

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)**

**Tuesday 28 February 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
Fax: 01553 691663

20 February 2012

**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 **Tuesday 28 February 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 4 January 2012 (previously circulated pages 632 to 637).

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 2011/12

To receive the Borough Council's External Audit Plan from PricewaterhouseCoopers (attached at pages 1 to 23)

9. Certification Report 2010/2011

To receive the Certification report 2010/2011 from PricewaterhouseCoopers (attached at pages 24 to 38).

10. Audit and Risk Committee Work Programme (page 39)

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 27 March 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

Alison Ridley, PricewaterhouseCoopers

Borough Council of King's Lynn and West Norfolk

External Audit Plan 2011/12

Government and Public
Sector

January 2012



Members of the Audit & Risk Committee
Borough Council of King's Lynn & West Norfolk
Kings Court
Chapel Street
King's Lynn
Norfolk
PE30 1EX

January 2012

Ladies and Gentlemen

We are delighted to present to you our external audit plan for 2011/12, which includes an analysis of our assessment of significant audit risks, our proposed audit strategy, audit and reporting timetable and other matters. Discussion of our strategy with you enables our engagement team members to understand your concerns and agree on mutual needs and expectations to provide the highest level of service quality. Our approach is responsive to the many changes affecting the Borough Council of King's Lynn and West Norfolk.

If you have any questions regarding matters in this document please contact Julian Rickett or Alison Ridley.

Yours faithfully

A handwritten signature in black ink that reads 'PricewaterhouseCoopers LLP' in a cursive script.

PricewaterhouseCoopers LLP

*PricewaterhouseCoopers LLP, The Atrium, St Georges Street, Norwich, NR3 1AG
T: +44 (0) 1603 615244, F: +44 (0) 1603 631060, www.pwc.co.uk*

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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 and on the Audit Commission's website. 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 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.

Introduction

Purpose

This audit plan has been prepared to provide the officers and members of the Council with information about our responsibilities as external auditors and how we plan to discharge them.

Every Council is accountable for the stewardship of public funds. The responsibility for this stewardship is placed upon the Members and officers of the Council. It is our responsibility to carry out an audit in accordance with the Audit Commission's Code of Audit Practice (the Code).

Period covered by this plan

This plan outlines our audit approach for the period 1 April 2011 to 31 March 2012, including the 2011/12 final accounts audit which we will undertake in summer 2012.

Scope of the audit

We will conduct our audit in accordance with the relevant requirements of the Audit Commission Act 1998 and the Code of Audit Practice 2010 for local government bodies (“the Audit Code”) published by the Audit Commission.

Statement of Accounts

We will conduct our audit of the Statement of Accounts in accordance with International Standards on Auditing (UK and Ireland) as published by the Auditing Practices Board. We will issue an opinion stating whether in our view:

- the Statement of Accounts provides a true and fair view and has been prepared in accordance with the requirements of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom and the CIPFA Service Reporting Code of Practice; and
- the information given in the Explanatory Foreword is consistent with the Statement of Accounts.

In our audit report on the Statement of Accounts, we are also required to report by exception where, in our view, the Annual Governance Statement does not comply with the requirements of “Delivering Good Governance in Local Government: Framework” published by CIPFA/SOLACE in June 2007 or is misleading or inconsistent with information we are aware of from our audit.

As part of our work on the Statement of Accounts statements we will examine:

- the Whole of Government Accounts schedules submitted to the Department for Communities and Local Government and issue an opinion stating whether in our view they are consistent with the Statement of Accounts.

Value for money conclusion

Under the Audit Code we are also required to report on the Council’s arrangements for securing economy, efficiency and effectiveness in its use of resources.

As in 2010/11, we will perform the work we consider necessary to allow us to give our statutory value for money conclusion based on the following two criteria specified by the Audit Commission:

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

Other reporting requirements

In addition, we are also required to consider:

- Whether we need to issue a report in the public interest under s8 of the Audit Commission Act 1998;
- Whether we need to make written recommendations for the consideration of the Council under s11(3) of the 1998 Act;
- Whether we believe that the Council or one of its officers:

- is about to make or has made a decision which involves or would involve the authority incurring expenditure which is unlawful,
- is about to take or has begun to take a course of action which, if pursued to its conclusion, would be unlawful and likely to cause a loss or deficiency, or
- is about to enter an item of account, the entry of which is unlawful

and we need to issue an advisory notice under s19A of the 1998 Act;

- Whether there is any item of account for which we need to make an application to the court under s17 of the 1998 Act for a declaration that the item is contrary to law; and
- Whether we need to apply under s24 of the 1998 Act for judicial review of any decision or failure to act by the Council which it is reasonable to believe would have an effect on the accounts.

Audit approach

Our audit approach is based on our team's understanding of the Council and is informed not only by our audit methodology but also by our technical knowledge of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

We start by considering how officers run the Council and manage risk on a day-to-day basis. This organisation wide view of risk enables us to identify conditions that could potentially pose audit risks and endanger the accuracy and integrity of your financial reports. These risks help to direct our audit approach and to set the materiality for our work. An overview of our approach is given in Appendix 1 to this Plan.

Timetable

<i>Month/Deadline</i>	<i>Audit activity</i>
January 2012	Issue of External Audit Plan
March - April	Interim audit
Mid July – September	Statement of Accounts audit
30 September 2012 (to be confirmed)	Target date for issue of: <ul style="list-style-type: none"> • Audit Opinion on the Statement of Accounts; • Value for Money Conclusion; and • Opinion on the Whole of Government Accounts return
September	Planned date for issue of final version of ISA (UK&I) 260 Report to those Charged with Governance
30 November 2012 (to be confirmed)	Deadline for issue of Annual Audit Letter

Significant audit risks

Through our discussions with officers, review of key Council documents, consideration of ISA (UK&I) requirements and reflections on the 2010/11 audit, we have identified the significant risks facing the Council which impact on our audit.

ISA (UK&I) 240 requires that we plan our audit work to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk that management may override controls and that income and/or expenditure recognition could be manipulated in order to influence the financial statements.

Fixed asset accounting has also been included due to the material nature of this area, the particular risks associated with this area due to changes in 2010/11 with the implementation of International Financial Reporting Standards and the difficulties the Council experienced in this area during the 2010/11 accounts preparation and audit process.

We will understand and evaluate internal control components in relation to all significant risks. Where we intend to rely on controls for the purpose of supporting our audit opinion on the Council's financial statements we will evaluate and test their design and operating effectiveness as part of our audit procedures, which may be within a three year rolling programme. We will aim to rely on the work done by internal audit wherever possible

and will also review copies of their relevant reports in other areas to allow us to understand the impact of their findings on our planned audit approach. Note that no significant risks have been identified at this stage with regards to our other Audit Code responsibilities.

Significant audit risks for the audit of the Statement of Accounts

- Management override of financial control
- Recognition of income and expenditure
- Fixed Asset Accounting

The risks we have identified are described in more detail in Appendix 2.

Materiality

We use professional judgement to assess what is material, which includes consideration of the amount and nature of transactions. We generally use 2% of gross expenditure as our rule of thumb in determining an overall level of materiality for Councils. We are required to report to those charged with governance uncorrected misstatements identified during the audit that are determined by management to be immaterial both individually and in the aggregate, to the financial statements taken as a whole, other than those that are clearly trivial. In 2010/11 we adopted a triviality level of £89,000 statement of accounts. In accordance with our audit guide the upper limit to the 2011/12 triviality calculation is £101,510. Subject to the agreement of the Audit and Risk Committee, we propose defining the “clearly trivial” threshold as being misstatements of £100,000 or less for the Council.

Communications plan

Required Communication	Planning January 2012	Completion September 2012	As required
Independence and objectivity confirmation	✓	✓	
Detail of all non-audit work performed by the firm and related fees		✓	
Nature and scope of work together with timing of expected reports	✓		✓
Expected modifications to the auditors' report		✓	✓
Uncorrected misstatements		✓	
Significant deficiencies in internal control identified during the audit		✓	
Views about the qualitative aspects of the entity's accounting practices and financial reporting		✓	
Matters specifically required by other ISAs (UK&I) to be communicated to those charged with governance		✓	✓
Final draft of representation letter		✓	
Any other audit matters of governance interest		✓	✓

Risk of fraud

International Standards on Auditing (UK&I) state that we as auditors are responsible for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. The respective responsibilities of auditors, management and those charged with governance are summarised below:

Auditors’ responsibility

Our objectives are:

- to identify and assess the risks of material misstatement of the financial statements due to fraud;
- to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and
- to respond appropriately to fraud or suspected fraud identified during the audit.

Management’s responsibility

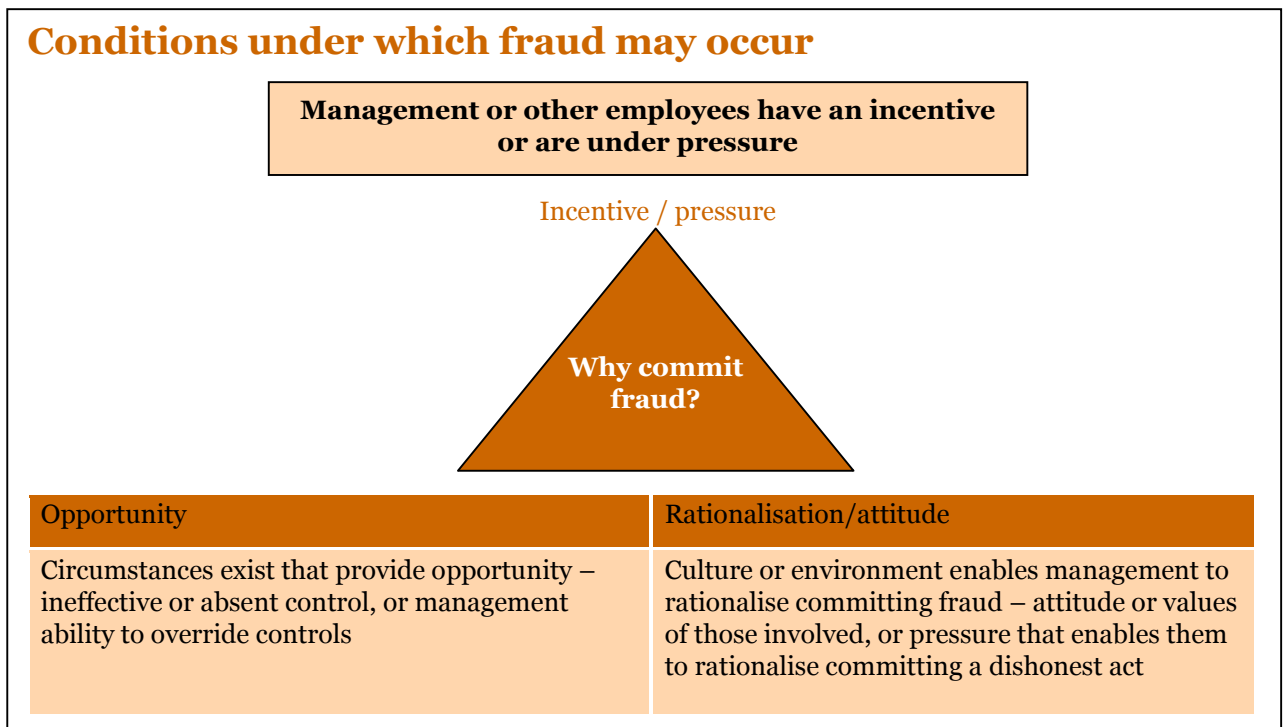
Management’s responsibilities in relation to fraud are:

- to design and implement programmes and controls to prevent, deter and detect fraud;
- to ensure that the entity’s culture and environment promote ethical behaviour; and
- to perform a risk assessment that specifically includes the risk of fraud addressing incentives and pressures, opportunities, and attitudes and rationalisation.

Responsibility of the Audit and Risk Committee

Your responsibility as part of your governance role is:

- to evaluate management’s identification of fraud risk, implementation of anti-fraud measures and creation of appropriate “tone at the top”; and
- to ensure any alleged or suspected instances of fraud brought to your attention are investigated appropriately.



Your views on fraud

We enquire of the Audit and Accounts Committee:

- Whether you have knowledge of fraud, either actual, suspected or alleged, including those involving management?
- What fraud detection or prevention measures (e.g. whistleblower lines) are in place in the entity?
- What role you have in relation to fraud?
- What protocols / procedures have been established between those charged with governance and management to keep you informed of instances of fraud, either actual, suspected or alleged?

Recent developments

Accounting developments

New Requirements in the Code of Accounting Practice

The Code of Practice on Local Authority Accounting in the United Kingdom for 2011/12 was published in Spring 2011 setting out the following substantial changes in accounting requirements for local authorities:

- For the first time in the 2011/12 Statement of Accounts, the Code requires authorities to present information about the **heritage assets** that they hold. Heritage assets are those that are intended to be preserved in trust for future generations because of their cultural, environmental or historical associations. Typical examples include historic buildings, civic regalia, museum and gallery collections and recordings of historic events. Where it is practicable to obtain a valuation (at a cost commensurate with the benefits to users of the Statement of Accounts), the Code now requires material amounts of heritage assets to be carried in the Balance Sheet at that valuation.

Where it is not practicable to obtain a valuation and there is no record of their historical cost, assets are to be omitted from the Balance Sheet. However, in these circumstances notes will be required explaining the significance and nature of those assets that are not reported in the Balance Sheet.

The Council will therefore need to assess whether it has any substantial portfolio of heritage assets. If so, it will determine whether an appropriate and relevant valuation can be made for the items in the portfolio and then obtain any valuations required. New notes to the accounts will also need to be prepared setting out the Council's policy for the acquisition, preservation, management and disposal of heritage assets.

- There is a new requirement for a disclosure note setting out the number of **exit packages** agreed, analysed between compulsory redundancies and other departures and presented in £20,000 bands up to £100,000 and £50,000 bands above £100,000. The total cost of packages in each band must also be disclosed. (There will be scope to combine bands if this is necessary to ensure that individual packages cannot be identified.)
- The **related parties** disclosures have been simplified where the Council has transactions with government departments and agencies, NHS bodies and other local authorities, limiting disclosure to individually or collectively significant transactions.

Carbon Reduction Commitment

2011/12 is the first year that Councils are required under the Carbon Reduction Commitment (CRC) Energy Efficiency Scheme to purchase and surrender CRC allowances in proportion to the emissions they make during the year. Although any surrender in relation to 2011/12 will take place in 2012/13, Councils will need to account at 31 March 2012 for the consequences of the emissions it they have made in 2011/12. As such, it is probable that provisions will need to be made at 31 March 2012 in relation to any costs likely to be incurred in meeting obligations relating to 2011/12 emissions.

We understand that the Council is under the threshold for participation in this scheme and, as such, is not required to purchase or surrender CRC allowances. We will verify this position as part of our audit to ensure that any accounting requirements have been met, if appropriate.

Audit engagement team

The key members of the 2011/12 audit team are:

Role	Name	Email address	Telephone
Engagement Partner	Julian Rickett	julian.c.rickett@uk.pwc.com	01603 883321
Engagement Senior Manager	Alison Ridley	alison.m.ridley@uk.pwc.com	01603 883317

Independence and objectivity

We have made enquiries of all PricewaterhouseCoopers' teams providing services to you and of those responsible in the UK Firm for compliance matters.

There are no matters which we perceive may impact our independence and objectivity of the audit team.

Relationships and Investments

Senior officers should not seek or receive personal financial or tax advice from PwC. Non-executives who receive such advice from us (perhaps in connection with employment by a client of the firm) or who also act as director for another audit or advisory client of the firm should notify us, so that we can put appropriate conflict management arrangements in place.

Independence conclusion

At the date of this plan we confirm that in our professional judgement, we are independent accountants with respect to the Council, within the meaning of UK regulatory and professional requirements and that the objectivity of the audit team is not impaired.

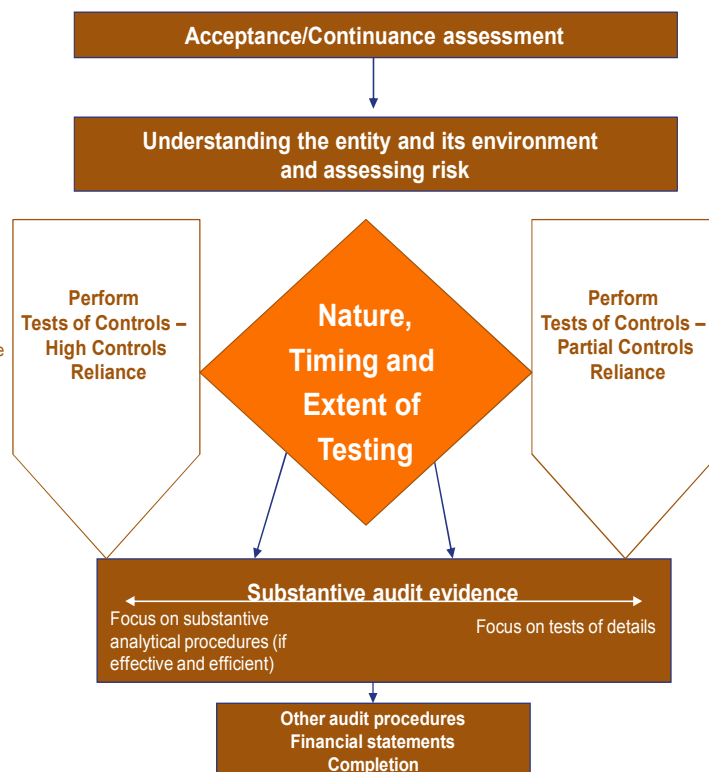
Appendices

Appendix 1: Audit approach

Audit approach

The PwC audit is based on:

- A thorough and detailed understanding of your business and its risks is acquired
- Gathering much of our audit evidence through a process of enquiry and testing which evaluates how your controls address the risks identified and whether assertions about control effectiveness can be supported by verifiable evidence
- As we complete the consideration of controls, we assess the extent to which we need to support the work done with additional substantive audit evidence
- We remain in effective communication with management and the audit committee or those charged with governance throughout the process through the *Communications Plan*



Appendix 2: Significant and elevated audit risks

Our risk assessment forms the basis for planning and guiding all subsequent audit activities. It allows us to determine where our audit effort should be focused and whether we can place reliance on the effective operation of controls implemented by management. Risks are categorised as follows:

- **Significant** Risk of material misstatement due to the likelihood, nature and magnitude of the balance or transaction. These require specific focus in the year.
- **Elevated** Although not considered significant, the nature of the balance/area requires specific consideration.
- **Normal** We perform standard audit procedures to address normal risks in all other material financial statement line items.

Financial Statements risks

Risk	Level of risk	Reason for risk identification	Audit approach
Fraud and management override of controls	●	ISA (UK&I) 240 requires that we plan our audit work to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk that management may override controls in order to manipulate the financial statements.	We will perform procedures to; <ul style="list-style-type: none"> • test the appropriateness of journal entries; • review accounting estimates for biases and evaluate whether circumstances producing any bias, represent a risk of material misstatement due to fraud; • evaluate the business rationale underlying significant transactions; and • perform 'unpredictable' procedures; and • may perform other audit procedures if necessary.
Recognition of income and expenditure	●	Under ISA (UK&I) 240 there is a (rebuttable) presumption that there are risks of fraud in revenue recognition. We extend this presumption to the recognition of expenditure in local government.	We will update our understanding of your systems and controls associated with income and expenditure that has been obtained during previous external audits. We will evaluate and test the accounting policy for income and expenditure recognition to ensure that this is consistent

Risk	Level of risk	Reason for risk identification	Audit approach
Fixed Asset Accounting	●	<p>The scale and complexity of the Council's estate presents a number of accounting challenges.</p> <p>In our audit of the 2010/11 financial statements a number of errors were identified including:</p> <ul style="list-style-type: none"> - Reconciling the fixed asset register to underlying records and the accounts; - The accounting treatment of impairments; and - The valuation bases of Community and Infrastructure assets. 	<p>with the requirements of the Code of Practice on Local Authority Accounting.</p> <p>We will also perform detailed testing of revenue and expenditure transactions, focussing on the areas we consider to be of greatest risk.</p> <p>We will continue to perform substantive tests of detail to be satisfied that the Council's property, plant and equipment balances (as shown in the financial statements) are free from material misstatement.</p>
Valuation and impairment of the estate	●	<p>Property, plant and equipment (PPE) represents the largest balance in the Council's balance sheet. The Council measures its properties at fair value involving a range of assumptions and the use of internal valuation expertise. ISAs (UK&I) 500 and 540 require us, respectively, to undertake certain procedures on the use of expert valuers and processes and assumptions underlying fair value estimates.</p> <p>Specific areas of risk include:</p> <ul style="list-style-type: none"> ● The accuracy and completeness of detailed information on assets. ● Whether the Council's assumptions underlying the classification of properties are appropriate. 	<p>We will review the assumptions made, and information used, by the Council's property valuers in forming their judgements and conclusions.</p> <p>We will use our own internal experts to assess the reasonableness of these assumptions, judgements and conclusions.</p> <p>We will agree information provided to the Council's valuers to supporting documentation to gain assurance that it is complete and accurate.</p>

Risk	Level of risk	Reason for risk identification	Audit approach
Heritage assets	●	<ul style="list-style-type: none"> • Whether properties that are not programmed to be revalued in the year might have undergone material changes in their fair value. • The valuer's methodology, assumptions and underlying data, and our access to these. <p>For the first time in the 2011/12 Statement of Accounts, the Code of Practice on Local Authority Accounting in the United Kingdom requires authorities to present information about the heritage assets that they hold. Where it is practicable to obtain a valuation (at a cost commensurate with the benefits to users of the Statement of Accounts), the Code also now requires material amounts of heritage assets to be carried in the Balance Sheet at that valuation.</p>	<p>We will assess the approach taken by the Council to implement the new accounting requirements, including the methods used to identify and assess heritage assets.</p> <p>We will assess whether the Council has made all appropriate accounting disclosures in relation to heritage assets, including carrying material heritage assets in the Balance Sheet.</p>

Other Audit Code responsibilities risks

Risk	Significant / elevated risk	Reason for risk identification	Audit approach
Savings Plans	●	<p>The Council continues to need to achieve significant savings to meet its medium term financial plan, following a reduction in central government funding.</p>	<p>We will continue to monitor the Council's progress against its savings plans and budgets and the actions it is taking to identify future savings.</p>

Appendix 3: Audit fees

The Audit Commission has published its work programme and scales of fees 2011/12. The scale fee determined by the Commission for the Council is **£112,480**. The fee proposed below has been set at this level.

The scale fee takes into account assessments we made in 2010/11 about audit risk and complexity, and the Commission expects variations from the scale fee to occur only where these factors are significantly different from those identified and reflected in the 2010/11 fee.

Our proposed 2011/12 fee is as follows:

	2011/12 £
Financial statements	112,480
Whole of Government Accounts	
Use of Resources conclusion	
Total fees in line with Audit Commission fee scale	112,480
Certification of grant claims and returns	43,300
Additional work for reviewing action taken in response to accounting weaknesses in 2010/11*	9,175
Total fees for Audit Commission code work	164,955

(Fees are quoted exclusive of VAT)

* As reported in our report *Matters arising from the Audit of the Statement of Accounts 2010/11* issued in December 2011. We have included a fee for the additional audit work we anticipate will be required in respect of reviewing the action taken by the Council in response to our report *Matters arising from the Audit of the Statement of Accounts 2010/11* issued in December 2011. This report detailed a number of weaknesses relating to internal control and accounting policy/practice that arose from our audit of the Statement of Accounts 2010/11. It is difficult to estimate the exact costs associated with this work. We will keep Council officers informed of progress in this area during the course of our audit.

We are not planning to undertake any non-audit work for the Council during 2011/12. We have not undertaken any to date.

Our assessments about audit risk and complexity have been based on the following assumptions:

- Officers meeting the timetable of deliverables, which we will agree in writing;
- We are able to place reliance, as planned, upon the work of internal audit;
- We are able to draw comfort from your management controls;
- We are able to place reliance on the work of inspectors and internal audit in respect of our value for money conclusion;

- No significant changes being made by the Audit Commission to the value for money criteria on which our conclusion will be based;
- An early draft of the Annual Governance Statement being available for us to review prior to 30 June 2012;
- In respect of the grant claim budget – no additional sampling required and no amendments or qualifications;
- Our value for money conclusion and accounts opinion being unqualified.

If these prove to be unfounded or other changes in audit risk or complexity are identified, we will seek a variation order to the agreed fee, to be discussed in advance with you.

Billing schedule

Our proposed billing schedule is as follows:

Date	Grant claims and returns (£)	Accounts fee (£)	Total budgeted fee (£)
April	-	37,450	37,450
July	15,000	37,515	52,515
September	20,000	37,515	57,515
November	8,300	-	8,300
Total	43,300	112,480	155,780

We bill you in respect of the additional work for reviewing action taken in response to accounting weaknesses in 2010/11 (£9,175) as and when those costs are incurred. This will take the form of an itemised bill. We anticipate that this will be at the conclusion of our interim audit visit (May/June 2012) and after our accounts audit (September 2012).

Fees update for 2010/11

We reported our fee proposals as part of our Audit Plan for 2010/11, which we presented to the Audit and Risk Committee on 3 March 2011. These fee proposals covered the year ending 31 March 2011.

We varied our fee as a result of a number of difficulties encountered during the audit of the accounts and discussed and reported our revised budgeted and actual fees to the Executive Director (Finance and Resources) on 13 December 2011. We also discussed these fees with the Audit and Risk Committee on 4 January 2012.

Our fees charged were therefore:

	Original Budgeted Fee £	Revised Budgeted Fee £	Actual Fee £
Financial statements	126,410	143,910	174,300
Whole of Government Accounts			
Use of Resources conclusion			
Total fees in line with Audit Commission fee scale	126,410	143,910	174,300
Certification of grant claims and returns	42,950	42,950	51,147.50
Total fees for Audit Commission code work	169,360	186,860	225,447.50

Appendix 4: Other engagement information

The Audit Commission appoint us as auditors to the Borough Council of King's Lynn and West Norfolk and the terms of our appointment are governed by:

- The Code of Audit Practice; and
- The Standing Guidance for Auditors

There are four further matters which are not currently included within the guidance, but which our firm's practice requires that we raise with you.

Electronic communication

During the engagement we may from time to time communicate electronically with each other. However, the electronic transmission of information cannot be guaranteed to be secure, virus or error free and such information could be intercepted, corrupted, lost, destroyed, arrive late or incomplete or otherwise be adversely affected or unsafe to use.

PwC partners and staff may also need to access PwC electronic information and resources during the engagement. You agree that there are benefits to each of us in their being able to access the PwC network via your internet connection and that they may do this by connecting their PwC laptop computers to your network. We each understand that there are risks to each of us associated with such access, including in relation to security and the transmission of viruses.

We each recognise that systems and procedures cannot be a guarantee that transmissions, our respective networks and the devices connected to these networks will be unaffected by risks such as those identified in the previous two paragraphs. We each agree to accept the risks of and authorise (a) electronic communications between us and (b) the use of your network and internet connection as set out above. We each agree to use commercially reasonable procedures (i) to check for the then most commonly known viruses before either of us sends information electronically or we connect to your network and (ii) to prevent unauthorised access to each other's systems.

We shall each be responsible for protecting our own systems and interests and you and PwC (in each case including our respective directors, members, partners, employees, agents or servants) shall have no liability to each other on any basis, whether in contract, tort (including negligence) or otherwise, in respect of any error, damage, loss or omission arising from or in connection with the electronic communication of information between us and our reliance on such information or our use of your network and internet connection.

The exclusion of liability in the previous paragraph shall not apply to the extent that such liability cannot by law be excluded.

Access to audit working papers

We may be required to give access to our audit working papers to the Audit Commission or the National Audit Office for quality assurance purposes.

Quality arrangements

We want to provide you at all times with a high quality service to meet your needs. If at any time you would like to discuss with us how our service could be improved or if you are dissatisfied with any aspect of our services, please raise the matter immediately with the partner responsible for that aspect of our services to you. If, for any reason, you would prefer to discuss these matters with someone other than that partner, please contact Paul Woolston, our Audit Commission Lead Partner at our office at 89 Sandyford Road, Newcastle Upon Tyne, NE99 1PL, or James Chalmers, UK Head of Assurance, at our office at 1 Embankment Place, London, WC2N 6NN. In this way we can

ensure that your concerns are dealt with carefully and promptly. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. This will not affect your right to complain to the Institute of Chartered Accountants in England and Wales or to the Audit Commission.

Events arising between signature of accounts and their publication

ISA (UK&I) 560 places a number of requirements on us in the event of material events arising between the signing of the accounts and their publication. You need to inform us of any such matters that arise so we can fulfil our responsibilities.

If you have any queries on the above, please let us know before approving the Audit Plan or, if arising subsequently, at any point during the year.

In the event that, pursuant to a request which the Borough Council of King's Lynn and West Norfolk has received under the Freedom of Information Act 2000, it is required to disclose any information contained in this report, it will notify PwC promptly and consult with PwC prior to disclosing such report. The Borough Council of King's Lynn and West Norfolk agrees to pay due regard to any representations which PwC may make in connection with such disclosure and the Borough Council of King's Lynn and West Norfolk shall apply any relevant exemptions which may exist under the Act to such report. If, following consultation with PwC, the Borough Council of King's Lynn and West Norfolk discloses this report or any part thereof, it shall ensure that any disclaimer which PwC has included or may subsequently wish to include in the information is reproduced in full in any copies disclosed.

This report has been prepared for and only for *the Borough Council of King's Lynn and West Norfolk* in accordance with the Statement of Responsibilities of Auditors and of Audited Bodies (Local government bodies) published by the Audit Commission in March 2010 and for no other purpose. We do not accept or assume any liability or duty of care for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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Certification Report (2010/11)

Report to those charged with governance

*Certification Report to
those charged with
governance 2010/11*

January 2012





Members of the Audit & Risk Committee
Borough Council of King's Lynn & West Norfolk
Kings Court
Chapel Street
King's Lynn
Norfolk
PE30 1EX

12 January 2012

Ladies and Gentlemen

Subject: **Certification Report (2010/11)**

We are pleased to present our Annual Certification Report summarising the results of our 2010/11 certification work. The purpose of this report is to provide a high level overview of the results of certification work we have undertaken at the Borough Council of King's Lynn and West Norfolk ("the Council") on 2010/11 claims and returns that is accessible for members and other interested stakeholders. Fees for 2010/11 certification work are summarised in Appendix A.

Results of Certification work

During the period 1 July to 30 November 2011 we certified 3 claims and returns worth a total of £84.4m. Of these, none were amended following certification work undertaken and one required a qualification letter to set out the issues arising from the certification of the claim/return. We set out further details in the attached report.

We identified no issues relating to the Council's arrangements for preparation of claims and returns.

We ask the Audit Committee to consider the adequacy of the proposed management action plan for 2010/11 set out in Appendix B.

Yours faithfully,

A handwritten signature in black ink, appearing to read 'PricewaterhouseCoopers LLP', written over a light blue circular stamp.

PricewaterhouseCoopers LLP

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Introduction

Introduction

Scope of work

Grant-paying bodies pay billions of pounds in grants and subsidies each year to local authorities and often require certification, by an appropriately qualified auditor, of the claims and returns submitted to them. Certification work is not an audit but a different kind of assurance engagement. This involves applying prescribed tests, as set out within Certification Instructions (“CIs”) issued to us by the Audit Commission, which are designed to give reasonable assurance that claims and returns are fairly stated and in accordance with specified terms and conditions.

The Audit Commission is required by law to make certification arrangements for grant-paying bodies when requested to do so and sets thresholds for claim and return certification, as well as the prescribed tests which we as local government appointed auditors must undertake. We certify claims and returns as they arise throughout the year to meet the certified claim/return submission deadlines set by grant-paying bodies.

We consider the results of certification work when performing other Code of Audit Practice work at the Authority, including for our conclusions on the financial statements and on value for money.

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 and on the Audit Commission’s website. 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.

Statement of responsibilities of grant-paying bodies, authorities, the Audit Commission and appointed auditors in relation to claims and returns

In November 2010 the Audit Commission updated the 'Statement of responsibilities of grant-paying bodies, authorities, the Audit Commission and appointed auditors in relation to claims and returns'. This is available from the Audit Commission's website. The purpose of this statement is to summarise the Audit Commission's framework for making certification arrangements and to assist grant-paying bodies, authorities, and the Audit Commission's appointed auditors by summarising their respective responsibilities and explaining where their different responsibilities begin and end.

Results of Certification Work

Results of Certification Work

Claims and returns certified

A summary of the claims and returns certified during the year is set out below. In one case a qualification letter was required to set out the issues arising from the certification of the claim/return. We were pleased to note that none of the claims/returns were amended following the certification work undertaken. All deadlines for submission of certified claims/returns were also met.

Claims and returns certified in 2010/11

CI Reference	Title	Form	Original/Final Value (£)	Qualification
BEN01	Housing and Council Tax Benefits Subsidy Claim	MPF720A	47,823,804	Yes. See details provided in "issues arising" below.
LA01	National and Domestic Rates Return	NNDR3	36,144,645	None.
HOU21	Disabled Facilities Grant Claim	DFG 2010-11	470,000	None.

Issues arising

A number of issues were identified during the certification of the Housing and Council Tax Benefits Subsidy Claim ("Benefits Claim") which are discussed below. These issues have been reported to the Department of Work and Pensions and they will decide the impact of the issues on the subsidy granted to the Council.

Non compliance with regulations/ terms and conditions

We identified one matter regarding non-compliance with regulations / terms and conditions which we wish to raise with those charged with governance. The risks of not addressing these issues and our recommendations for improvement are set out in the table below.

Compliance issues

Issue	Risk to the Authority	Recommendation
<p>Errors were identified in the calculation of subsidy payable, including:</p> <ul style="list-style-type: none"> • 1 case where there was insufficient supporting documentation for a claimant’s income. • 5 cases where a claimant’s income details were not correctly updated or assessed. • 7 cases where a prior year overpayment has been incorrectly included as a current year overpayment. • 22 cases of benefit overpayment were misclassified as eligible overpayments that attract 40% subsidy. • 9 cases were identified where a benefit overpayment was misclassified as caused by Local Authority error (which attracts no subsidy) as opposed to eligible overpayment. <p>These errors were identified from a sample of 60 relevant claims.</p> <p>We identified similar issues during our 2009/10 certification.</p>	<p>These errors could have a financial impact on the subsidy amount receivable from the DwP.</p> <p>In addition, due to the errors identified we were required to perform additional testing which has an impact on the grant certification fee.</p>	<p>Consider why the errors identified in our testing occurred and put in place appropriate corrective measures. Such measures may include:</p> <ul style="list-style-type: none"> • Assessor training; and • Reminding staff of the importance of retaining evidence on file.

The matter raised above on the Housing and Council Tax Benefit subsidy (“BEN01”) (certification deadline 30 November 2011) summarises the observations identified during our certification work which we were required to report, within a qualification letter, to the Department of Work and Pensions (DWP). We have not sought to duplicate in the table above all the detailed findings included within the qualification letter. A copy of the qualification letter has been provided to officers of the Council.

Prior year recommendations

We have reviewed progress made in implementing the certification action plan for 2009/10. Some progress has been made. Where matters remain outstanding these are highlighted in the issue raised above.

Appendices

Appendix A

Certification Fees

The fees for certification of each claim/return are set out below:

Grant Claim	2009/10 Actual Fee £	2010/11 Budgeted Fee £	2010/11 Actual Fee £
Housing and Council Tax Benefits (BEN01)	50,895	38,500	46,697.50*
National Non-Domestic Rates (NNDR – LA01)	3,350	3,450	3,450
Disabled Facilities (HOU21)	950	1,000	1,000
	55,195	42,950	51,147.50

* Our original budget assumed no additional sampling and testing would be required following our testing of the initial sample on the benefits claim. This proved to be incorrect and, due to errors found in our initial sample and in accordance with DWP and Audit Commission requirements, we tested an additional 40 items. This additional fee was communicated to the Director of Finance and Resources on 24 October 2011.

These fees reflect the Council's current performance and arrangements for certification. It may be possible to reduce fees should the Council improve its performance by addressing the issues identified within this report.

Appendix B

2010/11 Management Action Plan

Claim/Return (deadline)	Issue	Recommendation	Management response	Responsibility (Implementation date)
Housing and Council Tax Benefits Subsidy Claim (30/11/2011).	<p>Errors were identified in the calculation of subsidy payable, including:</p> <ul style="list-style-type: none"> • 1 case where there was insufficient supporting documentation for a claimant’s income. • 5 cases where a claimant’s income details were not correctly updated or assessed. • 7 cases where a prior year overpayment has been incorrectly included as a current year overpayment. • 22 cases of benefit overpayment were misclassified as eligible 	<p>Consider why the errors identified in our testing occurred and put in place appropriate corrective measures. Such measures may include:</p> <ul style="list-style-type: none"> • Assessor training; and • Reminding staff of the importance of retaining evidence on file. 	<p>Each case has been reviewed with the auditor with the following findings:</p> <ul style="list-style-type: none"> • There was insufficient supporting information for the claimant’s income - the income was not verified as this is a homeless case and they were only in the property for four days; • Incomes not correctly updated relates to errors calculating claimants’ earnings and one case where a private pension was changed from the wrong date; • Prior year overpayments included in current year and misclassified overpayments 	<p>Revenues and Benefits Manager.</p> <p>31 March 2012.</p>

overpayments that attract 40% subsidy.

- 9 cases were identified where a benefit overpayment was misclassified as caused by Local Authority error (which attracts no subsidy) as opposed to eligible overpayment.

These errors were identified from a sample of 60 relevant claims.

We identified similar issues during our 2009/10 certification.

are due to a system problem and do not affect subsidy; and

- Misclassifications of overpayments are due to errors classified in the wrong category or from the wrong date.

Errors identified on the Subsidy Audit are managed alongside any errors identified as part of the ongoing system of quality control.

A feedback session for staff detailing all the errors identified on the Subsidy Audit has been held.

Reminders about the calculation of earnings are regularly circulated and errors are fed back on a one to one basis.

An Assessor Briefing and training session was held on 8 December 2011 covering overpayments.

System parameters and working practices have been updated to avoid future system errors.

Feedback and training will be completed by 31 March 2012.

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In the event that, pursuant to a request which you have received under the Freedom of Information Act 2000 (as the same may be amended or re-enacted from time to time) or any subordinate legislation made thereunder (collectively, the "Legislation"), you are required to disclose any information contained in this report, we ask that you notify us promptly and consult with us prior to disclosing such information. You agree to pay due regard to any representations which we may make in connection with such disclosure and to apply any relevant exemptions which may exist under the Legislation to such information. If, following consultation with us, you disclose any such information, please ensure that any disclaimer which we have included or may subsequently wish to include in the information is reproduced in full in any copies disclosed.

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AUDIT AND RISK COMMITTEE – WORK PROGRAMME 2011/2012

28 February 2012

- Annual Certification Report – Council's grant claims and returns. Alison Ridley from PWC will present the report
- External Audit Plan 2011/2012

27 March 2012

- 2010/2011 Statement of Accounts under IFRS – restating
- Business Continuity – annual update
- 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