Borough Council of King's Lynn & West Norfolk

Audit & Risk Committee Summary

For the year ended 31 March 2014

Audit Results Report – ISA (UK & Ireland) 260

August 2014 – Updated 8 September 2014

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Building a better
working world

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The Audit Commission's Code of Audit Practice (the Code) requires us to report to those charged with governance – the Audit & Risk Committee - on the work we have carried out to discharge our statutory audit responsibilities together with any governance issues identified.
This report summarises the findings from the 2013/14 audit which is substantially complete. It includes the messages arising from our audit of your financial statements and the results of the work we have undertaken to assess your arrangements to secure value for money in your use of resources.

Financial statements

- As of 10 August 2014, our preliminary conclusion is that we expect to issue an **unqualified opinion** on the financial statements. However, a limited number of our audit procedures remain in progress, and our quality review processes are ongoing. We will verbally update the Audit & Risk Committee on progress on 8 September. **UPDATE – finalisation of our procedures is still in progress. We still anticipate to issue an unqualified opinion.**
- Our audit results demonstrate that the Council has prepared its financial statements adequately although we have identified a number of required amendments and presentational improvements.

Value for money

- We expect to conclude that you have made **proper arrangements** to secure economy, efficiency and effectiveness in your use of resources.

Whole of Government Accounts

- Our work on the National Audit Office Whole of Government Accounts submission will be completed in September.

Audit certificate

- The audit certificate is issued to demonstrate that the requirements of the Audit Commission's Code of Audit Practice have been discharged. We expect to issue the audit certificate at the same time as the audit opinion.

Extent and purpose of our work

The Council's responsibilities

- The Council is responsible for preparing and publishing its Statement of Accounts, accompanied by the Annual Governance Statement. In the Annual Governance Statement, the Council reports publicly on the extent to which it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.

- The Council is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Purpose of our work

- Our audit was designed to:
  - Express an opinion on the 2013/14 financial statements
  - Report on any exception on the governance statement or other information included in the foreword
  - Consider and report any matters that prevent us being satisfied that the Council had put in place proper arrangements for securing economy, efficiency and effectiveness in the use of resources (the Value for Money conclusion)

In addition, this report contains our findings related to the areas of audit emphasis, our views on the Council's accounting policies and judgments and significant deficiencies in internal control.

As a component auditor, we also follow the group instructions and send to the National Audit Office our group assurance certificate, audit results report and auditor's report on the consolidation schedule. This work will be completed in September.

This report is intended solely for the information and use of the Council. It is not intended to be and should not be used by anyone other than the specified party.

Addressing audit risks

Significant audit risks

We identified the following audit risks during the planning phase of our audit, and reported these to you in our Audit Plan. Here, we set out how we have gained audit assurance over those issues.

Audit risk identified within our Audit Plan	Audit procedures performed	Assurance gained and issues arising
Significant audit risks (including fraud risks)		
1. Nar Ouse Regeneration Agreement The Council entered into a jointly shared asset arrangement (The King's Lynn Development Partnership) with Norfolk County Council to develop land at the Nar Ouse regeneration site (NORA). Spend on the project has increased in 2013/14 and the first stage of housing development was scheduled to be well progressed by 31 March 2014. The Council plans to sell these houses or lease them if sales are unachievable. The accounting for the properties needed to be finalised, and the appropriate valuation basis determined.	• We considered the Council's proposal that the expenditure was capital in nature and should be classified as assets under construction within property, plant and equipment at cost in the balance sheet until sold or disposed of to the leasing company. • We considered whether the Council had the powers to carry out the development, including the financing thereof. • We considered the Council's updated view on the assessment of the arrangement under IAS 31, Interests in Joint Ventures, to ensure that the accounting treatment is correct and that there are no implications for group accounts purposes. • We reviewed the amounts capitalised and agreed a sample of costs back to supporting invoices. • We considered the presentation within the property, plant and equipment note.	• We agreed with the Council's assessment that the expenditure was capital and classified as assets under construction at cost to date in the balance sheet. • We have no concerns to report regarding the Council's powers to carry out the arrangement, or finance it. • We agreed with the continued assessment of The King's Lynn Development Partnership as a jointly controlled asset, and that there are no implications for group accounts under current IFRS requirements. • There were no issues with the amounts capitalised in terms of the supporting invoices. • We identified that the Council had capitalised the whole amount of expenditure and then made an adjustment for the share (£1.588 million) relating to Norfolk County Council (NCC), reflecting this as a grant received from NCC and derecognising the NCC 50% share within the movements in property plant and equipment. The Council should have just recognised its share of the assets. Whilst this did not impact the balance sheet total reserves, income and expenditure within planning and development were both overstated by £1.588 million and a number of the notes to the accounts were misstated. Officers have agreed to correct the financial statements. As of 10 August we have not yet received a revised set of accounts to check the corrections against. We will update the Audit & Risk Committee at their 8 September meeting. **UPDATE – the revised financial statements received on 13 August have corrected this error.**

Addressing audit risks

Significant audit risks

We identified the following audit risks during the planning phase of our audit, and reported these to you in our Audit Plan. Here, we set out how we have gained audit assurance over those issues.

Audit risk identified within our Audit Plan	Audit procedures performed	Assurance gained and issues arising
Significant audit risks (including fraud risks)		
2. Localisation of business rates There have been significant changes in the arrangements for business rates from April 2013. The changes in accounting arrangements presented a risk in terms of the financial statements. One of the main changes is that individual councils now need to make accounting provision for rating appeals. This was anticipated to be a significant accounting estimate.	• We considered if the Council's accounts were materially accurate in terms of NDR accounting, and compliant with the CIPFA Code of Practice, • We considered the Council's estimation for business rate appeals, and the appropriate disclosure of this in the financial statements.	**NDR accounting:** • The Council's overall accounting entries for the changed NDR arrangements was materially accurate. However we noted the following: • The Council had misclassified its share of NDR debtors in the balance sheet, and within the short term receivables note classification. The net reduction in receivables and payables was £0.116 million. **UPDATE – the revised financial statements received on 13 August have corrected this error.**

EY

Addressing audit risks

Significant audit risks

We identified the following audit risks during the planning phase of our audit, and reported these to you in our Audit Plan. Here, we set out how we have gained audit assurance over those issues.

Audit risk identified within our Audit Plan	Audit procedures performed	Assurance gained and issues arising
Significant audit risks (including fraud risks)		
2. Localisation of business rates (continued) There have been significant changes in the arrangements for business rates from April 2013. The changes in accounting arrangements presented a risk in terms of the financial statements. One of the main changes is that individual councils now need to make accounting provision for rating appeals. This was anticipated to be a significant accounting estimate.	• We considered if the Councils were materially accurate in terms of NDR accounting, and compliant with the CIPFA Code of Practice, • We considered the Council's estimation for business rate appeals, and the appropriate disclosure of this in the financial statements.	**NDR Appeals provision:** • The Council's £2.9 million share of the NDR appeals provision had been incorrectly deducted from short term receivables in the draft financial statements. Officers have agreed to correct for this presentational error, and include a full provisions note in the revised financial statements. Changes to the disclosures in the accounting policies and the major sources of estimation uncertainty note are also required. . **UPDATE – the revised financial statements received on 13 August have corrected this error, although minor changes are required in a subsequent version of the financial statements.** • The requirement to provide for NDR appeals is a new requirement introduced by the 2013/14 CIPFA Code of Practice. CIFPA have not provided detailed guidance or suggestions for methodologies for the NDR provision, preferring to point Council's towards the general accounting standards for provisions. • Officers prepared a detailed methodology, which we compared with our own estimate. Our view was that the Council had not considered enough years that appeals already lodged with the Valuation Office could impact, nor had considered the full impact of appeals that could be lodged relating to 2013/14 or earlier. Officers reconsidered the appeals estimate following our initial audit work and agreed to increase the provision by £0.5 million. This impacts a number of entries across the Council's accounts which we will need to check in the revised financial statements. . **UPDATE – the revised financial statements received on 13 August have corrected this error.**

Addressing audit risks

Significant audit risks

We identified the following audit risks during the planning phase of our audit, and reported these to you in our Audit Plan. Here, we set out how we have gained audit assurance over those issues.

Audit risk identified within our Audit Plan	Audit procedures performed	Assurance gained and issues arising
Significant audit risks (including fraud risks)		
3. As identified in ISA (UK & Ireland) 240, management is in a unique position to perpetrate fraud because of their ability to directly or indirectly manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.	• Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements; • Reviewed accounting estimates for evidence of management bias ; and • Evaluated the business rationale for any significant unusual transactions.	• At 10 August elements of our journal testing remain in progress, but we have no matters to report to date. We will update the Audit & Risk Committee at their 8 September meeting. **UPDATE – our journals testing is complete and we have not identified any issues.** • We do not consider there is evidence of management bias in setting accounting estimates. • No matters to report regarding significant or unusual transactions.

EY

Financial statements audit

Issues and misstatements arising from the audit

Progress of our audit

- The following areas of our work programme remain to be completed at 10 August. We will provide an update of progress at the 8 September Audit & Risk Committee meeting:
  - Receipt of a Letter of Representation at the point the financial statements are signed.
  - Receipt of a number of third party loan and investment balance confirmations. **UPDATE – all confirmations have been received.**
  - Agreement of the accounting amendments and disclosures required as a result of the King's Court valuation changes. **UPDATE – the required amendments have been agreed. Most of the changes have been agreed to an updated version of the financial statements, although we are completing our checks on some aspects of this work.**
  - Agreement of the proposed accounting amendments required to housing benefit debtors and the related provision. **UPDATE – the required amendments have been agreed. The error has been corrected in the revised financial statements received on 13 August.**
  - Resolution with officers of a limited number of queries from our initial review of the financial statements. **UPDATE – the number of remaining queries are reduced & primarily relate to impairment/revaluation consistency and variance queries.**
  - Receipt and review of a fully revised set of financial statements covering all amendments agreed to date. **UPDATE – a revised set of statements was received on 13 August and we are completing our final review processes.**
  - Completion of our audit work on journals, group relationships and related party disclosures. **UPDATE – journals work is complete and the remaining testing will be completed w/c 8 September.**
  - Completion of our internal review and quality control procedures. **UPDATE – this has significantly progressed, although we are still clearing some matters with officers. Remaining review will be completed w/c 8 September.**
  - Whole of Government Accounts work

Subject to the satisfactory resolution of the above items, we propose to issue an unqualified audit report on the financial statements. We will update the Audit & Risk Committee at their 8 September meeting. **UPDATE – see above. We still anticipate to issue an unqualified opinion.**

Financial statements audit

Issues and misstatements arising from the audit

Uncorrected Misstatements

- Other than items which we deem to be clearly insignificant (less than £86,000 impact), we have identified two misstatements within the draft financial statements, which management has chosen not to adjust. Both relate to the 'turnaround' impact of errors detected in the prior year. 'Turnaround impact' is the impact of uncorrected misstatements identified in the prior period on results in the current period.
- We request that uncorrected misstatements be corrected or a rationale provided as to why they are not corrected be considered and approved by the Audit & Risk Committee and provided within the 2013/14 Letter of Representation. As these errors were all identified in the 2012/13 financial statements and referred to in the 2012/13 Letter of Representation, you should ensure that the rationale previously provided regarding immateriality remains relevant, and refer to this in the 2013/14 letter of representation.
- Appendix 1 to this report sets out the uncorrected misstatements.

Corrected Misstatements

- Our audit identified eight misstatements impacting the primary financial statements which our team have highlighted to officers for amendment. Officers have agreed to correct for all of these misstatements. **UPDATE – we subsequently identified a further two misstatements impacting the financial misstatements which officers are correcting or have already corrected in the 13 August version of the financial statements. We also agreed that one of the original eight misstatements did not require an amendment.**
- We consider three of these misstatements to be significant and include these at Appendix 2 to this report. We set out further details below where not already covered at the significant risk section. **UPDATE – we subsequently identified a further two misstatements, and have provided details on one of these which we consider to be more significant.**
- There are potentially additional cash flow statement implications and other disclosure implications of the agreed amendments which we will need to review against a revised set of financial statements. **UPDATE – the revised financial statements received on 13 August have generally been updated for cash flow and other disclosure implications, although our final checks are still being completed. We highlighted additional changes that were required to the cash flow statement on 2 September and officers have agreed to correct in the next version of the financial statements.**

Financial statements audit

Issues and misstatements arising from the audit

Corrected misstatements (continued)

Asset valuations

- We detected that the Council's in year valuation movement for the King's Court land and buildings had been posted the wrong way round. Together with additional valuation changes detected on investment properties, the Councils fixed assets were understated by £1.534m.
- As part of the above review we detected that land and building values relating to King's Court had been included incorrectly in the fixed asset register in an earlier year due to the Valuer transposing the land and building values in the valuation report. This meant that revaluation and impairment movements for King's Court were overstated in the draft 2013/14 financial statements, and that this had been replicated in earlier years.

Asset valuations (continued)

- At 10 August officers are still assessing the impact of this transposition error as it will impact revaluation and impairment movements posted in earlier years. We are therefore currently unable to quantify the error – officers provided a proposed revised property, plant and equipment (PPE) note on 8 August and we will need to assess this and the proposed journal corrections. We will update the Audit & Risk Committee at their 8 September meeting. **UPDATE – we have agreed the necessary corrections with officers. Officers have already corrected the errors in the 13 August version of the financial statements, although some minor changes to the PPE disclosures are required in a further update to the accounts, and we are still awaiting a reconciled position on the internal consistency of revaluation gains and impairments shown in the financial statements.**
- This will also affect the PPE valuation cycle table which officers are assessing and planning to correct. **UPDATE – we have agreed the necessary corrections with officers. Officers have updated the valuation cycle table in the 13 August version of the financial statements. We have yet to agree the detail of this.**

Financial statements audit

Issues and misstatements arising from the audit

- Corrected misstatements (continued) - UPDATE

- Housing Benefit debtors - UPDATE
  - As part of our consideration of the Council's bad debt provisions we detected that £1.19m debtors and income (which is netted off the expenditure on housing benefit payments) relating to housing benefit overpayments, and the related bad debt provision of £0.76 million had not been recognised in the Council's general ledger. The net impact was to increase the general fund by £0.43 million.
  - The issue has arisen following the implementation of the Civica housing benefits system in July 2012. prior to this, when individuals came out of the housing benefits system but had been overpaid, invoices were raised by the sundry debtors section and included in the Council's sales ledger and general ledger. Civica gave the Council the ability to raise such invoices through the Civica system and controls were not put in place to journal such invoices into the Council's general ledger system. Therefore the debts and associated bad debt provision were not included in the Council's financial statements at 31 March 2013, or the draft financial statements at 31 March 2014.

Housing Benefit debtors – UPDATE (continued)

- We have concurred with officers' views that the issue does not require a prior period amendment to the financial statements as the position at 31 March 2013 was not materially misstated.
- We have agreed the necessary corrections with officers and these have been made in the 13 August version of the financial statements.
- Officers need to ensure that appropriate general ledger accounting entries are made on an ongoing basis.

Financial statements audit

Issues and misstatements arising from the audit

Other Matters

- As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we are required to communicate to you significant findings from the audit and other matters that are significant to your oversight of the Council's financial reporting process including the following:
  - Qualitative aspects of your accounting practices; estimates and disclosures;
  - Matters specifically required by other auditing standards to be communicated to those charged with governance. For example, issues about fraud, compliance with laws and regulations, external confirmations and related party transactions; and,
  - Any significant difficulties encountered during the audit; and
  - Other audit matters of governance interest,
- We wish to report the following matters:

Housing benefit overpayments

- As part of our consideration of the adequacy of the Council's bad debt provision we questioned the consistency of the provision with the actual receivables recorded in the Council's balance sheet. At 10 August officers were reviewing the position. We will update the Audit & Risk Committee at their 8 September meeting. **UPDATE – see previous page.**

Disclosures in the draft financial statements

- We provided officers with a number of comments regarding the disclosures in the financial statements, and have agreed a relatively high number of changes with officers. Some of these are relatively minor and the most significant are included at Appendix 2.
- We have seen improvement from 2012/13, but the quality control processes for preparing the financial statements are not yet sufficiently robust. The level of disclosure errors means that audit time spent is more than planned. However, we are conscious that officers have been preparing the financial statements whilst dealing with a number of key organisational changes including the leisure trust and banking changes, and that resources are constrained. Pressures will be increased in 2014/15 when group financial statements are required, as well as potentially preparing two sets of company accounts and the accounts for the leisure trust.
- Officers should ensure that the 2014/15 draft financial statements are checked to an up to date CIPFA disclosure checklist as this has not been done since 2010/11.
- The Council does not make any disclosures regarding trading activities in the financial statements. Officers have stated that trading activities are not material, but no formal assessment has been carried out. We recommend that this is performed in advance of preparing the 2014/15 financial statements to ensure that the Council is complying with the CIPFA Code of Practice.

Financial statements audit

Issues and misstatements arising from the audit

Other Matters (continued)

Earmarked reserves

- As a result of audit queries, officers agreed to revise the earmarked reserves note, which included a specific £1.6 million reserve to cover any shortfall in retained NDR, initially described as 'other' & separately disclose this. It also proposed a move of £0.466 million from 'other reserves' to a specific 'project reserve'.
- Per the Financial Plan, 'other' reserves should not exceed £0.1 million.
- The current operational process is that Council members review the reserves policy and agree levels for earmarked reserves on an annual basis when the financial plan is agreed. They then see the movements and balances on earmarked reserves via the financial statement approval process. This can mean that agreed balances are exceeded, and are only approved retrospectively. We recommend that the Council considers whether this reporting process should be strengthened.

Treasury management

Since the mid-year treasury report went to Cabinet in November 2013 there have been two amounts invested for more than one year totalling £5 million, both with other local authorities. The approved treasury management strategy was that all investments should be short term. We have requested evidence that appropriate member approval has been obtained before making the long term investments but this had not been provided at 10 August. We will update the Audit & Risk Committee at their 8 September meeting. We note that the 2014/15 treasury management strategy was approved permitting up to £10 million to be deposited with local authorities for periods exceeding 364 days**. UPDATE – we have not received any additional evidence that appropriate member approval was obtained before the investments were made.**

Audit difficulties

Our audit has taken longer to complete than we expected. We will arrange to meet with officers in September to debrief on the overall process. This is likely to result in an additional fee request but given that our audit processes are still being completed we are not yet able to quantify this.

Financial statements audit (continued)

Internal Control, Written Representations & Whole of Government Accounts

Internal Control

It is the responsibility of the Council to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the Council has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

We have tested the controls of the Council only to the extent necessary for us to complete our audit. We are not expressing an opinion on the overall effectiveness of internal control. Our audit plan set out that we would carry out a substantive audit in 2013/14.

We have reviewed the Annual Governance Statement and can confirm that:

- It complies with the requirements of CIPFA/SOLACE Delivering Good Governance in Local Government Framework; and
- It is consistent with other information that we are aware of from our audit of the financial statements.

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware.

Request for written representations

We have requested a management representation letter to gain management's confirmation in relation to a number of matters. At 10 August we do not require any specific representations in addition to the standard representations. **UPDATE – no specific representations are required.**

Whole of Government Accounts

Alongside our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of our review and the nature of our report are specified by the National Audit Office.

This work will be completed in September and we will report any matters that arise to the Audit Committee. **UPDATE – this work has not yet commenced but will be completed once we have a final set of financial statements. Any issues will be reported to a future audit committee.**

Arrangements to secure economy, efficiency and effectiveness

The Code of Audit Practice (2010) sets out our responsibility to satisfy ourselves that the Borough Council of King's Lynn and West Norfolk has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. In examining the Council's corporate performance management and financial management arrangements, we have regard to the following criteria and focus specified by the Audit Commission.

Criteria 1 - Arrangements for securing financial resilience

- "*Whether the Council has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future*"
- We did not identify any significant risks in relation to this criteria.

We have no issues to report in relation to this criteria.

Criteria 2 - Arrangements for securing economy, efficiency and effectiveness

- *"Whether the Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity."*
- We did not identify any significant risks in relation to this criteria.

We have no issues to report in relation to this criteria.

Independence and audit fees

Independence

- We confirm there are no changes in our assessment of independence since our confirmation in our Audit Plan dated March 2014.
- We complied with the Auditing Practices Board's Ethical Standards for Auditors and the requirements of the Audit Commission's Code of Audit Practice and Standing Guidance. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.
- We confirm that we are not aware of any relationships that may affect the independence and objectivity of the firm that we are required by auditing and ethical standards to report to you.
- We consider that our independence in this context is a matter that should be reviewed by both you and ourselves. It is therefore important that you consider the facts of which you are aware and come to a view.

  If you wish to discuss any matters concerning our independence, we will be pleased to do so at the forthcoming meeting of the Audit Committee on 8 September 2014.

- We confirm that we have met the reporting requirements to the Audit Committee, as 'those charged with governance' under International Standards on Auditing (UK&I) 260. Our communication plan to meet these requirements were set out in our Audit Plan of March 2014.

Audit fees

The table below sets out the scale fee and our final proposed audit fees.

	Proposed final fee 2013-14	Scale fee 2013-14	Variation comments
	£	£	
Total audit fee – Code work	To be confirmed	67,488	
Certification of claims and returns	29,700	29,700	No proposed variation at this stage
Non-audit work	1,750	-	Group Accounts Workshop

- Our actual audit fee will be confirmed when our remaining audit procedures are complete.
- We have undertaken non-audit work outside of the Audit Commission's Audit Code requirements in respect of the Group Accounts Workshop

Appendix 1 - Uncorrected audit misstatements

- The following misstatements, which are greater than £86,000, have been identified during the course of our audit. All matters relate to the ongoing impact of errors detected in 2012/13.
- These items have not been corrected by management.

Balance Sheet and Statement of Comprehensive Income and Expenditure

Item of Account	Nature	Type	Balance Sheet £'000	Statement of Comprehensive Income & Expenditure £'000
	Description	F, P, J	Debit/(Credit)	Debit/(Credit)
1. Ongoing impact of the 2012/13 uncorrected misstatement relating to a 99 year lease which had been incorrectly treated as a full disposal in 2012/13.	The correct treatment under IFRS in 2012/13 would have been to retain the asset within long term assets and create a creditor for the sale proceeds, releasing them evenly over the 99 year lease. In 2013/14 this impacts: Investment property Short term lease liability Long term lease liability Reserves Income from investment property	F	497 (5) (436) (51)	(5)

Key

- F – Factual misstatement
- P – Projected misstatement based on audit sample error and population extrapolation
- J – Judgemental misstatement

Appendix 1 - Uncorrected audit misstatements (continued)

- The following misstatements, which are greater than £86,000, have been identified during the course of our audit. All matters relate to the ongoing impact of errors detected in 2012/13.
- These items have not been corrected by management.

Balance Sheet and Statement of Comprehensive Income and Expenditure

Item of Account	Nature	Type	Balance Sheet £'000	Statement of Comprehensive Income & Expenditure £'000
	Description	F, P, J	Debit/(Credit)	Debit/(Credit)
2. 2013/14 impact of the projected error in expenditure cut off testing detected in 2012/13.	As expenditure and liabilities were overstated in 2012/13 the turnaround impact is that 2013/14 expenditure is understated	P		
	Expenditure			338
	Reserves		(338)	
Cumulative effect of uncorrected misstatement – 2013/14 errors			-	-
Cumulative effect of uncorrected misstatement – 2013/14 errors and the impact of uncorrected misstatements identified in the prior period			*(333)*	*333*

Key

- F – Factual misstatement
- P – Projected misstatement based on audit sample error and population extrapolation
- J – Judgemental misstatement

Appendix 2 - Corrected audit misstatements

- The following corrected misstatements have been identified during the course of our audit and warrant communicating to you. We have only included those errors which exceed £0.86 million as we use this figure to determine those errors significant enough to report to you. Corrected errors below that level are not included unless the type of error detected and corrected means that we consider they should be reported.
- Officers have agreed to correct these items within the revised financial statements. As at 10 August we have not yet received or reviewed the revised set of statements.

Balance Sheet and Statement of Comprehensive Income and Expenditure

Item of Account	Nature	Type	Balance Sheet £'000	Statement of Comprehensive Income & Expenditure £'000
	Description	F, P, J	Debit/(Credit)	Debit/(Credit)
1. Understatement of other land and buildings due to mis-posting of valuation adjustments connected with the King's Court building and investment properties – see comments earlier in the report.	Property, Plant & Equipment – other land and buildings Other entries – to be confirmed at 10 August UPDATE – agreed adjustment in summary is: Property, Plant & Equipment – other land and buildings CIES – net cost of services CIES – surplus on revaluation of non-current assets	F	1,534 1,534	 TBC (1,768) 234

Key

- P – Projected misstatement based on audit sample error and population extrapolation
- F – Factual misstatement
- J – Judgemental misstatement

Appendix 2 - Corrected audit misstatements

- The following corrected misstatements have been identified during the course of our audit and warrant communicating to you. We have only included those errors which exceed £0.86 million as we use this figure to determine those errors significant enough to report to you. Corrected errors below that level are not included unless the type of error detected and corrected means that we consider they should be reported.
- Officers have agreed to correct these items within the revised financial statements. As at 10 August we have not yet received or reviewed the revised set of statements.

Balance Sheet and Statement of Comprehensive Income and Expenditure

Item of Account	Nature	Type	Balance Sheet £'000	Statement of Comprehensive Income & Expenditure £'000
	Description	F, P, J	Debit/(Credit)	Debit/(Credit)
UPDATE – no longer required ~~2. Overstatement of income and expenditure connected with the corrections connected wuth the NORA assets in the course of construction – see comments earlier in the report.~~	~~Planning and development income~~ ~~Planning and development expenditure~~	~~F~~		~~1,588~~ ~~(1,588)~~

Key

- F – Factual misstatement
- P – Projected misstatement based on audit sample error and population extrapolation
- J – Judgemental misstatement

EY

Appendix 2 - Corrected audit misstatements

- The following corrected misstatements have been identified during the course of our audit and warrant communicating to you. We have only included those errors which exceed £0.86 million as we use this figure to determine those errors significant enough to report to you. Corrected errors below that level are not included unless the type of error detected and corrected means that we consider they should be reported.
- Officers have agreed to correct these items within the revised financial statements. As at 10 August we have not yet received or reviewed the revised set of statements.

Balance Sheet and Statement of Comprehensive Income and Expenditure

Item of Account	Nature	Type	Balance Sheet £'000	Statement of Comprehensive Income & Expenditure £'000
	Description	F, P, J	Debit/(Credit)	Debit/(Credit)
3. NDR appeals provision incorrectly classified in the balance sheet	Short term receivables Provisions	F	2,942 (2,942)	

Key

- F – Factual misstatement
- P – Projected misstatement based on audit sample error and population extrapolation
- J – Judgemental misstatement

Appendix 2 - Corrected audit misstatements

- The following corrected misstatements have been identified during the course of our audit and warrant communicating to you. We have only included those errors which exceed £0.86 million as we use this figure to determine those errors significant enough to report to you. Corrected errors below that level are not included unless the type of error detected and corrected means that we consider they should be reported.
- Officers have agreed to correct these items within the revised financial statements. As at 10 August we have not yet received or reviewed the revised set of statements.

Balance Sheet and Statement of Comprehensive Income and Expenditure

Item of Account	Nature	Type	Balance Sheet £'000	Statement of Comprehensive Income & Expenditure £'000
	Description	F, P, J	Debit/(Credit)	Debit/(Credit)
UPDATE 4. Omission of Civica Housing Benefit debtors and related bad debt provision	Short term receivables – amounts due from other entities and individuals Short term receivables – allowance for doubtful debt Housing General Fund - expenditure	F	1186 (755)	(431)
Cumulative effect of uncorrected misstatements exceeding tolerable error			*1,534 (TBC)* *UPDATE 1,965*	*TBC* *UPDATE (1,965)*

Key

- F – Factual misstatement
- P – Projected misstatement based on audit sample error and population extrapolation
- J – Judgemental misstatement

EY

Appendix 2 - Corrected audit misstatements

- The following misstatements, have been identified during the course of our audit and in our professional judgement warrant communicating to you.
- We identified a higher than normal number of disclosure changes, the most significant of which we highlight below.
- Officers have agreed to correct these items within the revised financial statements. As at 10 August we have not yet received or reviewed the revised set of statements.

Disclosures:

Disclosure	Description of misstatement
1. Pension disclosures	Pension disclosures throughout the financial statements had not been updated for the changes in IAS 19.
2. Collection Fund	We identified a number of errors in the disclosures presented for the Collection Fund. The accounting policies connected with the collection fund had not been fully updated in the draft accounts.
3. Explanatory Foreword	Some corrections were required to the information presented in the explanatory foreword. We recommend that officers review the overall presentation of the Explanatory Foreword before the 2014/15 financial statements are prepared, as aspects are difficult to interpret and are prone to drafting error.
4. Officers' Remuneration	The note is being revised to include the s151 and Monitoring Officers; to include pension contributions which were excluded in error, and to correct for a casting error.
5. Amounts reported for resource allocation decisions	Officers reworked the resource allocation note following initial audit comment that the employee expenses appeared to be materially incorrect. UPDATE – significantly rather than materially incorrect.
6. Group relationships	The 'Joint Arrangements' note has been reworked to better reflect group and other joint arrangements, including the investment in Alive Management Limited
7. Earmarked reserves	Reclassification of reserves from 'other' classification.

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In March 2010 the Audit Commission issued a revised version of the ‘Statement of responsibilities of auditors and audited bodies’ (Statement of responsibilities). It is available from the Chief Executive of each audited body and via the Audit Commission’s website.

The Statement of responsibilities serves as the formal terms of engagement between the Audit Commission’s appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The Standing Guidance serves as our terms of appointment as auditors appointed by the Audit Commission. The Standing Guidance sets out additional requirements that auditors must comply with, over and above those set out in the Code of Audit Practice 2010 (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Audit Results Report is prepared in the context of the Statement of responsibilities. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

[redacted]