

# Annual governance report

South Norfolk District Council

Audit 2010/11



# Contents

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<b>Key messages</b>	<b>3</b>
Audit opinion and financial statements	3
Value for money	3
<b>Before I complete my audit</b>	<b>4</b>
<b>Financial statements</b>	<b>5</b>
Opinion on the financial statements	5
Errors in the financial statements	5
<b>Value for money</b>	<b>12</b>
<b>Appendix 1 – Draft audit report</b>	<b>14</b>
<b>Appendix 2 – Unadjusted misstatements to the financial statements</b>	<b>17</b>
<b>Appendix 3 – Glossary</b>	<b>19</b>

## Traffic light explanation

Red  Amber  Green 

# Key messages

**This report summarises the findings from the 2010/11 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.**

	Our findings
Unqualified audit opinion	●
Proper arrangements to secure value for money	●

## **Audit opinion and financial statements**

- My audit of the financial statements is substantially complete. I plan to issue an unqualified audit opinion.
- Management provided IFRS amended accounts by the 30 June 2011 deadline, supported by working papers.
- My team has identified a number of qualitative amendments required and management have amended the statement of accounts for errors identified, updated accounting policies and amended disclosure notes during the audit. The majority of amendments are presentational and do not impact on the financial position of the Council.

## **Value for money**

- My audit is substantially complete. I plan to issue an unqualified value for money conclusion.
- Council management and members provide leadership to prioritise resources and focus efforts to address future funding gaps and any spending reductions.
- Council has achieved its overall efficiency plan targets and is £2.085 million underspent against its 2010/11 budget.
- There are additional funding pressures from 2011/12 onwards and the Council plans to meet future funding gaps through alternative ways of delivering its services, including partnership working and through the introduction of lean systems thinking.

# Before I complete my audit

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## I confirm to you

My report 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.

### **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 can also confirm there were no relationships resulting in a threat to independence, objectivity and integrity.

The Audit Commission's Audit Practice has not undertaken any non-audit work for the Council during 2010/11.

## I ask you to confirm to me

### **I ask the Audit Committee to:**

- take note of the adjustments to the financial statements which are set out in this report; and
- approve the letter of representation, provided alongside this report, on behalf of the Council before I issue my opinion and conclusion.

# Financial statements

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## **Opinion on the financial statements**

The Council's financial statements were published on the Council website before the 30 June statutory deadline. This is a good achievement given the complexities involved with preparing accounting entries for the first time in line with International Financial Reporting Standards (IFRS). Management also provided supporting working papers for the financial statements.

My audit is substantially complete and I plan to issue an audit report including an unqualified opinion on the financial statements. Appendix 1 contains a copy of my draft report.

Should any more matters arise in finalising the audit work, I will raise them by an addendum report or directly with members of the Council's Audit Committee on 29 September 2011. Should any more matters arise before I issue my opinion on 30 September 2011, I will raise these directly with the Chief Executive, Head of Resource Management and the Chair of the Audit Committee.

## **Errors in the financial statements**

I have identified some unadjusted misstatements in the Council accounts. These are described in more detail from page 31 and Appendix 2 of this report.

# 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 consider my findings before you adopt the financial statements and the annual governance statement.

In planning my audit I identified specific risks and areas of judgement that I have considered as part of my audit.

## Key audit risk and our findings

Key audit risk	Finding
<p><b>International Financial Reporting Standards (IFRS)</b></p> <p>Local authorities are now required to prepare financial statements under the International Financial Reporting Standards (IFRS), as adopted by the Code of Practice on Local Authority Accounting in the United Kingdom (Code of Practice).</p> <p>This is a complex area and there is a risk that the 2010/11 financial statements do not meet the new requirements.</p>	<p>We have reviewed and tested whether the Council has:</p> <ul style="list-style-type: none"><li>■ identified those transactions and balances that will be affected by the transition to IFRS;</li><li>■ adopted and correctly applied accounting policies that comply with the requirements of the Code and IFRS;</li><li>■ restated 2009/10 transactions and balances in accordance with the adopted accounting policies and IFRS; and</li><li>■ made all required disclosures in accordance with adopted accounting policies and the requirements of the Code and IFRS.</li></ul> <p>South Norfolk District Council has met the new requirements. Where we have significant issues to report, these are set out in the body of this report. The Council did plan early for this change, in particular undertaking early work to understand the implications of IFRS and produced draft restated accounts.</p>

# Financial statements

## Significant weaknesses in internal control

I do not provide a comprehensive statement of all weaknesses which may exist in internal control, nor of all improvements which officers may make. I report only on those matters which have come to my attention because of the audit procedures I have performed. These weaknesses are only those I identified during the course of the audit that are relevant to preparing the financial statements.

### Internal control issues and our findings

Description of weakness	Potential effect	Management action
<p><b>Reconciliation of bank and control accounts</b></p> <p>Our review of the control account and bank account reconciliations prepared by the Council identified some weaknesses.</p> <ul style="list-style-type: none"><li>■ Reconciliations are not always prepared and/or reviewed regularly.</li><li>■ Reconciling items are not cleared in a timely manner.</li><li>■ Unpresented banking cheques are not cancelled and written back regularly.</li></ul>	<p>The cash management suspense balance in the Income account is an example of a control account which was not cleared down on a regular basis.</p>	<p>Promptly clear items on control and bank account reconciliations.</p> <p>Identify unpresented cheques, cancel and write them back promptly</p> <p>Clear items in suspense accounts regularly.</p>
<p><b>Authorisation of year end journals</b></p> <p>Unlike our experience of in year ledger journals, we found that at the year end authorisation controls were less effective.</p> <p>We identified 24 journals, including ten with balances material to our audit opinion, which were not promptly authorised nor filed.</p> <p>The delays identified ranged from two weeks to two months.</p> <p>In addition, ten journals were not raised using the approved template and a further three contained no narrative explanation for the journal.</p>	<p>Material error could be introduced into the Council financial statements from weaknesses in year end journal adjustments.</p>	<p>Take steps to ensure closedown journals are authorised promptly.</p> <p>Consider amending the printed journals template to include a date to record when the journal was authorised as well as input.</p>

Description of weakness	Potential effect	Management action
<p><b>Instructions to the valuer</b></p> <p>The Council did not issue formal instructions to the valuer but instead relied on the instructions within the tender document.</p> <p>Whilst the individual assets to be valued were notified, this is not in accordance with the Code. Specific instructions including references to the confidentiality of the Council's information, to the use by the auditor, communication of the expert's identity and the valuations methods to be adopted, should be provided.</p>		<p>Ensure that formal instructions are issued to the valuer in future years.</p>

# Financial statements

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## Quality of your financial statements

I consider aspects of your accounting practices, accounting policies, accounting estimates and financial statements disclosures. These are the issues I want to raise with you.

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### Accounting practices, policies, estimates and financial disclosures

Issue	Findings and recommendations
<p><b>Notes to support the accounts</b></p> <p>The accounts presented for audit were not complete. A number of supporting notes and disclosures were omitted and the Explanatory Forward did not include the recommended items contained within the CIPFA Code. We identified a number of amendments from our review of the accounts in respect of additions within notes, consistency between notes and cross referencing within the accounts. A number of required accounting policy notes were also omitted.</p>	<p>Introduce more detailed project plans in preparing the 2011/12 accounts to ensure that the accounts submitted for audit are more complete.</p>
<p><b>Members allowances</b></p> <p>The figure disclosed of £304,117 for members allowances was overstated by £7,901 as it included costs that have not been paid to the members. The note did not disclose the information to accord with the Code disclosures which provide minimum disclosure requirements.</p> <p>In addition, the scheme for 2010/11 has not been published in accordance with para 6(2) of the Local Authorities (Members' Allowances) (England) Regulations 2003.</p>	<p>Amend the members' allowances total from £304,117 to £296,216.</p> <p>Publish the 2011/12 scheme in accordance with Para 16(2) of the Local Authorities (Members' Allowances) (England) Regulations 2003.</p>

## Issue

## Findings and recommendations

### **Note 28 Financial Instruments**

Liabilities that result from statute should not be reported as financial instruments - liabilities. The PAYE / NI creditor and the DWP creditor are of this nature and should not be included in the note (£232,000 and £1,887,000 respectively).

Amend note 28.

# Financial statements

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## 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. I have provided the Council officers with a suggested example letter of representation for information.

# Value for money

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

I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against two criteria specified by the Audit Commission. My conclusion on each of the two areas is set out below.

I intend to issue an unqualified conclusion stating that the Council had proper arrangements to secure economy, efficiency and effectiveness in your use of resources.

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## Value for money criteria and our findings

Criterion	Findings
<p><b>1. Financial resilience</b></p> <p><b>The organisation has proper arrangements in place to secure financial resilience.</b></p> <p>Focus for 2010/11:</p> <p>The organisation has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.</p>	<p>South Norfolk District Council underspent by £2.085 million against its net revenue expenditure budget in 2010/11. The Council's earmarked reserves increased to £4.903 million with general fund balances remaining at £1.4 million. The Council continues to exercise strong monitoring arrangements for progress against budgets and the impact of savings upon performance.</p> <p>The Council's early financial forecasts recognise substantially increased cost pressures and a worsening public sector financial position. It also recognises a funding gap over the next three years of £2.626 million. The Council reports that it is well placed to meet these challenges and plans to meet this challenge through alternative ways of delivering its services, including partnership working and through the introduction of lean systems thinking.</p>

Criterion	Findings
<p><b>2. Securing economy efficiency and effectiveness</b></p> <p><b>The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.</b></p> <p>Focus for 2010/11:</p> <p>The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.</p>	<p>Members and senior management provide strong leadership to prioritise resources. The Council has set a clear vision for future service delivery and related Council structure.</p> <p>During 2010/11 the Council has actively engaged with staff, stakeholders and the community to communicate plans and strategies.</p> <p>There is a good understanding of costs and how these relate to performance. The Council uses performance and financial monitoring to ensure ongoing efficiency and productivity. The Council routinely benchmark performance to identify performance outliers and take action where appropriate.</p>

## Report by exception

The Audit Commission requires me to report by exception where significant matters come to my attention, which I consider to be relevant to proper arrangements to secure economy, efficiency and effectiveness in your use of resources.

There are no such matters that I need to report to you.

# Appendix 1 – Draft audit report

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## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SOUTH NORFOLK DISTRICT COUNCIL

### Opinion on the Authority accounting statements

I have audited the accounting statements of South Norfolk District Council for the year ended 31 March 2011 under the Audit Commission Act 1998. The accounting statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement and 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 District 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 Financial Services Manager and auditor

As explained more fully in the Statement of the Financial Services Manager's Responsibilities, the Financial Services Manager is responsible for the preparation of the Authority's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. My responsibility is to audit 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 accounting statements sufficient to give reasonable assurance that the accounting 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 Authority; and the overall presentation of the accounting statements. I read all the information in the explanatory foreword to identify material inconsistencies with the audited accounting statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

## **Opinion on accounting statements**

In my opinion the accounting statements:

- give a true and fair view of the state of South Norfolk District Council's affairs as at 31 March 2011 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

## **Opinion on other matters**

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

## **Matters on which I report by exception**

I have nothing to report in respect of the governance statement on which I report to you if, in my opinion the governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007.

## **Conclusion on Authority's 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 to review regularly the adequacy and effectiveness of these arrangements.

### **Auditor's responsibilities**

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.

### **Basis of conclusion**

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 2010, 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 2011.

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 2010, I am satisfied that, in all significant respects, South Norfolk District Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2011.

### **Certificate**

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

Rob Murray  
Officer of the Audit Commission

The Audit Commission's Audit Practice  
3rd Floor, Eastbrook,  
Shaftesbury Road,  
Cambridge, CB2 8BF

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# Appendix 2 – Unadjusted misstatements to the financial statements

I identified the following misstatements during my audit but management has not adjusted the financial statements. I bring them to your attention to help you in fulfilling your governance responsibilities and ask you to correct these misstatements.

If you decide not to amend, please tell me why in the representation letter. If you believe the effect of the uncorrected errors, individually and collectively, is immaterial, please reflect this in the representation letter. Please attach a schedule of the uncorrected errors to the representation letter.

Unadjusted misstatement	Nature of required adjustment	Comprehensive income and expenditure statement		Balance sheet	
		Dr £000s	Cr £000s	Dr £000s	Cr £000s
<b>Capital Grants Received</b>					
Reclassification of capital grants used to finance expenditure in 2009/10 and 2010/11. This relates to a grant received in advance that had not been used to finance expenditure and has conditions that mean it should be repaid if not used.	Creditors – Receipts in Advance			0 (200 in 9/10)	
	LT Creditors – Receipts in Advance				0 (200 in 9/10)

Unadjusted misstatement	Nature of required adjustment	Comprehensive income and expenditure statement		Balance sheet	
		Dr £000s	Cr £000s	Dr £000s	Cr £000s
<b>Other unadjusted errors in aggregate (3 errors)</b>	Comprehensive I&E - various	158		130	
	Balance sheet - various		176		112

# Appendix 3 – Glossary

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## Annual governance statement

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

## Audit closure certificate

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 financial statements.

## Audit opinion

On completion of the audit of the financial statements, I must give my 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; and
- whether they have been prepared properly, following the relevant accounting rules.

## Opinion

If I agree that the financial statements give a true and fair view, I issue an unqualified opinion. I issue a qualified opinion if:

- I find the statements do not give a true and fair view; or
- I cannot confirm that the statements give a true and fair view.

## Materiality and significance

The Auditing Practices Board (APB) defines this concept as ‘an expression of the relative significance or importance of a particular matter for the financial statements as a whole. A matter is material if its omission would reasonably influence users of the financial statements, such as the

addressees of the auditor's report; also a misstatement is material if it would have a similar influence. Materiality may also be considered for any individual primary statement within the financial statements or of individual items included in them. We cannot define materiality mathematically, as it has both numerical and non-numerical 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' applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit in relation to the financial statements. Significance has both qualitative and quantitative aspects.

## Weaknesses in internal control

A weakness in internal control exists when:

- a control is designed, set up or used in such a way that it is unable to prevent, or detect and correct, misstatements in the financial statements quickly; or
- a control necessary to prevent, or detect and correct, misstatements in the financial statements quickly is missing.

An important weakness in internal control is a weakness, or a combination of weaknesses that, in my professional judgement, are important enough that I should report them to you.

## Value for money conclusion

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 based on criteria specified by the Audit Commission.

The Code of Audit Practice defines proper arrangements as corporate performance management and financial management arrangements that form a key part of the system of internal control. These comprise the arrangements for:

- planning finances effectively to deliver strategic priorities and secure sound financial health;
- having a sound understanding of costs and performance and achieving efficiencies in activities;
- reliable and timely financial reporting that meets the needs of internal users, stakeholders and local people;
- commissioning and buying quality services and supplies that are tailored to local needs and deliver sustainable outcomes and value for money;
- producing relevant and reliable data and information to support decision making and manage performance;
- promoting and displaying the principles and values of good governance;
- managing risks and maintaining a sound system of internal control;
- making effective use of natural resources;

- managing assets effectively to help deliver strategic priorities and service needs; and
- planning, organising and developing the workforce effectively to support the achievement of strategic priorities.

If I find that the audited body had adequate arrangements, I issue an unqualified conclusion. If I find that it did not, I issue a qualified conclusion.

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**0844 798 7070**

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- any third party.

