly reflect the cash and bank balances shown in the Balance Sheet.

14 In addition to the amendments separately referred to in Table 2, the financial statements have also been amended for various presentational issues during the course of the audit. Where there is scope for improvement in the drafting of the 2008/09 financial statements we will raise these in our Regularity Report for finance staff attention.

The audit report

15 We plan to issue an unmodified report including an unqualified opinion on the financial statements. Appendix 2 contains a copy of our draft report.

Material weaknesses in internal control

- 16 We have not identified any weaknesses in the design or operation of internal controls that might result in a material error in your financial statements which have not been reported to you.

Value for money

- 17 We are required to conclude whether the Council put in place adequate corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. We assess your arrangements against twelve criteria specified by the Commission. Our conclusion is informed by our work on Use of Resources, a scored judgement reported to the Audit Commission.
- 18 We have assessed the arrangements of the Council as adequate in all twelve areas and we therefore propose to issue an unqualified conclusion.

Formal audit powers

19 We have:

- a power to issue a public interest report. We do so where we believe this is necessary to draw a matter to your attention, or to that of the public;
- a power to apply to court for a declaration that an item in the Council's accounts is contrary to law;
- a power to issue an advisory notice. An advisory notice requires the Council to meet and consider the notice before:
 - making a decision that might give rise to unlawful expenditure; or
 - taking an unlawful course of action that would give rise to a loss; or
 - making unlawful entry in the accounts; and
- a power to seek judicial review of a decision of the Council.

20 We have not and do not propose to exercise these powers.

Independence

- 21 The Code of Audit Practice and the APB's Ethical Standards with which auditors must comply require that auditors act, and are seen to act, with integrity, objectivity and independence.
- 22 We confirm that we comply with the APB's Ethical Standards, that we are independent and that our objectivity is not compromised.
- 23 We communicate to you:
- any relationships between us and the Council, its members and senior management that might affect our objectivity and independence and any safeguards put in place;
 - our arrangements to ensure independence and objectivity; and
 - total fees charged to you for audit and non-audit services.

Our arrangements to ensure independence and objectivity

- 24 We have comprehensive procedures to ensure independence and objectivity. These are outlined in Table 3.

Table 3 Arrangements to ensure independence and objectivity

Area	Arrangements
Independence policies	<p>Our policies and procedures ensure that professional staff or an immediate family member:</p> <ul style="list-style-type: none"> • do not hold a financial interest in any of our audit clients; • may not work on assignments if they have a financial interest in the client or a party to the transaction or if they have a beneficial interest in a trust holding a financial position in the client; and • may not enter into business relationships with UK audit clients or their affiliates. <p>Our procedures also cover the following topics and can be provided to you on request:</p> <ul style="list-style-type: none"> • the general requirement to carry out work independently and objectively; • safeguarding against potential conflicts of interest; • acceptance of additional (non-audit) work; • rotation of key staff; • other links with audited bodies; • secondments; • membership of audited bodies; • employment by audited bodies; • political activity; and • gifts and hospitality.
Code of Conduct	<p>The Code of Conduct forms part of the terms and conditions of all Audit Commission employees. The Code of Conduct states that staff have to comply with ethical guidance issued by their relevant professional bodies.</p>
Confidentiality	<p>All staff are required to sign an annual undertaking of confidentiality as a condition of employment.</p>

Relationships with the Council

25 We have identified no relationships that might affect objectivity and independence.

Independence

Audit fees

- 26 We reported our fee proposals as part of the Audit Plan for 2007/08. The table below reports the outturn fee against that plan. This excludes grant certification and inspection work.

Table 4 Audit fees

	Plan 2007/08	Estimated 2007/08
Financial statements and Annual Governance Statement (including Whole of Government Accounts)	£75,840	£75,840
Value for Money	£31,920	£31,920
Whole of Government Accounts	£575	£575
National Fraud Initiative	£108,335	£108,335
Total Audit Fees (Certification of grant claims)	£36,000	Est. £36,000

- 27 This analysis above shows that we contained our audit fee within the totals you have already agreed.
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Appendix 1 – Draft management representation letter

To:

Mr A Perrin
District Auditor
Audit Commission
Regus House
1010 Cambourne Business Park
Cambourne
Cambridge
CB23 6DP

South Norfolk Council - Audit for the year ended 31 March 2008

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other officers of South Norfolk Council, the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2008.

Compliance with the statutory authorities

I acknowledge my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Code of Practice for Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice which present fairly the financial position and financial performance of the Council and for making accurate representations to you.

Supporting records

All the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the Council have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all Council and Committee meetings, have been made available to you.

Irregularities

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

There have been no:

- irregularities involving management or employees who have significant roles in the system of internal accounting control;

Appendix 1 – Draft management representation letter

- irregularities involving other employees that could have a material effect on the financial statements; or
- communications from regulatory agencies concerning non-compliance with, or deficiencies on, financial reporting practices which could have a material effect on the financial statements.

I also confirm that I have disclosed:

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

Law, regulations, contractual arrangements and codes of practice

There are no instances of non-compliance with laws, regulations and codes of practice, likely to have a significant effect on the finances or operations of the Council.

Fair Values

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

Assets

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

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

Compensating arrangements

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

Contingent liabilities

There are no other contingent liabilities, other than those that have been properly recorded and disclosed in the financial statements. In particular:

- there is no significant pending or threatened litigation, other than those already disclosed in the financial statements;
- there are no material commitments or contractual issues, other than those already disclosed in the financial statements; and
- no financial guarantees have been given to third parties.

Related party transactions

I confirm the completeness of the information disclosed regarding the identification of related parties.

The identity of, and balances and transactions with, related parties have been properly recorded and where appropriate, adequately disclosed in the financial statements.

Post balance sheet events

Since the date of approval of the financial statements by the Council, no additional significant post balance sheet events that have occurred which would require additional adjustment or disclosure in the financial statements.

The Council has no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

Signed on behalf of South Norfolk Council

I confirm that this letter has been discussed and agreed by the Audit Committee on 26 September 2008.

Signed

Signed

Name

Name

Position

Position

Date

Date

Appendix 2 – draft Auditor's Report

Independent auditor's report to the Members of South Norfolk Council

Opinion on the financial statements

I have audited the Authority accounting statements and related notes of South Norfolk Council for the year ended 31 March 2008 under the Audit Commission Act 1998. The Authority accounting statements comprise the Authority Income and Expenditure Account, the Authority Statement of the Movement on the General Fund Balance, the Authority Balance Sheet, the Authority Statement of Total Recognised Gains and Losses, the Authority Cash Flow Statement, the Housing Revenue Account, the Collection Fund and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of South Norfolk Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 36 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

Respective responsibilities of the Director of Finance, Property and IT and auditor

The Director of Finance, Property and IT's responsibilities for preparing the financial statements in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007 are set out in the Statement of Responsibilities for the Statement of Accounts.

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

I report to you my opinion as to whether the Authority accounting statements present fairly, in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007, the financial position of the Authority and its income and expenditure for the year.

Appendix 2 – draft Auditor's Report

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

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

Basis of audit opinion

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

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

Opinion

In my opinion the Authority financial statements present fairly, in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007, the financial position of the Authority as at 31 March 2008 and its income and expenditure for the year then ended.

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

Authority's Responsibilities

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance and regularly to review the adequacy and effectiveness of these arrangements.

Auditor's Responsibilities

I am required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Authority for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion in relation to proper arrangements, having regard to relevant criteria specified by the Audit Commission for principal local authorities. I report if significant matters have come to my attention which prevent me from concluding that the Authority has made such proper arrangements. I am not required to consider, nor have I considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Conclusion

I have undertaken my audit in accordance with the Code of Audit Practice and having regard to the criteria for principal local authorities specified by the Audit Commission and published in December 2006, I am satisfied that, in all significant respects, South Norfolk Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2008.

Best Value Performance Plan

I issued our statutory report on the audit of the Authority's best value performance plan for the financial year 2007/08 in December 2007. I did not identify any matters to be reported to the Authority and did not make any recommendations on procedures in relation to the plan.

Certificate

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

Andy Perrin

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

Date:

The Audit Commission

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

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, covering the £180 billion spent by 11,000 local public bodies.

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

Copies of this report

If you require further copies of this report, or a copy in large print, in Braille, on tape, or in a language other than English, please call 0844 798 7070.

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