

Financial Statements Report

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Report on the 2003/04 financial statements

South Norfolk Council

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Introduction

- 1 Professional auditing standards require auditors to report certain matters arising from the audit of the financial statements to 'those charged with governance':
 - expected modifications to the audit report;
 - unadjusted non-trifling misstatements;
 - material weaknesses in accounting and internal control systems;
 - qualitative aspects of accounting practice and financial reporting;
 - matters required by other auditing standards to be reported to those charged with governance; and
 - other matters that we wish to draw to your attention.
- 2 We have agreed with the Council that the communications required under these auditing standards would be with the Final Accounts Committee. This report sets out for the Committee's consideration the matters arising from the audit of the financial statements for 2003/04.

Status of the audit

- 3 In November 2004 we provided an interim report to those charged with governance outlining the key matters arising from our audit of the 2003/04 financial statements. We were unable to issue our audit opinion by the 30 November 2004 deadline as there were a number of audit queries which required resolution. These queries have now been addressed by officers and our audit work is now substantially complete. This SAS610 report is our final summary of matters arising in respect of the 2003/04 financial statements to be reported to those charged with governance.

Matters to be reported to those charged with governance

- 4 We would like to bring the Council's attention the following key issues which have arisen during our audit.

Expected modifications to the audit report

Our work on the financial statements is now substantially complete. On the basis of our audit work we do not currently intend to issue a non-standard report on the Council's financial statements. A draft of our opinion is attached at Appendix 1.

Unadjusted misstatements

Officers have corrected all non-trifling misstatements identified.

Adjusted misstatements

We also consider reporting misstatements to you where these are material and are relevant to your governance responsibilities.

A key issue for the 2003/04 accounts has been the requirement to reflect the LSVT valuation. For LSVT authorities, where a positive ballot has been achieved during the year, the valuation for the properties to be transferred is Tenanted Market Value (TMV). This revaluation of the assets to be transferred resulted in a £240m reduction in the balance sheet value as at 31 March 2004. The valuation basis has now been adjusted by officers and additional narrative has been included in the notes to the accounts to aid the reader's understanding of the revised position.

An amendment of £2.6m has also been made in respect of land valuations following a review of the Council's property portfolio after the housing transfer.

Other non-trifling misstatements that officers have adjusted for are:

- An amendment of £444k in respect of plant and equipment purchased for refuse collection which had been incorrectly shown in provisional debtors rather than fixed assets;
- Inclusion of a contingent liability note following a significant legal claim made against the Council; and
- The net book value of other land and buildings was reduced by £118k in relation to the old Costessey Hostel which was disposed of in March 2004.

Material weaknesses in accounting and internal control systems

Our audit identified the following weaknesses in systems of accounting and financial control which we should report to you:

Reconciliations

We noted in our interim SAS610 report that regular reconciliations did not take place during the year in respect of rent allowances, rent rebates and VAT. Regular reconciliations form a key financial control within the Council. It is important that systems are reconciled with the general ledger on a regular basis to ensure that any differences are highlighted promptly for investigation and action.

Agreement to the general ledger

A full audit trail to agree the general ledger to the financial statements is not in place. A full trial balance which nets to zero and demonstrates that all ledger codes have been included in the statement of accounts was not available for audit. Alternative audit procedures were undertaken to gain assurance that the financial statements are accurately derived from the general ledger and include all relevant ledger codes.

Fixed assets

As reported in our interim SAS610 report on the 2004/05 financial statements officers have compared the property terrier with the fixed asset register (following the housing transfer) and noted a number of discrepancies. Officers have reviewed all asset listings to accurately identify all assets held by the Council. This resulted in a material increase in fixed assets, most of which related to an increase in land values.

We have reviewed a sample of land valuations and note that some of these are based on the assumption that grazing/agricultural land has future housing development potential. Although planning applications have not been submitted in all cases, the assumption has been made in the land values that development permission will be granted at some future point as the land lies within South Norfolk's development boundary.

For example, land described as predominantly greenfield agricultural land, purchased in 1947 for £425, has now been valued at £4,000,000 on the basis that 130 units will be built in the next 3 years. The Council should confirm that these land valuations represent current open market value.

Qualitative aspects of accounting practices and financial reporting

SAS610 places specific duties on auditors to report their assessment of qualitative aspects of accounting practices and financial reporting to those charged with governance. We have carefully considered the qualitative aspects of the Council's accounting practices and financial reporting and wish to draw the following issues to the attention of those charged with governance.

Quality Assurance

As reported in our interim 2003/04 and 2004/05 SAS610 reports a number of audit queries have arisen during the course of the audit as a result of incomplete

working papers or a weak audit trail in key areas. Key for preparation of the 2005/06 accounts will be:

- Implementation of an internal quality review process to provide assurance to management and Members that the accounts are ready for approval and comply with relevant accounting standards;
- Provision of a complete set of financial statements fully cross-referenced to underlying working papers and supported by a comprehensive general ledger audit trail;
- Working papers which are in line with, and cross-referenced to, our Working Paper Requirements Checklist;
- Completion of an analytical review, with explanations and evidence provided for significant variances;
- Provision of the Council's documented rationale (with reference to key guidance relied upon) for any significant or unusual transactions which may be subject to different audit interpretation;
- Having sufficient capacity within the finance function to answer audit queries promptly.

Statement of Internal Control (SIC)

The initial SIC did not contain a section on significant internal control issues, however some issues were identified from our interim work and from Internal Audit's review of key controls. A revised SIC was agreed with officers. Where significant internal control issues are identified, action plans should be in place to ensure all weaknesses are addressed.

Related Party Transactions

Officers and Members were required to complete a declaration stating whether they were in receipt of any related party transactions. One officer and two members had not submitted declarations.

In addition, eight declarations of related party transactions were noted from our review however there was no evidence to demonstrate that these had been considered for materiality to the recipients, or to support exclusion from the financial statements.

Matters required by other auditing standards to be reported to those charged with governance

Other auditing standards require us to communicate with you in other specific circumstances including:

- where we suspect or detect fraud, even if the potential effect is not material to our audit of the financial statements;
- in respect of the conclusion that the Council is a going concern; and
- where there is an inconsistency between the financial statements and other information in documents containing the financial statements.

We have identified no such matters in the course of our audit.

Other matters that we wish to draw to your attention

- 5 As at 2 December 2005 no valid notices of objection have been accepted in respect of the 2003/04 accounts.

Next steps

- 6 We have been working with officers to agree a final version of the accounts which includes the adjustments outlined above and other minor presentational/referencing amendments. The revised 2003/04 financial statements should now be re-approved by the Final Accounts Committee.

Appendix 1 –Independent Auditor’s Report to South Norfolk District Council

I have audited the statement of accounts on pages A to F which have been prepared in accordance with the accounting policies applicable to local authorities as set out on pages X to Y.

This report is made solely to 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 36 of the Statement of Responsibilities of Auditors and of Audited Bodies, prepared by the Audit Commission.

Respective responsibilities of the Chief Financial Officer and Auditor

As described on page x the Chief Financial Officer is responsible for the preparation of the statement of accounts in accordance with the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2004. My responsibilities, as independent auditor, are established by statute, the Code of Audit Practice issued by the Audit Commission and my/our profession’s ethical guidance.

I report to you my opinion as to whether the statement of accounts present fairly the financial position of the Council and its income and expenditure for the year.

I review whether the statement on internal control on page x reflects compliance with CIPFA’s guidance ‘The Statement on Internal Control in Local Government: Meeting the Requirements of the Accounts and Audit Regulations 2003’ published on 2 April 2004. I report if it does not comply with proper practices specified by CIPFA or if the statement is misleading or inconsistent with other information I am aware of from my/our audit of the financial statements. I am not required to consider whether the statement on internal control covers all risks and controls, or to form an opinion on the effectiveness of the Council’s corporate governance procedures or its risk and control procedures. My review was not performed for any purpose connected with any specific transaction and should not be relied upon for any such purpose.

I read the other information published with the statement of accounts and consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the statement of accounts.

Basis of audit opinion

I conducted my audit in accordance with the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission, which requires compliance with relevant auditing standards issued by the Auditing Practices Board.

An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Council in the preparation of the financial statements, 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 statement of accounts is free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion, I evaluated the overall adequacy of the presentation of the information in the financial statements.

Opinion

In my opinion the statement of accounts presents fairly the financial position of South Norfolk District Council as at 31 March 2004 and its income and expenditure for the year then ended.

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.

Signature:.....

Date:.....

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