REPORT TO CABINET

<table>
<tr><td colspan="2">Open</td><td colspan="3">Would any decisions proposed :

(a) Be entirely within Cabinet's powers to decide NO

(b) Need to be recommendations to Council YES

(c) Be partly for recommendations to Council YES
and partly within Cabinet's powers –</td></tr>
<tr><td>Any especially affected Wards

None</td><td>Mandatory/

Operational</td><td colspan="3"></td></tr>
<tr><td colspan="2">Lead Member: Cllr N Daubney
E-mail: cllr.nick.daubney'@west-norfolk.gov.uk</td><td colspan="3">Other Cabinet Members consulted:

Other Members consulted:</td></tr>
<tr><td colspan="2">Lead Officer: David Thomason
E-mail: david.thomason@west-norfolk.gov.uk
Direct Dial: 01553 616246</td><td colspan="3">Other Officers consulted: Management Team. Service Managers.</td></tr>
<tr><td>Financial Implications
YES</td><td>Policy/Personnel Implications
NO</td><td>Statutory Implications (incl S.17) YES</td><td>Equal Opportunities Implications
NO</td><td>Risk Management Implications
NO</td></tr>
</table>

Cabinet Date: **20 September 2011**

STATEMENT OF ACCOUNTS 2010/2011 AND REPORT TO THOSE CHARGED WITH GOVERNANCE (ISA 260(UK&I))

Summary

The report introduces the Statement of Accounts (SOA) 2010/2011 – essentially the Statement is the final accounts set out in a format which includes the Council's balance sheet and associated notes. Within the full statement is an Annual Governance Statement which has been signed by the Leader and Chief Executive of the Council.

The report also considers the report from the auditor on the audit for the accounts 2010/2011 – the International Auditing Standard (ISA 260).

Recommendation

It is recommended that Council approves;

i. **the Statement of Accounts for 2010/2011.**

It is recommended that Cabinet;

ii. **approve the authority for any changes required to the Statement of Accounts is delegated to the Deputy Chief Executive, in consultation with the Leader of the Council, to authorise amendments and if necessary present an updated Statement to Council**.

iii. **notes the comments of the auditor in the ISA260**

Reason for Decision

The Council must approve the Statement of Accounts for 2010/2011 before 30 September 2011 and consider the comments from the auditor on the ISA 260.

1 Introduction

1.1 The report introduces the Statement of Accounts for 2010/2011 – a statutory document that must be approved by the Council before 30 September 2011. The Statement has been subject to external audit by PricewaterhouseCoopers during the summer period.

1.2 The Council has already received a report on the outturn of the budget for 2010/2011 in June. This report presents to members the formal set of accounts that are required for audit purposes. The format of the Statement of Accounts is subject to prescription and is now presented in a new format having been prepared under the International Financial Reporting Standards (IFRS) which is in accordance with the relevant Audit and Account Regulations. Although, many of the figures within the Accounts come from the same summary of the Budget submitted to Council in June they are almost unrecognisable in the detail of the Statement.

1.3 The Statement in its new format now runs to over 100 pages, some 35 pages more than last year and it contains different notes and analysis which to the layman will be almost impossible to reconcile to the Council's budget and final accounts.

1.4 The report from the auditor on the audit for the accounts 2010/2011 – the International Auditing Standard (ISA 260) – provides members with an overview of the findings of the audit.

2. Statement of Accounts 2010/2011

2.1 The Council must formally approve the SOA for 2010/2011 by 30 September 2011. PricewaterhouseCoopers, the external auditor has audited the document over the past few months and has indicated that they are likely to express an opinion that the accounts present fairly the position of the Council as at 31 March 2011 and its income and expenditure for the year then ended.

2.2 As the Council's designated S151 Officer, the Deputy Chief Executive is responsible for the SOA and certifies his acceptance of the accounts. Associated with the final accounts, the Council is required to sign off an Annual Governance Statement (AGS) which has been signed by the Leader of the Council and the Chief Executive.

2.3 As part of the preparation of the accounts under the new IFRS format it has been necessary to restate certain figures and component parts of the Statement which has involved recalculating figures back to 2007/2008. This has proved to be extremely time consuming and like many other parts of the IFRS regulations the 'devil has been in the detail'. The auditor's report has outlined the difficulties experienced by Accountancy in preparing the Statement. As the S151 officer may I take this opportunity to thank the accountancy team for all of their efforts in tackling a new and frustrating set of new accounting arrangements.

2.4 Perhaps one of the more familiar items in the Statement is the Balance Sheet, page 14, which is a 'snapshot' of the Council's financial position at the 31 March 2011.

2.5 The figures of interest on the Balance Sheet are: -

- The Council property, plant and equipment assets have increased in value £95m to £104m. The increase in value is due mainly to the revaluation of property and spend on plant and equipment.

- The long term investment portfolio has reduced from £13m to £14,000 but short term investment has increased from £12m to £26m. This reflects the movement of investment funds from long term into short term mainly due to the withdrawal of funds from the external fund manager which were classified as long term investments but because of the uncertainty in the market and low rates currently available were converted to short term investments. This is in line with the declared strategy where the Council wished to remain flexible and avoid being locked into long term low rates.

- Short term debtors have reduced to £3.6m from £7m. This movement is due mainly to the reduced level of debt by Government at the year end on grant claims.

- Short term borrowing has reduced from £9.1m to £3.8m. This simply reflects the Council's cash flow position at the date of the year end.

- The Pension Liability shown on the balance sheet represents the shortfall on the Council's pension fund as measured on the 31 March each year. In the current economic climate it is perhaps surprising to see that the funding position of the employer's share of the pension scheme has improved over 2010/2011, from a deficit of £56m to £25m. This reflects the changes made to the Pension Fund in terms of inflation on pensions changing from Retail Price Index to Consumer Price Index and the fact the retirement ages have been set back for members of the Fund.

- The Useable Reserves have remained the same but Unuseable Reserves have increased from £53m to £94m. This is simply a book entry that offsets many of the other changes such as the asset revaluations and pension fund changes.

2.6 Members will appreciate that the SOA is a complex document which is currently subject to ongoing quality checks up to Council meeting on the 29 September . It is therefore recommended that if changes are required to the SOA that authority is delegated to the Deputy Chief Executive and Executive Director, Finance and Resources, in consultation with the Leader of the Council, to authorise amendments. That, if necessary, an updated SOA is presented to Council with a reconciliation to the current SOA.

3 The International Auditing Standard (ISA 260).

3.1 Although there are one or two issues to be resolved at the time of writing the report the auditor anticipated issuing an unqualified audit opinion.

3.2 The report does point out the difficulties experienced this year which resulted from the pressures of preparing the accounts for IFRS. Working papers were not as good as previous years, the timetable was delayed on occasions and minor errors on casting and suchlike were in the draft accounts.

3.3 The major difficulties were in dealing with the capital assets in terms of valuations and impairment. In this particular case the intention from the outset was for staff within accountancy to deal with the new accounting arrangements and learn from the experience rather than have a sub contractor come in to assist and then take the knowledge with them. This was an area that proved far more complex than was originally anticipated and lessons have been learned from the audit.

3.4 The report also notes a number of uncorrected misstatements that are not considered to be material in terms of the values in the accounts and if corrected at this stage would create changes to many other elements of the accounts.

3.5 The final part of the report sets out recommendations and responses from the review of the internal financial controls 2010/2011. There are no significant issues to note from this review.

4 Financial Implications

4.1 There are no financial implications that follow the presentation of the Statement of Accounts

5. Policy Implications

5.1 None

6 Statutory Considerations

6.1 The Statement of Accounts must be approved by the Council by 30 September 2011.

7. Consultations

Leader of Council

8. Access to Information

Council agenda/minutes
Council budget books

www.pwc.co.uk

Government and Public Sector

Borough Council of King's Lynn & West Norfolk

Report to those charged with governance (ISA 260 (UK&I))

2010/11 Audit

September 2011

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

September 2011

Dear Sirs

We enclose our report to the Audit and Risk Committee in respect of our audit of the Borough Council of Kings Lynn & West Norfolk (“the Authority”) for the year ended 31 March 2011, the primary purpose of which is to communicate the significant findings arising from our audit.

The scope and proposed focus of our audit work was summarised in our audit plan, which was presented to the Audit and Risk Committee in March 2011. We have subsequently reviewed our audit plan and concluded that our original risk assessment remains appropriate. The procedures we have performed in response to our assessment of significant audit risks are detailed in Section ‘Audit Approach’ on page 7 of this report.

We are in the process of completing our audit work on the Council’s Statement of Accounts. We are working with officers to aim to complete our work ahead of publication of the accounts deadline of 30 September 2011. At the time of writing, the key outstanding matters, where our work has commenced but is not yet finalised are detailed within paragraph 14 of the report. We will provide an oral update on these matters at the meeting on 13 September 2011.

We look forward to discussing our report with you on 13 September 2011. Attending the meeting from PwC will be Julian Rickett.

Yours faithfully

PricewaterhouseCoopers LLP

Contents

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

In April 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. 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.

Executive summary

The purpose of this report

1. Under the Auditing Practices Board's International Auditing Standard (UK and Ireland) 260 (ISA (UK&I) 260) - "Communication of audit matters with those charged with governance" we are required to report to those charged with governance on the significant findings from our audit before giving our audit opinion on the accounts of the Borough Council of King's Lynn & West Norfolk ('the Authority'). As agreed with you, we consider that "those charged with governance", at the Authority, are the Audit and Risk Committee.

2. This letter contains the significant matters we wish to report to you arising from all aspects of our audit programme of work in accordance with ISA (UK&I) 260.

3. Our audit work during the year was performed in accordance with the plan that was presented to you on 3 March 2011. An audit of financial statements is not designed to identify all matters that may be relevant to those charged with governance. Accordingly, the audit does not ordinarily identify all such matters. We have issued a number of reports during the audit year, detailing the findings from our work and making recommendations for improvement, where appropriate. A list of these reports is included at Appendix 2 to this letter.

4. We have set out below what we consider to be the most significant matters that we have discussed with you in the course of our work.

Significant matters

5. We have set out below what we consider to be the most significant matters that we have discussed with management during the course of our work and which are included within this report:

Matter	**Report Paragraphs**
Incomplete draft accounts	17-21
Preparation of IFRS based accounts	22-23
Reversal of impairments previously charged to the Comprehensive Income and Expenditure Account	24-26
Measurement basis used for valuing infrastructure and community assets	27-28
Quality of working papers provided to audit	29-30

6. We will discuss the matters contained within this letter with the Audit Committee on 13 September 2011.

7. Please note that this report will be sent to the Audit Commission in accordance with the requirements of their standing guidance.

8. We would also like to take this opportunity to express our thanks for the co-operation and assistance we have received from the management and staff of the Authority throughout our work.

Audit approach

9. Our audit scope and approach was set out in our 2010/11 Audit Plan. We have set out below the key audit risks identified within the Audit Plan together with our comments on the results of the work performed.

Identified audit risks from the Audit Plan	Outcome of audit work
Significant risks	
2010/11 – the first year of reporting under IFRS The transition to IFRS involves both new and considerably revised financial statements and an increase in the depth of disclosures required in the notes to the accounts. There is a risk of material errors in the restatements and reclassifications required in preparing the accounts in their new format and of material omissions of information required to be disclosed by the new Code of Practice on Local Authority Accounting.	Our audit work in this area has involved: • Understanding the Council's approach to restating prior year balances to accounting under an IFRS basis; • Testing significant restatements made on transition from UK Generally Accepted Accounting Practice (UK GAAP) to accounting under IFRS; and • Reviewing the Council's accounts against the disclosure checklist. Our work in this area will also include having an independent 'hot review' of the accounts undertaken. This will be undertaken following receipt of a complete set of accounts. We have identified a number of issues in this area which we are currently working with officers to resolve. These include: • Non-compliance with the IFRS Code in relation to accounting for the reversal of previous years impairments and the valuation of community and infrastructure assets; • Difficulties in reconciling prior years accounts to restated prior year comparatives; and • A significant number of inconsistencies between accounting statements and notes. We have also identified a number of disclosures and some presentational issues which require amendment. Further detail on these matters has been included within paragraphs 22 to 28 of this report.
Income and Expenditure Recognition There is a risk that the Council could adopt accounting policies or treat income and expenditure transactions in such as way as to lead to material misstatement in the reported revenue position.	We have examined the application of the Council's accounting policies and focussed our work on the risk of material misstatement of those components of income and expenditure which involve management estimation. This includes accruals, accrued income and prepayments. Our work on income and expenditure recognition has not identified any material misstatements. All unadjusted misstatements are listed in Appendix 1.

Identified audit risks from the Audit Plan	Outcome of audit work
Fixed Asset system A new fixed asset system has been implemented and will be used for the first time in 2010/11 to produce a number of the long term asset figures in the Balance Sheet as well as information for a number of disclosure notes. The implementation of this system presents a number of potential risks in terms of the installation and integration of the software and complete and accurate transfer of data as well as the adequacy of training and the ability of the new package to meet users' needs.	In transferring information from the Council's old fixed asset register (spreadsheets) to the new fixed asset system (Technology Forge), the Council: • Undertook significant data cleansing to ensure the information was appropriate for the new system; • Identified a number of anomalies between the asset information held such that additional assets have been included on the new system. Our audit work in this area is on-going. To date, we have no matters to report.
Management Override of Controls In any organisation, management may be in a position to override the financial controls that you have in place. A control breach of this nature may result in a material misstatement. Under the new clarity International Standards of Auditing (ISA), for all of our audits, we are required to consider this a significant risk and adapt our audit procedures accordingly.	We are in the process of undertaking unpredictable testing on journals. To date, no exceptions have been identified from this work. Our work on management estimates (as summarised in paragraphs 33 to 45) has not identified any material misstatements to bring to your attention. All unadjusted misstatements are listed in Appendix 1.
Other Risks	
Increased pressures on budgets The Council is likely to be experiencing increased pressures on many of its budgets as economic conditions have worsened. Budget holders may feel under pressure to try to push costs into future periods, or to miscode expenditure to make use of resources intended for different purposes. Local government bodies are expected to make significant efficiency savings over the next three years. There is a risk that savings plans may not be robust or based on long term solutions which could result in short term, year end actions to ensure that the targets are met. There are also risks in relation to financial reporting, that the requirement to report particular financial results overrides best financial reporting practice.	Our audit work has included: • Considering the Council's budgetary control processes including placing reliance on the work of Internal Audit in this area; • Undertaking testing on cut-off procedures and unrecorded liabilities at the year end to ensure all significant transactions are appropriately recognised and recorded within the correct period; and • Consulting with officers regarding the savings efficiency plans in place and reviewing evidence of the robustness of these plans. We are in the process of concluding on this work however, based on work performed to date, we have no matters to report.

Identified audit risks from the Audit Plan	Outcome of audit work
Accounting for New Loans The Council is currently considering providing: • loans to assist local organisations; and • mortgages to assist local residents in buying homes. There is a risk that these loans may not be appropriately identified, valued and disclosed for within the Statement of Accounts.	We have reviewed the advances made by the Council in relation to loans provided. There are no matters that we wish to raise in this report related to this matter.
Recoverability of Aged Housing Debtors In the previous two audit years, we have raised concerns regarding the high level of aged housing debts. At our previous review there was just under £1m which was over six months old, however we understood the Council had budgeted to write some of this debt off. There is a risk that housing debts may not be appropriately valued in the accounts if action to recover and/or write off the debts has not taken place.	The Council has written off approximately £143k of housing debts during 2010/11. Our review of aged debtors has noted that housing arrears over six months old as at 31 March 2011 has reduced since the prior year, and now stands at £516k. Furthermore a provision of £215k has been made against the remaining housing arrears debts. We have no matters that we wish to raise in this report in relation to this matter.

Risk of fraud

10. In presenting this report to the Audit Committee, we seek members' confirmation that there have been no matters of which they are aware have arisen in relation to the risk or incidence of fraud, within the Council, that should be brought to our attention. A specific confirmation from the Committee in relation to fraud is included in the letter of representation, a draft of which is attached at Appendix 2.

Audit independence

11. We confirm that, in our professional judgment, as at the date of this report, we are independent auditors with respect to the Authority and its related entities, within the meaning of UK regulatory and professional requirements and that the objectivity of the audit engagement leader and the audit staff is not impaired.

Significant audit and accounting matters

12. ISA (UK&I) 260 requires us to communicate to you relevant matters relating to the audit of the financial statements sufficiently promptly to enable you to take appropriate action.

Accounts

13. We have completed our audit in line with current Auditing Standards subject to the matters set out below. Subject to the satisfactory resolution of these remaining matters, we anticipate issuing an unqualified opinion.

14. The matters remaining at the time of drafting this report are:

- Receipt of outstanding bank, investment and borrowings confirmations;
- Detailed audit work to be completed on:
    - Cash Flow Statement and related notes;
    - Reconciling of opening balances and prior year comparatives to IFRS restatement work and prior year accounts;
    - Comprehensive Income and Expenditure Statement – undertaking testing on grant income and ensuring consistency of the balances within 'Other comprehensive income and expenditure' to other areas of the accounts;
    - Reserves;
    - Property, Plant and Equipment including leases. This includes liaising with our internal valuers regarding the reasonableness of assumptions made in relation to property valuations;
    - Journals;
    - Long term debtors;
    - Taxation and non-specific grant income;
    - Disclosure notes;
- Re-review of audit work performed on investment properties and financial instruments as a result of amendments made;
- Pensions – resolution of matter identified in relation to actual and expected return on pension scheme assets.
- Review of the final version of the accounts, updated for outstanding disclosure updates and audit queries;
- Approval of the financial statements and letters of representation; and
- Completion of internal PwC quality control procedures including subsequent events review.

15. We will update the Audit Committee on the status of this work at the meeting on 13 September 2011.

Accounting issues

16. We are required to report to you our view on significant qualitative aspects of the Authority's accounting practices, including its accounting policies, accounting estimates and financial statement disclosures. We identified the following matters during the course of our audit work:

Incomplete draft accounts

17. A full set of draft accounts was not signed by the Deputy Chief Executive and Executive Director Finance and Resources by the deadline of 30 June 2011.

18. Furthermore, the draft accounts provided at the start of our audit did not include a number of figures and disclosures including:

- Balances relating to property, plant and equipment and reserves; and
- Full disclosures relating to the IFRS restatement including changes to prior year balances, financial instruments, trading operations and leases.

19. We were informed by officers that the Cash Flow Statement and related notes would not be ready for the commencement of our audit, which we accepted on the basis that this information would be prepared for audit review in accordance with the audit taskplan timetable. However, we were not made aware of the above omissions from the accounts prior to arriving for the start of the audit.

20. This matter has resulted in a number of issues including:

- The Council has been unable to undertake appropriate quality review checks on the draft accounts as officers have been working to complete the accounts and disclosures. In some cases, completion work undertaken by officers has resulted in additional amendments being made to existing balances within the initial draft accounts;
- A further delay in receipt of the Cash Flow Statement and related notes has been incurred as officers have been involved in resolving audit queries / making amendments to existing balances within the draft accounts;
- We have identified a significant amount 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, coupled with the loss of 2 key finance officers.

21. In addition, this matter has impacted on the audit resource required. We have had to input significant additional time to complete our audit work, which is still on-going, and will result in additional fees being incurred.

Preparation of IFRS based accounts

22. Following discussions with officers in December 2010, we performed early audit work in February and March 2011 on the restatement of prior year balances prepared by the Council. Whilst we identified some amendments to be made which were discussed and agreed with officers at that time, we identified no significant matters from this work.

23. However, 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 has identified the following matters:

- No adjustments have been made to reverse impairments previously charged to the Income and Expenditure Statement. We comment further on this matter in paragraphs 24 to 26 below;
- An incorrect measurement basis has been used to value infrastructure assets as well as a proportion of the Council's community assets. We comment further on this matter in paragraphs 27 to 29 below;
- A number of additional disclosures or amendments to existing disclosures have been required. Whilst, to date, none of these are individually significant, a number of changes are still in the process of being made to revise the accounts.

Reversal of impairments previously charged to the Comprehensive Income and Expenditure Account

24. Under IFRS, there has been a change in accounting for the reversal of impairments. Reversals of impairments made within prior years which were charged to the Comprehensive Income and Expenditure Account (e.g. through revaluations) should be credited back to the Comprehensive Income and Expenditure

Account up to the value that was previously charged to revenue. The Council has not made any adjustments to calculate these reversals.

25. As a result, the Income and Expenditure Statement (net cost of services) as well as the Revaluation Reserve and Capital Adjustment Account may be misstated. However, this error does not impact on the overall net worth on the Balance Sheet or on the General Fund Balance.

26. We are currently working with officers to quantify the value of this error on the financial statements.

Measurement basis used for valuing infrastructure and community assets

27. The IFRS Code of Accounting Practice requires infrastructure assets and community assets to be valued in the financial statements at depreciated historical cost.

28. The Council's accounting policy in relation to the measurement of these assets is consistent with the IFRS Code. However, our audit work has identified that:

- There has been a net reduction in the value of community assets of £1,037k as a result of a revaluation exercise. Given the IFRS Code requirements, we would not expect a revaluation exercise to be undertaken on these assets.

  Our discussions with officers regarding the appropriateness of this adjustment and the need to ensure that the assets are valued on the basis of depreciated historical cost has identified community assets have not been valued consistently in previous years, with some assets being valued on the basis of amenity value even though this is inconsistent with the Council's accounting policy.

  Whilst the revaluation adjustment is not material and therefore no change is proposed to the accounts, the Council should undertake a review of its community assets in 2011/12 to verify the appropriateness of this revaluation and ensure that all community assets are valued consistently on the basis of depreciated historical cost. The Council will need to be able to appropriately demonstrate its measurement basis going forward.

- The Council has inappropriately valued its infrastructure assets on the basis of fair value (existing use value). This has resulted in an incorrect increase in value of £685k on infrastructure assets. This has been included on the Summary of Uncorrected Misstatements in Appendix 1.

Quality of working papers provided to audit

29. The quality of the working papers provided for audit was not to an appropriate audit standard in some cases.

30. In a number of cases, we have only been provided with complex spreadsheets detailing downloads from the general ledger. Therefore, have encountered difficulties in agreeing the spreadsheets back to the accounts, understanding what the breakdown balances relate to and how they agree to underlying systems. This has impacted on the audit resource required. We have had to input significant additional time to complete our audit work, which is still on-going, and will result in additional fees being incurred.

Misstatements and significant audit adjustments

31. We are required to report to you all unadjusted misstatements which we have identified during the course of our audit, other than those of a trivial nature. These misstatements are described in Appendix 1 to this report.

Significant accounting principles and policies

32. Significant accounting principles and policies are disclosed in the notes to the financial statements. We will ask the Audit Committee to represent to us that they have considered the selection of, or changes in,

significant accounting policies and practices that have, or could have, a material effect on the Authority's financial statements.

Judgments and accounting estimates

33. The following matters are subject to estimation uncertainty and the exercise of management judgement:

- The valuation of property;
- Depreciation in relation to component accounting
- The valuation of assets and liabilities in relation to the Local Government Pension Scheme (LGPS); and
- The provision for bad debts.

Valuation of Property

34. The Council's accounting policy is for property classified as other land and buildings, land awaiting development and investment properties to be included in the financial statements at current fair value. Excluding investment properties which are revalued annually, the Council has a 5 year cyclical programme in place for arranging professional valuations of property with impairment reviews considered in the intervening years to identify any factors that may indicate whether the fair value stated in the Balance Sheet might be materially misstated.

35. In accordance with its accounting policy, the Council has revalued a proportion of its assets in accordance with its cyclical programme. For investment properties and assets not valued during 2010/11, a review of their fair values as at 31 March 2011 has resulted in no changes to property valuations being processed within the 2010/11 financial statements.

36. In estimating the fair value to be included in the 2010/11 accounts, management has utilised the expertise of the Council's internal valuers. However, the assumptions used by these experts remain the responsibility of management.

37. Subject to obtaining the views of our internal property valuation experts we do not consider the accounts to be materially misstated in relation to property valuations.

Component Accounting

38. The Council is required to apply component accounting for depreciation prospectively from 1 April 2010. As a result, the Council must depreciate significant components of assets separately when:

    - Significant asset acquisitions are made;
    - Significant enhancement expenditure is incurred on existing assets; or
    - Assets are revalued during the year.

39. The Council's policy is to apply component accounting to building assets with a value over £100k which have significant components greater than 10% of the cost of the asset.

40. In estimating the significance of components and therefore depreciation for the year, the Council has utilised the expertise of its internal property valuers to determine whether components are significant in relation to the cost of the whole asset. However, the assumptions made by these experts remain the responsibility of management.

41. We are currently in the process of examining whether the Council's policy has been applied appropriately and consistently to the Council's asset base taking account of the requirements of the Code and the transactions which have occurred during the year. To date, we have not identified any material misstatements.

The valuation of assets and liabilities in relation to the LGPS

42. The financial statements include a non-current payable as at 31 March 2011 of £25,238k (2010: £56,500k) in respect of the Council's overall liability to the Norfolk County Council LGPS.

43. As detailed within the notes to the financial statements, a large component of the decrease in this liability relates to the change in methodology for calculating the minimum pension increase for public sector pension schemes. In June 2010, the Government announced that the Consumer Price Index (CPI) would be used to calculate the increase rather than the Retail Price Index (RPI) that had been used previously. CPI assumptions have been used for the calculation of the liability as at 31 March 2011 which resulted in a £11,627k reduction to the pension scheme liability which has been recognised as a negative past service cost.

44. We have assessed the assumptions used by the scheme actuary and reviewed them against independent sources. We have requested that the Deputy Chief Executive and Director of Finance and Resources confirm the appropriateness of these assumptions in the letter of representation (see Appendix 2).

The provision for bad debts

45. The Council has recognised a provision for bad debts of £541k within the financial statements against Council Tax National, Non-Domestic Rates and Sundry debtors. We have assessed the reasonableness of this provision have no matters which we wish to report.

Management representations

46. The draft of the representation letter that we are requesting management and those charged with governance to sign is attached in Appendix 2.

Accounting systems and systems of internal control

47. It is the responsibility of the Authority to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. As auditors, we review these arrangements for the purposes of our audit of the financial statements and our review of the annual governance statement.

48. We have not identified any significant matters during our review which we wish to bring to the attention of the Audit Committee. Less significant matters have been identified and these are summarised in Appendix 3 along with the action plan agreed with officers.

Annual Governance Statement

49. Local Authorities are required to produce an Annual Governance Statement (AGS), which is consistent with guidance issued by CIPFA / SOLACE: 'Delivering Good Governance in Local Government'. The AGS has not been included in the financial statements, it forms a separate document.

50. We have reviewed the AGS to consider whether it complied with the CIPFA / SOLACE 'Delivering Good Governance in Local Government' framework and whether it is misleading or inconsistent with other information known to us from our audit work. We found no areas of concern to report in this context.

Economy, efficiency and effectiveness

51. Our value for money code responsibility requires us to carry out sufficient and relevant work in order to conclude on whether you have put in place proper arrangements to secure economy, efficiency and effectiveness in the use of resources.

52. In accordance with guidance issued by the Audit Commission, in 2010/11 our conclusion is 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.

53. Unlike in previous years, we have not been required to reach a scored judgement 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.

54. Subject to satisfactory completion of our quality review procedures in respect of the Council's savings programme and financial standing, we anticipate issuing an unqualified value for money conclusion.

55. We will update the Audit Committee on the status of this work at the meeting on 13 September 2011.

Recent developments

Accounting developments

56. There are a number of minor updates to the CIPFA Code of Practice on Local Authority Accounting in the UK 2011/12

57. The main accounting change relates to the adoption of the requirements of FRS 30 Heritage Assets in the CIPFA Code. This requires heritage assets to be measured at valuation in normal circumstances, and permits authorities to use the measurement and disclosure principles of FRS 30 for Community Assets.

Appendices

Summary of misstatements

Summary of uncorrected misstatements

We have identified the following errors during our audit of the financial statements that have not been adjusted by management. The Audit and Risk Committee, as those charged with governance, is requested formally to consider the unadjusted errors listed and determine whether it would wish the accounts to be amended. If the errors are not adjusted we will require a written representation from you explaining your reasons for not making the adjustments.

No	Description of misstatement (factual, judgemental, projected)		Income statement		Balance sheet	
			Dr £'000	Cr £'000	Dr £'000	Cr £'000
1	Dr Intangible Assets Cr Property Plant & Equipment Being an adjustment to correct for misclassification of depreciation between intangible assets and property, plant and equipment.	F			108	108
2	Dr Creditors Cr Gross Expenditure Being an adjustment to eliminate a creditor raised the full value of which may not be payable.	F	264			264
3	Dr Revaluation Reserve Cr Property, Plant and Equipment – Infrastructure Assets. Being an adjustment to correct for an incorrect measurement base used to value infrastructure assets.	F			685	685
Total uncorrected misstatements			**264**	**0**	**793**	**1,057**

Letter of representation

To be prepared on the Authority's letterhead and to be dated on the same date that the accounts are approved and signed by the Council.

PricewaterhouseCoopers LLP
The Atrium
St Georges Street
Norwich
Norfolk
NR3 1AG

Dear Sirs

This representation letter is provided in connection with your audit of the Statement of Accounts of the Borough Council of King's Lynn & West Norfolk (the "authority") for the year ended 31 March 2011 for the purpose of expressing an opinion as to whether the Statement of Accounts gives a true and fair view, and has been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom and the Best Value Accounting Code of Practice.

My responsibilities as Deputy Chief Executive, Director of Finance and Resources for preparing the financial statements are set out in the Statement of Responsibilities for the Statement of Accounts. I am also responsible for the administration of the financial affairs of the authority. I also acknowledge that I am responsible for making accurate representations to you.

I confirm that the following representations are made on the basis of enquiries of other chief officers and members of the Borough Council of King's Lynn & West Norfolk with relevant knowledge and experience and, where appropriate, of inspection of supporting documentation sufficient to satisfy myself that I can properly make each of the following representations to you.

I confirm, to the best of my knowledge and belief, and having made the appropriate enquiries, the following representations:

Financial Statements

I have fulfilled my responsibilities, for the preparation of the Statement of Accounts in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom; in particular the financial statements give a true and fair view in accordance therewith.

All transactions have been recorded in the accounting records and are reflected in the financial statements.

Significant assumptions used by the authority in making accounting estimates, including those surrounding measurement at fair value, are reasonable.

All events subsequent to the date of the financial statements for which the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom requires adjustment or disclosure have been adjusted or disclosed.

A summary of such misstatements is required to be included or attached to the written representations. (ISA (UK&I) 450, paragraph 14). Expand as appropriate for the reasons given by those charged with governance, but the reason stated below is a minimum requirement and must be included in the reasons why any misstatements remain unadjusted to reflect the requirement of ISA (UK&I) 450.

The effects of uncorrected misstatements are immaterial, both individually and in the aggregate, to the financial statements as a whole. A list of the uncorrected misstatements is shown below:

No	Description of misstatement (factual, judgemental, projected)		Income statement		Balance sheet	
			Dr £'000	Cr £'000	Dr £'000	Cr £'000
1	Dr Intangible Assets Cr Property Plant & Equipment Being an adjustment to correct for misclassification of depreciation between intangible assets and property, plant and equipment.	F			108	108
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Total uncorrected misstatements			**264**	**0**	**793**	**1,057**

Information Provided

I have taken all the steps that I ought to have taken in order to make myself aware of any relevant audit information and to establish that you (the authority's auditors) are aware of that information.

I have provided you with:

- Access to all information of which I am aware that is relevant to the preparation of the financial statements such as records, documentation and other matters, including minutes of Council and committee meetings and relevant management meetings;
- Additional information that you have requested from us for the purpose of the audit; and
- Unrestricted access to persons within the Authority from whom you determined it necessary to obtain audit evidence.

So far as I am aware, there is no relevant audit information of which you are unaware.

Fraud and non-compliance with laws and regulations

I acknowledge responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

I have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

I have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Authority and involves:

- Management;
- Employees who have significant roles in internal control; or
- Others where the fraud could have a material effect on the financial statements.

I have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the authority financial statements communicated by employees, former employees, analysts, regulators or others.

I have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

I am not aware of any instances of actual or potential breaches of or non-compliance with laws and regulations which provide a legal framework within which the authority conducts its business and which are central to the authority's ability to conduct its business or that could have a material effect on the financial statements.

I am not aware of any irregularities, or allegations of irregularities including fraud, involving members, management or employees who have a significant role in the accounting and internal control systems, or that could have a material effect on the financial statements.

The pension fund has not made any reports to the Pensions Regulator nor am I aware of any such reports having been made by any of our advisors. I confirm that I am not aware of any late contributions or breaches of the payment schedule/schedule of contributions that have arisen which I considered were not required to be reported to the Pensions Regulator. I also confirm that I am not aware of any other matters which have arisen that would require a report to the Pensions Regulator.

There have been no other communications with the Pensions Regulator or other regulatory bodies during the year or subsequently concerning matters of non-compliance with any legal duty.

Related party transactions

I confirm that we have disclosed to you the identity of the authority's related parties and all the related party relationships and transactions of which we are aware.

Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of Section 3.9 of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

We confirm that we have identified to you all senior officers, as defined by the Accounts and Audit Regulations 2011, and included their remuneration in the disclosures of senior officer remuneration.

Employee Benefits and Retirement Benefits

I confirm that the Authority has made you aware of all employee benefit schemes in which employees of the authority participate. All significant retirement benefits that the authority is committed to providing, including any arrangements that are statutory, contractual or implicit in the authority's actions, wherever they arise, whether funded or unfunded, approved or unapproved, have been identified and properly accounted for and/or disclosed.

All settlements and curtailments in respect of retirement benefit schemes have been identified and properly accounted for.

I have considered the assumptions underlying the valuation of the retirement benefit scheme liabilities and am satisfied that the actuary is best qualified to make these assumptions in the preparation of our financial statements and leads to the best estimate of scheme liabilities. I am not aware of any reason to disagree with the actuary's approach.

Pension fund registered status

I confirm that the Norfolk County Council Local Government Pension Fund is a Registered Pension Scheme. We are not aware of any reason why the tax status of the scheme should change.

Contractual arrangements/agreements

All contractual arrangements (including side-letters to agreements) entered into by the authority have been properly reflected in the accounting records or, where material (or potentially material) to the financial statements, have been disclosed to you.

The Authority has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

Bank accounts

I confirm that we have disclosed all bank accounts to you including those that are maintained in respect of the pension fund.

Assets and liabilities

The Authority has no plans or intentions that may materially alter the carrying value and where relevant the fair value measurements or classification of assets and liabilities reflected in the financial statements.

In my opinion, on realisation in the ordinary course of the business the current assets in the balance sheet are expected to produce no less than the net book amounts at which they are stated.

The Authority has no plans or intentions that will result in any excess or obsolete inventory, and no inventory is stated at an amount in excess of net realisable value.

The Authority has satisfactory title to all assets and there are no liens or encumbrances on the Authority's assets, except for those that are disclosed in the financial statements.

I agree with the findings of the Council's internal valuers, as experts in property valuation in determining the amount at which properties are stated in the 2010/11 accounts. I agree with their findings and have adequately considered the competence and capabilities of the experts in determining the amounts and disclosures used in the preparation of the financial statements and underlying accounting records. The Authority did not give or cause any instructions to be given to experts with respect to the values or amounts derived in an attempt to bias their work, and I am not otherwise aware of any matters that have had an impact on the objectivity of the experts.

I confirm that we have carried out impairment reviews appropriately, including an assessment of when such reviews are required, where they are not mandatory. I confirm that we have used the appropriate assumptions with those reviews.

Financial Instruments

Details of all financial instruments, including derivatives, entered into during the year have been made available to you. Any such instruments open at the year end have been properly valued and that valuation incorporated into the financial statements.

All embedded derivatives have been identified and appropriately accounted for under the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

Where we have assigned fair values to financial instruments, I confirm that the valuation techniques, the inputs to those techniques and assumptions that have been made are appropriate and reflect market conditions at the balance sheet date, and are in line with the business environment in which we operate.

Litigation and claims

I have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements and such matters have been appropriately accounted for and disclosed in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom.

Taxation

I have complied with UK taxation requirements and have brought to account all liabilities for taxation due to the relevant tax authorities whether in respect of any corporation or other direct tax or any indirect taxes. I am not aware of any non-compliance that would give rise to additional liabilities by way of penalty or interest and I have made full disclosure regarding any Revenue Authority queries or investigations that we are aware of or that are ongoing.

In particular:

- In connection with any tax accounting requirements, I am satisfied that our systems are capable of identifying all material tax liabilities and transactions subject to tax and have maintained all documents and records required to be kept by the relevant tax authorities in accordance with UK law or in accordance with any agreement reached with such authorities.
- I have submitted all returns and made all payments that were required to be made (within the relevant time limits) to the relevant tax authorities including any return requiring us to disclose any tax planning transactions that have been undertaken the authority's benefit or any other party's benefit.
- I am not aware of any taxation, penalties or interest that are yet to be assessed relating to either the authority or any associated company for whose taxation liabilities the authority may be responsible.

As minuted by the Committee at its meeting on 13 September 2011.

………………………………….

Deputy Chief Executive, Director of Finance and Resources

For and on behalf of …………………… ……………………………………………………….

Date …………………

Recommendations arising from our review of internal financial controls 2010/11

Reporting requirements

We are required to report to management and those charged with governance any deficiencies in internal control that we have identified during the audit.

As part of our work on internal financial controls, we have placed reliance on the work undertaken by Internal Audit. We have not repeated in this report any recommendations made by the internal auditors, except where they coincide with ours, where action has not been taken on recommendations made in the prior year and where we consider that reiteration would be helpful.

We have identified the following matters as part of our audit during 2010/11.

Summary of internal control deficiencies

Ref.	Deficiency	Recommendation	Management's response and responsible officer
ITGCs			
1	Our testing of the AA web based change logs which record requests, testing and sign-off in relation to system changes, identified the following matters: • Some major changes, such as the implementation of the new cash collection system are not raised per the change log; and • For one changes logged per the system, no change documentation had been completed with reference to an action the previous month. Changes not appropriately logged on the system may not be subject to appropriate and sufficient testing which could impact users on implementation of the change.	All system changes should be raised on the change log and updated in a timely fashion to ensure all appropriate testing to potential system changes can be performed and signed-off.	The change log for the cash collection is now in place. The error on the system has been noted. ICT Manager – action completed.

<table>
<tr><th>Ref.</th><th>Deficiency</th><th>Recommendation</th><th>Management's response and responsible officer</th></tr>
<tr><td>2</td><td>Our audit testing of information technology general computer controls identified that the ICT Development Group, who meet to discuss overall progress of the ICT department in addition to capital spend, has not met for a number of months. We understand that this is due to substantial staffing changes.

Lack of overall review may result in the ICT strategy not being achieved.</td><td>Consideration should be given re-forming the ICT Development Group. In addition, it may be appropriate to consider the remit of this group.</td><td>The progress on the ICT strategy was not hindered at all through the absence of ICTDG meetings. The Portfolio and ICT manager met regularly and the Deputy Chief Executive also met with the ICT Manager. All projects within the programme progressed to timetable and there were no new capital bids to consider during the period. The ICTDG has now met and will continue to do so on a regular basis.

ICT Manager – action completed.</td></tr>
<tr><td colspan="4">HR/Payroll</td></tr>
<tr><td>3</td><td>Our testing of employee leavers identified the following matters:

• For 3 of the 10 leavers forms tested, the forms did not indicate whether consideration had been given as to whether the leavers retained Council property.

Without appropriate consideration, there is an increased risk that the Council will lose property and/or expose the Council to information security risks.

• For one leaver form tested, an overpayment of 4 days had occurred – the leave date on the form was not consistent with the last date the employee was paid.

Overpayments will be incurred by the Council should employees be paid past their leaving date. These may not be recoverable.</td><td>The following recommendations have been raised:

• The Council should ensure that appropriate consideration is given, and evidence as such, as to whether leavers hold any Council property which should be returned. Forms which do not indicate whether retained property has been considered should be followed up.

• The Council should ensure that leaving dates are appropriately updated on to the payroll system and independently checked backed to forms once processed.</td><td>• It is the responsibility of the line manager to collect any items from a leaving employee. The property tick boxes on the termination form should be completed by the leaver and checked by the line manager. They should serve as a reminder to both the leaver and the line manager of items which should be considered on leaving, they are not intended to provide evidence that property has been returned.
The termination form can be amended so that the authorised signatory indicates that property has been recovered. However, on occasions the form may be completed prior to the last day in service to meet payroll deadlines, so the termination form is not the ideal vehicle for providing this evidence.

Payroll & Systems Administrator – action to be completed by 31 October 2011.

• The Council has a procedure in place which has been tested by both internal and external audit where the draft payrun is independently checked to ensure payments are stopped on the appropriate date. We accept that on this occasion an error occurred and was not picked up at the checking stage. This overpayment has now been recovered by the payroll provider.

Payroll & Systems Administrator – action completed.</td></tr>
</table>

Ref.	Deficiency	Recommendation	Management's response and responsible officer
4	Directors are requested on quarterly basis to confirm employee listings within their service areas. Our testing identified that whilst two of the returns had been appropriately signed they had not been dated. As a result, there is no evidence to confirm that these listing were reviewed on a timely basis.	The Council should ensure that all listings are dated to confirm they have been reviewed on a timely basis.	Where quarterly staff listings are not returned on a timely basis, reminders and duplicate listings are issued to the appropriate Director of Service. For future listings Directors of Service will be reminded of the need to complete the date field for each page of the return. It is proposed that where Directors fail to return the listing within the specified deadline following the reminder, listings will be escalated to the Chief Executive. Payroll and Systems Administrator - Change staff listing procedure with the next listing - to be completed by 30th September 2011.
5	The Council uses a service provider – Bedford Borough Council (BBC) – to process its payroll. Our testing of controls at Bedford Borough Council in relation to IT control environment within the payroll system identified the following matters: • A number of BBC employees have access to the payroll shared area who do not need it. As a result, there is an increased risk that unauthorised amendments may be made to the Council's payroll; • BBC payroll employees have the same level of access to the payroll system – no segregations of duties exist to limit the number of employees that can manipulate payroll data. However, mitigating controls are in place as the system does record audit trails for all amendments; • A plain text file is created from the payroll system in order to compile the BACs transfer payment. This text file is stored on a payroll shared drive so anyone with access to the shared drive can amend the file. Unauthorised changes to the plain text file	The Council should consider liaising with Bedford Borough Council to address the matters raised and obtain assurances over the integrity of the Council's payroll data.	The Council will raise all findings with BBC for discussion at the next review meeting scheduled for October 2011. A timeframe will be set for resolution of the matters raised. Regarding the risk of unauthorised amendments to the Council's payroll, staff numbers are reconciled between the Personnel database and the payroll following every payrun which removes the risk of 'ghost' employees added by BBC. All changes made are checked. There is still the risk that increased payments may be made to individuals which would not be picked up by the draft check. The risk is low as it would require collusion between the payroll provider based at Bedford and an individual employee. Larger amounts would be picked up by high earners reports. Regarding the risk of changes to the BACS payments, the total of the BACS text file is independently reconciled by the Payroll & Systems Administrator to five other reports including the charge to the Council for the monthly payroll. Any changes to the file after this reconciliation but prior to payment would therefore result in a cost to BBC, not to the Council. Payroll & Systems Administrator Raise and discuss findings with BBC - to be completed by 31 October 2011. Obtain assurances of resolution – to be completed by 31 December 2011.

Ref.	Deficiency	Recommendation	Management's response and responsible officer
	could result in errors on the BACs payment created. • Travel and subsistence claims are input into the 'Envoy' system prior to being input into the payroll system. No reconciliations are being undertaken between these two systems to ensure that the data within both systems is reconciled.		
Matters raised in prior years' reports in relation to internal financial controls			
6	In previous years we identified that the passwords to the revenues systems (iWorld and CRM/DMS) were not set to expire. We recommended this be investigated and understood that this was due to a system bug for which the developer had been contacted about. Our review this year has identified no change in this area. The passwords are still not set to expire. This increases the risk that unauthorised access may be gained to the systems.	The Council should consider re-raising this with the developer to ensure that password expiry can be set. In accordance with best practice password expiry should be set every 60 days.	The Council has raised the issue of passwords with the supplier of the system a number of times and each time been refused. The shared services initiative and change to the computer systems should present an opportunity to deal with the issue. ICT Manager – Ongoing.