

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



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

**NB: The Resources and Performance Panel meeting will  
immediately follow this meeting (Separate Agenda)**

**Wednesday 4 January 2012  
at 6.00pm**

Committee Suite  
King's Court  
Chapel Street  
King's Lynn  
Norfolk  
PE30 1EX



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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  
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19 December 2011

**PLEASE NOTE THAT THE AUDIT AND RISK COMMITTEE WILL BE FOLLOWED BY  
THE RESOURCES AND PERFORMANCE PANEL**

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 **Wednesday 4 January 2012**, at **6.00 pm**, in the **Committee Suite, King's Court, Chapel Street, King's Lynn**, to discuss the business shown below.

Yours sincerely

Chief Executive

**AGENDA**

**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 29 November 2011 (previously circulated pages 499 to 506).

**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).

At the Cabinet meeting held on 6 December 2011 the following responses were made to the recommendations from the Resources and Performance Panel – Audit and Risk Committee meeting held 29 November 2011, on the following items:-.

(i) **Document Retention Policy**

**RESOLVED:** That Cabinet be advised that the Resources and Performance Panel – Audit and Risk Committee supports the recommendation as set out in the report to Cabinet as follows:

For Cabinet to recommend that Council approve the Retention Policy.

**Cabinet Response:** “The Panel’s recommendations were duly taken into account when Cabinet considered the item.”

(ii) **Update to Financial Regulations**

**RESOLVED:** That Cabinet be advised that the Resources and Performance Panel – Audit and Risk Committee supports the recommendation as set out in the report to Cabinet as follows:

For Cabinet to recommend that Council approve the amended Financial Regulations.

**Cabinet Response:** “The Panel’s recommendations were duly taken into account when Cabinet considered the item.”

8. **Annual Audit Letter** (pages 1 to 9)

Mr J Rickett from PricewaterhouseCoopers will attend to present the Annual Audit Letter to the Committee.

9. **Presentation of Audit Documents available on InSite**

To receive a presentation from the Audit Manager on accessing the audit documents that are published on the Council's Intranet.

10. **Audit and Risk Committee Work Programme** (page 10)

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

11. **Date of Next Meeting**

To note that the next meeting of the Resources and Performance - Audit and Risk Committee will take place on **Tuesday 31 January 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

Mr J Rickett, PricewaterhouseCoopers

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*Government and Public Sector*

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

Annual Audit Letter

November 2011

2010/11 Audit

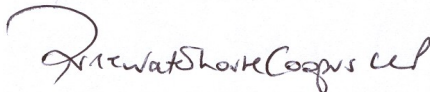
The Members  
Borough Council of King's Lynn and West Norfolk  
Kings Court  
Chapel Street  
King's Lynn  
Norfolk  
PE30 1EX

November 2011

Ladies and Gentleman

We are pleased to present our Annual Audit Letter summarising the results of our 2010/11 audit. We look forward to presenting it to the Audit and Risk Committee on 4 January 2012. It will be presented to Members on 26 January 2012.

Yours faithfully



PricewaterhouseCoopers LLP

**Code of Audit Practice and Statement of Responsibilities of Auditors and of Audited Bodies**

*In March 2010 the Audit Commission issued a revised version of the 'Statement of Responsibilities of Auditors and of Audited Bodies'. It is available from the Chief Executive of each audited body. The purpose of the statement is to assist auditors and audited bodies by explaining where the responsibilities of auditors begin and end and what is to be expected of the audited body in certain areas. Our reports and management letters are prepared in the context of this Statement. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the audited body and no responsibility is taken by auditors to any member or officer in their individual capacity or to any third party.*

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# *Introduction*

## The purpose of this letter

The purpose of this letter is to provide a high level summary of the results of the 2010/11 audit work we have undertaken at the Borough Council of King's Lynn and West Norfolk (the Council) that is accessible for the Council and other interested stakeholders.

We have already reported the detailed findings from our audit work to those charged with governance in the following reports:

- Performance reports for follow-up work carried out in 2011;
- Report to those charged with Governance (ISA (UK&I) 260) ("ISA260 report");
- Audit report for the 2010/11 Statement of Accounts, incorporating the value for money conclusion; and
- Report on the matters arising from our audit of the statement of accounts 2010/11.

The matters reported here are those that we consider are most significant for the Council and a summary of the key recommendations that we have made can be found on page 8.

## Scope of work

Our audit work is conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

The Council is responsible for preparing and publishing its Statement of Accounts, accompanied by the Annual Governance Statement. It is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

As auditors we are responsible for:

- forming an opinion on the financial statements;
- reviewing the Annual Governance Statement;
- forming a conclusion on the arrangements that the Authority has in place to secure economy, efficiency and effectiveness in its use of resources; and
- undertaking any other work specified by the Audit Commission.

Our 2010/11 audit work has been undertaken in accordance with the Audit Plan that we issued in February 2011.

# Audit Findings

## Accounts

We audited the Council's Statement of Accounts in line with approved Auditing Standards and issued an unqualified audit report on 21 October 2011. Normally, it would be expected that the Council would have an audit opinion on its Statement of Accounts by 30 September 2011, the date by which the Council must publish its accounts. However, we encountered a number of significant difficulties and delays during our audit that resulted in our audit taking longer than originally planned. These included:

- The draft accounts provided at the start of our audit not including a number of figures and disclosures, for example:
  - Balances relating to property, plant and equipment and reserves; and
  - Full disclosures relating to the International Financial Reporting Standards (IFRS) restatement including changes to prior year balances, financial instruments, trading operations and leases.

We were not made aware of these omissions prior to arriving for the start of the audit. The cash flow statement and related notes were also not made available for audit in accordance with the agreed timetable.

- The Council being unable to undertake appropriate quality review checks on the draft accounts as officers were working to complete the accounts and disclosures;
- Identifying a significant number of errors including casting errors, inconsistencies between balances within the accounting statements and notes and incorrect comparative balances; and
- An underestimation on the Council's part as to the detailed work involved in the transition of its accounts to IFRS (see further details below), compounded by the loss of two key finance officers.

These matters have impacted on the audit resource required. We had to input significant additional time to complete our audit work which resulted in additional fees being incurred.

Whilst the Audit Report was given after the deadline date of 30 September 2011, we maintained a dialogue with the finance team throughout the audit process in 2010/11 to minimise the delay as far as possible. We will also hold a more detailed debrief with the finance team as part of our planning for 2011/12, designed to avoid the same situation arising.

We identified the following key issues from our audit of accounts:

### *Signing of the accounts*

A full set of draft accounts was not signed by the Deputy Chief Executive, Executive Director Finance and Resources by the deadline stipulated by the Accounts and Audit (England) Regulations 2011 of 30 June 2011. The Council will need to ensure that this Regulation is complied with in future years.

### *Preparation of IFRS accounts*

Our audit work on the draft accounts to ensure that balances are presented and disclosed appropriately in accordance with the IFRS Code of Practice for Local Authority Accounting (the Code) identified the following matters:

- No adjustments were made to reverse impairments previously charged to the Income and Expenditure Statement (we comment further on this matter below);

- An incorrect measurement basis has been used to value infrastructure assets as well as a proportion of the Council's community assets; and
- A number of additional disclosures or amendments to existing disclosures have been required.

All of these matters were adjusted for in the final version of the Statement of Accounts on which we expressed our opinion.

#### *Reversal of impairments*

Under the Code, the impairment of an asset should be reversed if there is a subsequent upwards revaluation on that asset, to the extent that the asset increases in value. This reversal should take place through the Comprehensive Income and Expenditure Statement (CI&ES) to the extent that the original impairment was debited to the Statement.

In the draft accounts, the Council had not calculated the value of these reversals or credited them to the CI&ES. The value of the reversal was later quantified as £6,337,000 in respect of 2009/10 and £1,628,000 in 2010/11. The Council updated the accounts in respect of this matter and we reported this significant adjustment within our ISA260 report.

The Council will need to ensure that, in future, impairments to assets are reversed via the CI&ES up to the value that was previously charged to revenue if the asset later increases in value.

#### *Items presented within "Other Comprehensive Income and Expenditure"*

"Other Comprehensive Income and Expenditure" within the Comprehensive Income and Expenditure Statement (CI&ES) identifies the gains/losses arising within the Council's reserves which have not been recorded within the CI&ES. This allows the total comprehensive income and expenditure to be calculated which should equal the total movement on reserves for the year. The only items expected within Other Comprehensive Income and Expenditure are gains/losses on the revaluation of non-current assets and actuarial gains/losses on pension assets/liabilities. However, within the Council's Other Comprehensive Income and Expenditure are additional net credits of £124,000 and £279,000 for 2010/11 and 2009/10 respectively.

Due to the size of these errors, individually or in aggregate, we did not consider them to impact upon our audit opinion on the Council's accounts. As a result, we reported them to the Council in our ISA260 report and accepted the Council's decision not to update the accounts in respect of these matters.

The Council will need to ensure it investigates the reasons for these reconciling items and takes steps to eliminate them from the 2011/12 Statement of Accounts.

#### *Reconciliation to operating activities within the cash flow statement*

The Council has a figure of £33,000 within its reconciliation of net surplus provision of services (per the CI&ES) to the net cashflows from operating activities (per its cash flow statement) which cannot be identified or agreed to supporting documentation. Unidentified reconciling differences should not be present and increase the risk of material misstatement. There is a risk that relatively small, insignificant figures could be hiding larger figures that contra each other to net to the smaller figure.

We performed additional procedures on the Council's cash flow statement and related notes and reconciliations to gain assurance that larger, more significant figures are not misstated within the cash flow statement. No further matters have arisen from this work. We reported this matter to Members within our ISA260 report.

The Council should seek to identify and resolve all reconciling items within the cashflow statement and reconciliation to operating activities. There should be no "balancing figures" within the 2011/12 statement of accounts.

### ***Economy, efficiency and effectiveness***

Our Use of Resources Code responsibility required us to carry out sufficient and relevant work in order to conclude on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in the use of resources.

In accordance with guidance issued by the Audit Commission, in 2010/11 our conclusion was based on two criteria:

- The organisation has proper arrangements in place for securing financial resilience; and
- The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

Unlike in previous years, we were not required to reach a scored judgment in relation to these criteria and the Audit Commission has not developed 'key lines of enquiry' for each criteria. Instead, we have determined a local programme of audit work based on our audit risk assessment, informed by these criteria and our statutory responsibilities.

Our work in this area included performing a high level review of the Council's:

- Outturn against budget in respect of 2010/11;
- Savings plans and budget in respect of 2011/12; and
- Progress to date in achieving the 2011/12 budget.

Consistent with a large number of Local Authorities, the Council has needed to identify a significant level of savings to balance its revenue budgets going forward as a result of a decrease in the Local Government financing settlement. This has necessitated the need for £1m of savings to be required in 2011/12 together with a further £2.2m in 2012/13. The Council appears, to date, to have made significant progress towards realizing these targets.

In addition to the savings identified, the Council also plans to utilize its general fund to "smooth" the requirement for savings and allow for strategic planning in its financial strategy. The total contributions expected to be made from the General Fund between 2011/12 to 2013/14 is £2,572,000. This will reduce the General Fund balance to £937,000, just above the minimum level of £889,000 that the Council considers to be prudent.

It will be important for the Council to continue to closely monitor its achievement of its budget, savings targets and the implication of these results on its General Fund.

We issued an unqualified value for money conclusion.

### ***Annual Governance Statement***

Local authorities are required to produce an Annual Governance Statement (AGS) that is consistent with guidance issued by CIPFA/SOLACE. The AGS accompanies the Statement of Accounts.

We reviewed the AGS to consider whether it complied with the CIPFA/SOLACE guidance and whether it might be misleading or inconsistent with other information known to us from our audit work. We found no areas of concern to report in this context.

### ***Targeted audit work***

In our 2009/10 Audit Plan, we identified the need to follow-up the Council's progress in implementing our recommendations from the following reviews that were completed as part of the 2008/09 Audit Plan:

- Effective management of assets;
- Equalities Impact Assessment;
- Environmental and Sustainability; and

- Regeneration.

It was agreed with officers that we would conduct this work in 2011. Consequently, we report on our work within the 2010/11 Annual Audit Letter.

The Council's NORA project, which was the focus of the original regeneration review, has been concluded. Consequently, we agreed with officers that we would not follow-up our original review in this area.

#### *Effective management of assets review*

Of the nine recommendations we originally raised in this area, five were on-going and four had not been implemented. The Council needs to finalise and formally approve its Asset Management Plan for 2010-2015, clearly demonstrating its long term strategy for strategic asset management. In addition, the Council should consider a Council wide operational property review. Although some consideration is being given to the use of assets as part of service reviews, a wider, cross service review would facilitate strategic planning.

#### *Equalities Impact Assessment review*

Of the seven recommendations we originally raised in this area, four had been fully implemented at the time of our re-review. This included embedding equality impact assessment reporting at Cabinet and within business reporting. The remaining recommendations were assessed as "on-going", this included the need to continue to embed the assessment process within the Council and implement the remaining actions in the Equality Scheme 2009-12 document.

#### *Environmental and Sustainability review*

Of the twelve recommendations we originally raised in this area, seven had been fully implemented at the of our re-review. This included the reporting of the Environmental Statement to Cabinet on a six monthly basis. Of the remaining recommendations, three were on-going and two had not been implemented. The latter focused on the need to introduce relevant performance targets (e.g. internal recycling rates) and the completion of a staff survey to assess the impact and awareness of current initiatives.

## ***Summary of recommendations***

We provide an annual summary of recommendations to the Deputy Chief Executive, Executive Director of Finance and Resources and his team. Our 2010/11 annual summary of recommendations included 38 recommendations.

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

**4 January 2012**

- Presentation of Audit Documents published on InSite – K Littlewood
- Annual Audit Letter

**31 January 2012**

- Internal Audit Strategic Audit Plan 2012/13
- Internal Audit Plan 2010/2011 – Quarterly Progress Report for October to December 2011

**28 February 2012**

(Try and keep free as R & P Panel have full Budget to deal with)

**27 March 2012**

- 2010/2011 Statement of Accounts under IFRS – restating
- Business Continuity – annual update
- Annual Grant Certification Report 2010/2011 (external)
- Protocol for liaison between internal and external audit 2012/2013 (external)
- BCKL&WN Audit Plan 2012/2013 (external)

**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