

# Annual Governance Report

South Norfolk District Council

Audit 2009/10

September 2010

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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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Ladies and Gentlemen

**2009/10 Annual Governance Report**

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

My report set out the key issues that you should considered before I completed the audit.

It asked you to:

- consider the matters raised in the report before approving the financial statements (pages 6 to 9);
- approve the letter of representation on behalf of the Council before I issue my opinion and conclusion (Appendix 2); and
- agree your response to the proposed action plan (Appendix 4).

Yours faithfully

Rob Murray  
District Auditor

23 September 2010

# Key messages

This report summarises the findings from the 2009/10 audit which is now 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.

<b>Financial statements</b>	<b>Results</b>	<b>Page</b>
Unqualified audit opinion	Yes	6-7
Financial statements free from material error	Yes	6-7
Adequate internal control environment	Yes	6-7
<b>Value for money</b>	<b>Results</b>	<b>Page</b>
Adequate arrangements to secure value for money	No	8

## Audit opinion

- 1 We issued an unqualified opinion on the financial statements on 23 September 2010.

## Financial statements

- 2 The financial statements submitted for audit were complete and were supported by good quality working papers. We found no material errors in the accounts although we agreed a number of amendments to the accounts for smaller amounts and to improve the disclosure of various notes.

## Value for money

- 3 We issued a qualified Value for Money conclusion due to the weaknesses identified by Internal Audit regarding the Council's procurement arrangements.

## Independence

- 4 I confirmed that the audit has been carried out in accordance with the Audit Commission's policies on integrity, objectivity and independence.

# Next steps

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

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**5** I asked the Accounts and Audit Committee to:

- consider the matters raised in the report before approving the financial statements (pages 6 to 9);
- approve the letter of representation on behalf of the Council before I issue my opinion and conclusion (Appendix 2); and
- agree your response to the proposed action plan (Appendix 4).

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# Financial statements

**The Council's financial statements and annual governance statement are important means by which the Council accounts for its stewardship of public funds. As Council members you have final responsibility for these statements. It is important that you considered my findings before you adopted the financial statements and the annual governance statement.**

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## Opinion on the financial statements

- 6** I issued an audit report including an unqualified opinion on the financial statements. Appendix 1 contains a copy of my audit report.

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## Errors in the financial statements

- 7** We identified a number of errors in the financial statements and reported these to management. Management has agreed to adjust the financial statements for all of these errors. None of these errors were material.
- 8** The key amendments to the accounts were:
- A net increase of £132,000 in the value of tangible fixed assets to take into account the impairment review undertaken by the valuers at the end of the financial year. This had not been accounted for in the financial statements approved on 29 June 2010 as the impairment review had not been provided until after completion of the 2009/10 accounts. This amendment also required adjustment to the Income and Expenditure Account, the Statement of Movements in the General Fund Balance, the Revaluation Reserve and the Capital Adjustment Account.
  - A decrease of £200,000 in the Usable Capital Receipts balance to reflect the incorrect use of the travellers and gypsy grant to fund capital expenditure. This amendment also required adjustment to the Income and Expenditure Account, the Statement of Movements in the General Fund Balance, the Creditors balance in the Balance Sheet and the Capital Adjustment Account.
  - The inclusion of an additional disclosure in the tangible fixed assets note to explain the reason for the revaluation increase in the other land and buildings category. This was primarily the result of an error in the valuation of Wymondham Leisure Centre in 2004. The impact of the incorrect valuation was identified as £2,040,000 and as such accounts for a significant part of the revaluation increase of £3,417,000 for this category of assets.

## Financial statements

- 9 In addition to the amendments referred to above, the financial statements have been amended for various presentational issues during the course of the audit. Where there is scope for improvement in the drafting of the 2010/11 financial statements we will raise these in our final accounts report for finance staff attention.

### Recommendation

- R1** Ensure that the year end impairment review is received earlier in the accounts closedown process so that the findings from that review can be incorporated into the accounts prior to approval by members.

## Letter of representation

- 10 Auditing standards require me to obtain appropriate written representations from you and management about your financial statements and governance arrangements. Appendix 2 contains the letter of representation I received from you prior to giving the audit opinion.

## Key areas of judgement and audit risk

- 11 In planning my audit I identified specific risks and areas of judgement that I have considered as part of my audit. My findings are set out in Table 1.

**Table 1 Key areas of judgement and audit risk**

Issue or risk	Finding
Changes to the SORP in 20910. These particularly impact on the Collection Fund entries this year.	Our audit identified that the Council has prepared its accounts in accordance with the new requirements of the SORP in all material areas.

# Value for money

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

## Value for money conclusion

- 12** I assessed your arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission. I have shown my conclusions on each of the areas in Appendix 3.
- 13** I identified weaknesses in your arrangements to ensure economy and probity in procuring goods and services as set out in Table 2.
- 14** I issued a qualified conclusion stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in the use of resources, except in the areas highlighted in Table 2. Appendix 1 contains my report.

**Table 2 Value for money conclusion: criteria assessed as inadequate**

Criterion	Finding
Understanding the supply market	Not met. Audit of arrangements with key suppliers taken from the draft contract register showed that officers frequently used current suppliers for repeated purchases without entering a formal procurement arrangement and so could not demonstrate that VFM was being achieved. Staff had not received guidance on how to gain value for money or appraise procurement options or to utilise framework contracts effectively. Training had been provided to staff but was poorly attended.
Evaluation of procurement	Not met. The Council had failed to consider whether procurements were compliant with its internal governance and legal requirements including EU regulations. Contract Standing Orders were not adhered to, adequate numbers of quotations were not always obtained, nor were formal contracts held in all cases where required and the level of spend for some contracts was above the level where a formal EU tender should have been carried out. The Council did not have effective arrangements for specifying or monitoring contracts. The contracts register was not fit-for-purpose and officers were not aware of the requirements or the rules of financial governance. The Internal Audit review found that three of 12 suppliers tested had no contract or formal arrangement with the Council in place.

### Criteria assessed as inadequate

- 15** An Internal Audit report in mid-2009 pointed to serious shortcomings in the Council's procurement of goods and services. The Council has agreed an action plan to address these weaknesses. Progress on this plan is being reported to the Accounts and Audit Committee. Action has been taken on a number of areas in the action plan. However, there has been some slippage and the Council is currently exploring joint working arrangements with another procurement team employed by another Council in the County to assist in driving forward progress in the coming months.

Recommendation	
<b>R2</b>	Continue to prioritise the implementation of the Council's action plan to address the weaknesses in procurement identified by Internal Audit.

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# Glossary

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## Annual governance statement

**16** A statement of internal control prepared by an audited body and published with the financial statements.

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## Audit closure certificate

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

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## Audit opinion

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

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

**19** The auditor has some reservations or concerns.

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## Unqualified

**20** The auditor does not have any reservations.

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## Value for money conclusion

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

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# Appendix 1 – Independent auditor’s report to Members of South Norfolk Council

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## Opinion on the financial statements

I have audited the Council's accounting statements and related notes of South Norfolk Council for the year ended 31 March 2010 under the Audit Commission Act 1998. The accounting statements comprise the Income and Expenditure Account, the Statement of Movement on the General Fund Balance, the Balance Sheet, the Statement of Total Recognised Gains and Losses, the Cash Flow Statement, the Housing Revenue Account, the Statement of Movement on the Housing Revenue Account and 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 49 of the Statement of Responsibilities of Auditors and of Audited Bodies published by the Audit Commission in April 2008.

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## Respective responsibilities of the Financial Services Manager and auditor

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

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

I report to you my opinion as to whether the accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial position of the Authority and its income and expenditure for the year.

I review whether the governance statement reflects compliance with 'Delivering Good Governance in Local Government: A Framework' published by CIPFA/SOLACE in June 2007. I report if it does not comply with proper practices specified by CIPFA/SOLACE or if the statement is misleading or inconsistent with other information I am aware of from my audit of the accounting statements. I am not required to

consider, nor have I considered, whether the governance statement covers all risks and controls. Neither am I required to form an opinion on the effectiveness of the Council’s corporate governance procedures or its risk and control procedures

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

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### Basis of audit opinion

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

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

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### Opinion

In my opinion the Council’s financial statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial position of the Authority as at 31 March 2010 and its income and expenditure for the year then ended.

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

#### Council’s Responsibilities

The Council 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 Council for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion in relation to proper arrangements, having regard to relevant criteria for principal local authorities specified by the Audit Commission and published in May 2008 and updated in October 2009. I report if significant matters have come to my attention which prevent me from concluding that the Council has made such proper arrangements. I am not required to consider, nor have I considered, whether all aspects of the Council’s arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

### Qualified Conclusion

I have undertaken my audit in accordance with the Code of Audit Practice. In so doing, I have identified the following issues which were highlighted by an internal audit review of the Council's procurement arrangements during the year:

- the Council had failed to demonstrate that it had achieved Value for Money for all of its procurements during the year;
- the Council had inadequate arrangements for specifying and monitoring contracts in place;
- the contracts register was not fit-for-purpose; and
- contract standing orders were not always adhered to and the Council failed to consider whether procurements were compliant with its internal governance and legal requirements.

Having regard to the criteria for principal local authorities specified by the Audit Commission and published in May 2008 and updated in October 2009, and the supporting guidance, 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 2010 except for commissioning and procuring quality services and supplies, tailored to local needs, to deliver sustainable outcomes and value for money.

**Certificate**

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

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

September 2010

# Appendix 2 – Letter of representation

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To:

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

## **South Norfolk Council - Audit for the year ended 31 March 2010**

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other officers of 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 2010.

## **Compliance with the statutory authorities**

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

## **Supporting records**

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

### Irregularities

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

There have been no:

- irregularities involving management or employees who have significant roles in the system of internal accounting control;
- irregularities involving other employees that could have a material effect on the financial statements; or
- communications from regulatory agencies concerning non-compliance with, or deficiencies on, financial reporting practices which could have a material effect on the financial statements.

I also confirm that I have disclosed:

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

### Law, regulations, contractual arrangements and codes of practice

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

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

### Fair Values

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

### Assets

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

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

## Appendix 2 – Letter of representation

### Compensating arrangements

There are no formal or informal compensating balancing arrangements with any of our cash and investment accounts. Except as disclosed in 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 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 the this letter has been discussed and agreed by the Accounts and Audit Committee on 23 September 2010.

Signed

Signed

Name

Name

Position

Position

Date

Date

# Appendix 3 – Value for money criteria

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

# Appendix 4 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
<b>Annual Governance Report 2009/10 - Recommendations</b>						
7	R1 Ensure that the year end impairment review is received earlier in the accounts closedown process so that the findings from that review can be incorporated into the accounts prior to approval by members.	3	Principal Accountant	Agreed	Subject to relevant officers returns stating values of non-property assets by 31st March 2011. Assisted in process by Property Services officers.	May 2011
9	R2 Continue to prioritise the implementation of the Council's action plan to address the weaknesses in procurement identified by Internal Audit.	3	Financial Services Manager	Agreed	Procurement guidance manual to be completed by 31 May 2011 for Internal Audit sign off.	30 June 2011

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# 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, auditing the £200 billion spent by 11,000 local public bodies.

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

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