

Borough Council of  
**King's Lynn &  
West Norfolk**



# **RESOURCES AND PERFORMANCE – AUDIT AND RISK COMMITTEE**

**PLEASE NOTE CHANGE OF VENUE**

**Tuesday 27 March 2012**

**Immediately following the Resources and Performance  
Panel meeting which commences at 5.30pm**

Wembley Room  
Lynnsport  
Greenpark Avenue  
King's Lynn  
Norfolk



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Borough Council of  
**King's Lynn &  
West Norfolk**



King's Court, Chapel Street, King's Lynn, Norfolk, PE30 1EX.  
Telephone: 01553 616200  
Fax: 01553 691663

**PLEASE NOTE CHANGE OF VENUE**

19 March 2012

Dear Member

**Resources and Performance – Audit and Risk Committee**

You are invited to attend a meeting of the above-mentioned Committee which will be held on **Tuesday 27 March 2012, immediately following the Resources and Performance Panel meeting, in the Wembley Room, Lynnsport, Greenpark Avenue, King's Lynn,** to discuss the business shown below.

Yours sincerely

Chief Executive

**A G E N D A**

**1. Apologies for absence**

To receive any apologies for absence.

**2. Minutes**

To approve the minutes of the Resources and Performance – Audit and Risk Committee meeting held on Tuesday 28 February 2012 (Pages 752 to 759 previously circulated).

**3. Declarations of Interest**

Please indicate whether the interest is a personal one only or one which is also prejudicial. A declaration of a personal interest should indicate the nature of the interest and the agenda item to which it relates. In the case of a personal interest, the Member may speak and vote on the matter. If a prejudicial interest is declared, the Member should withdraw from the room whilst the matter is discussed.

4. **Urgent Business Under Standing Order 7**

To consider any business which, by reason of special circumstances, the Chairman proposes to accept as urgent under Section 100(b)(4)(b) of the Local Government Act 1972.

5. **Members Present Pursuant to Standing Order 34**

Members wishing to speak pursuant to Standing Order 34 should inform the Chairman of their intention to do so and on what items they wish to be heard before the meeting commences. Any Member attending the meeting under Standing Order 34 will only be permitted to speak on those items which have been previously notified to the Chairman.

6. **Chairman's Correspondence** (if any)

7. **Matters referred to the Committee from other Council Bodies and responses made to previous Committee recommendations/requests**

To receive comments, and recommendations from other Council bodies, and any responses subsequent to recommendations, which this Committee has previously made. (N.B. some of the relevant Council bodies may meet after dispatch of the agenda)

8. **External Audit Plan 2011/2012 – Audit Thresholds** (pages 1 to 2)

The Committee are invited to consider the statement from the Deputy Chief Executive regarding thresholds.

9. **Audit and Risk Committee Work Programme** (page 3)

Committee Members are invited to consider the attached Audit and Risk Committee's Work Programme.

10. **Date of Next Meeting**

To note that the next meeting of the Resources and Performance - Audit and Risk Committee will take place on **Tuesday 24 April 2012**.

**To: Panel Members** – Councillors Mrs K Mellish (Chairman), P Beal (Vice-Chairman), J Collingham, D J Collis, J Collop, S Collop, C Crofts, M Hopkins, H Humphrey, J Loveless, A Morrison, D Tyler, G Wareham, A White and T de Winton

**Portfolio Holder:**

Councillor N J Daubney, Leader and Portfolio Holder for Resources

**Chief Executive**

**Deputy Chief Executive and Executive Director, Finance and Resources**

**All other Executive Directors**

**Audit Manager**

**Press**

**POLICY REVIEW & DEVELOPMENT REPORT**

<b>Type of Report:</b>	<b>Portfolio(s): Leader</b>
<b>Author Name:</b> David Thomason	<b>Consultations:</b>
<b>Tel:</b> 01553 616246	
<b>Email:</b> david.thomason@west-norfolk.gov.uk	
<b>OPEN (delete as appropriate)</b>	

**PR&D Panel:**           **Audit and Risk Committee**  
**Date:**                   **27 March 2012**  
**Subject:**               **External Audit Plan 2011/2012 - Audit Thresholds**

**Summary**

At the meeting of the Audit and Risk Committee held on 28 February 2012, Members expressed concern that that statement made relating to materiality was in the public domain and that the information could be misconstrued and cause adverse comments to the Council. The Committee requested the Deputy Chief Executive to attempt to explain the use of thresholds by the external auditor when auditing the closing of the Council's accounts.

**Recommendation:** The Committee are invited to consider and agree the audit thresholds note to be included as an explanatory note in the External Audit Plan 2011/2012.

**Audit Thresholds**

At the recent Audit and Risk Committee Members asked the Deputy Chief Executive to attempt to explain the use of thresholds by the external auditor when auditing the closing of the Council's accounts.

The following comments are hopefully useful to Members and the public in understanding the approach taken by auditors in dealing with errors in the preparation of the accounts.

The External Auditors must give an opinion on whether the Council's Statement of Accounts give a true and fair view of the Council's affairs as at the dates stated in the Accounts. This is generally meant to mean that the accounts are free from material misstatements (i.e. errors). **Materiality** is a judgmental concept and **is generally defined as an amount or disclosure that, if it had been corrected, would have altered the views/conclusions of the users of the accounts.**

Although materiality is judgmental and the individual circumstances of each area must be considered, to assist in the audit process a rough "rule of thumb" is applied. In their Audit Plan 2011/12, PwC state that this 'rule of thumb' is equal to 2% of gross expenditure - about £2m. Consequently, this represents the maximum value of any unadjusted misstatements in the accounts that management may choose not to make adjustment of the errors noted by the auditors as they deem them to be immaterial both individually and in the aggregate, to the financial statements taken as a whole. Under ISA260 (an auditing standard), PricewaterhouseCoopers (PwC) are required to report to the Audit and Risk Committee (as "those charged with governance" of the Council) any unadjusted misstatements in the

## **AGENDA ITEM 8**

accounts other than those that are clearly trivial. The Audit and Risk Committee will therefore see any such misstatements deemed immaterial and can express a view on the figures as reported by PwC if they believe them to be notable.

As noted above, ISA260 requires all unadjusted misstatements to be reported to the Committee, except those that are "clearly trivial". The auditing standard does not define "trivial". Therefore, unless PwC receive an alternative direction from the Committee, any misstatement that will affect the rounding in the accounts (so greater than £500) would need to be reported. In the context of the Council's overall expenditure (over £100m) and assets (total assets are over £160m) the reporting of such small items may be seen as inefficient and immaterial to the financial statements. As a result, PwC have proposed setting a threshold of £100,000 for the reporting of identified misstatements to the Committee.

It is important to note that, although a misstatement may be found, this does not imply that cash has been lost or fraud has taken place. In most cases, it relates to a miscalculation or under/over estimate of a financial transaction. Given the time frame the accounts must be prepared within, some estimation (e.g. of expenditure incurred which has not yet been invoiced) will be necessary.

In essence the key issue goes back to the point of would the reporting of an item alter the views/conclusions of those reading/using the accounts. In most cases the uncorrected amendments below £100,000 would not alter the view of the accounts but where it may do so then the auditor and/or Deputy Chief Executive would ensure that the amendments were made to the accounts.

**AUDIT AND RISK COMMITTEE – WORK PROGRAMME 2011/2012**

**27 March 2012**

- External Audit Plan 2011/12 - Thresholds

**24 April 2012**

- Internal Audit Plan 2012/2013 – quarterly progress report for January to March 2012
- Review of the Effectiveness of the Audit and Risk Committee
- Corporate Risk Monitoring Report (October 2011 to March 2011)
- Review of the Effectiveness of Internal Audit Service
- Protocol for liaison between internal and external audit 2012/2013 (external)
- Government response to the future of local audit consultation