

**RECOMMENDATIONS TO CABINET 16 SEPTEMBER 2013 FROM THE SPECIAL
AUDIT AND RISK COMMITTEE MEETING HELD ON 9 SEPTEMBER 2013**

**ARC51: CABINET REPORT: STATEMENT OF ACCOUNTS 2012/2013 REPORT TO
THOSE CHARGED WITH GOVERNANCE (ISA (UK&I) 260)**

The Chief Financial Officer explained that this item would act as a training session for Members to provide an awareness and understanding of the Statement of Accounts.

Members received a presentation which highlighted the following areas:

Closing the Accounts

- Why.
- When.
- Process.
- Statement of Accounts - Core Statements, Disclosure Notes, Accounting Policies.
- Movement in Reserves – Useable Reserves, Unusable Reserves.
- Comprehensive Income and Expenditure Statement (CIES)
- Balance Sheet – Long Term Assets and Liabilities, Current Assets and Liabilities, Reserves.
- Cash Flow Statement.
- Audit – Internal Controls, Audit of Accounts, Opinion on Accounts.

The Chief Financial Officer presented a report that introduced the Statement of Accounts (SOA) 2012/2013 – essentially the Statement was the final accounts set out in a format which included the Council's balance sheet and associated notes. The report also considered the report from the auditor on the audit for the accounts 2012/2013 – the International Auditing Standard (ISA 260).

The Chief Financial Officer advised that the Council had already received a report on the outturn of the budget for 2012/2013.

In response to questions from Councillor Cousins regarding the adjustments between accounting basis and funding basis under Regulations on page 46, the Chief Financial Officer referred the Committee to pages 52 and 53 which provided an explanation of the figures involved.

Councillor Loveless referred to page 47 – Surplus on revaluation of Non-current assets and asked for an explanation of the difference between the previous year and this year's figure. In response, the Chief Financial Officer explained that the Council had a five year rolling programme of portfolio assets in place which included sports, buildings, equipment, heritage assets, etc. During 2011/2012 heritage assets had been included for the first time. The surplus depended upon what assets and their values had moved since that last time they had been valued during the five year period.

Councillor Mrs Smeaton asked if the assets were valued by the Council's in-house team. In response, the Chief Financial Officer explained that the valuations were undertaken by the Council's Property Services Team.

In response to questions from Councillor Gourlay regarding housing nomination rights, the Chief Financial Officer explained that in previous years the Council had received and passed on grants for housing projects which brought with it nomination rights which were therefore recognised as a tangible asset to the Borough Council.

Councillor Cousins commented that figures which had both negative and positive impact being placed in brackets appeared confusing to Members. Helen Devlin, Ernst and Young explained that Councils presented figures in various formats and undertook to discuss this point with the Council's Chief Financial Officer for future reports.

Following further questions from Councillor Cousins on the difference between the assets reclassified for sale, the Chief Financial Officer explained that the assets were classified and valued using the IFRS Code and referred Members to page 94 which set out an explanatory note and provided details of the five year rolling programme.

In response to a comment from Councillor Loveless regarding page numbers, the Chief Financial Officer explained that the Statement of Accounts would be published as a separate document with the relevant corresponding page numbers.

Councillor Crofts enquired if all the levies related to the Internal Drainage Boards. In response, the Chief Financial Officer advised that all the levies did relate to the Internal Drainage Boards.

Councillor D J Collis commented that the Chief Financial Officer had given an excellent presentation which had helped Members to understand the closing of the accounts process.

The Chairman thanked the Chief Financial Officer for the informative presentation.

R Murray, Ernst & Young presented the ISA 260 report. The Committee was advised that the report summarised the External Auditor's preliminary audit conclusion in relation to the Authority's financial position and results of operations for 2012/13. It was explained that on the basis of the External Auditor's work performed to date, it was anticipated that an unqualified auditor's report would be issued in respect of the Authority's financial statements and an unqualified value for money conclusion.

The Committee was advised that the Audit report represented the latest position at 20 August 2013 and a revised report would be issued in advance of the 16 September Cabinet meeting which would reflect the results of the outstanding work. The final conclusion would be issued after the September

Audit and Risk Committee and in advance of the statutory 30 September deadline.

The audit was designed to express an opinion on the 2012/13 financial statements, reach a conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources, and address current statutory and regulatory requirements.

The Committee's attention was drawn to the following areas of the report:

Section 6 – Status of Work: Financial Statement Audit

The audit work in respect of the Auditor's opinion on the Authority's financial statements was substantially complete, although a number of areas were still being progressed or resolved at 20 August. The main areas for the Committee's attention were highlighted as set out below:

- Financial Statements.
- Audit Testing.
- Letter of Representation.
- Finalisation of the financial statements to meet the 30 September statutory deadline.
- Whole of Government Accounts.

Section 1 – Overview of the Financial Statement Audit: Significant Risks

- Revenues and Benefits mid-year system change. At 20 August 2013 work was well progressed, but certain aspects of the planned audit work remained in progress. The findings and comments to date were outlined as detailed in the report.

Section 1 – Overview of the Financial Statement Audit: Other Risks

- Joint Arrangements – NORA joint arrangements and associated financial transactions with Norfolk County Council.
- Risk of misstatement due to fraud or error – there were no matters to be raised with the Audit Committee.

Section 3 – Significant Findings from the Financial Statements Audit

- Financial Statement Disclosure – Members were advised that as this was the Auditor's first year of appointment and a detailed review of the Council's financial statements, including the Explanatory Forward and the Council's Annual Governance Statement were carried out. Officers were provided with a number of comments and suggestions which they were continuing to work through at 20 August 2013. Officers had committed to making a number of changes and these would need to be checked and a fully updated version would be issued in due course.
- Grants: Receipts in Advance – The Council's financial statements included long term creditors of £2,198k which related to grants received

in advance.

- Recharges – Following discussions with officers the accounting charges for 2012/13 had been revised.
- Parish Special Expenses – Amendments had been agreed with officers.
- Assets held for Sale – a significant sample had been reviewed and officers had agreed to amend the errors in the classification and would be included as an agreed amendment at Section 8 of the report.
- Related Parties Disclosures – As at 20 August 2013 response awaited to final query regarding the completeness of the related party disclosures.
- Audit difficulties – It was explained that more time had been taken than envisaged to complete the overall client understanding and familiarisation, including understanding working papers.

Section 8 – Summary of Audit Differences

The amounts included greater than £500,000 relating to the Council in the summary of misstatements were outlined as set out in the report.

The misstatements which were not being corrected by management were outlined as set out in the table on page 25 of the report. Members were advised that two new items would be added as set out below:

- Assets for Re-Sale – full details would be reported in the update report to Cabinet.
- Error not adjusted by Officers relating to a lease premium. The Council had received a capital receipt of £450,000. The Auditors had advised that the receipt be spread over the 99 year term of the Lease. However, officers indicated it should be taken as one receipt during the relevant financial year.

In response to questions from Councillor Collop relating to misstatements, R Murray explained that it was common practice with a change of auditors that such misstatements were detected. Each firm of auditors carried out their duties using a variety of IT systems and methodology. Ernst and Young had used their own judgement in undertaking the audit.

Councillor Cousins asked for clarification on errors on a Section 106 Agreement tested as detailed at page 16. The Chief Financial Officer explained that it appeared on the Balance Sheet as Grants Unapplied with a condition attached to it. The amounts would therefore be transferred to an earmarked reserve.

In response to questions from Councillor Cousins relating to Parish Special Expenses, the Chief Financial Officer explained that various elements including community centres, churchyards were previously charged to corporate and democratic core costs. However, these elements had now been classified in relation to the relevant service area.

In response to a question from Councillor Beales in relation to the formal fee variation, R Murray explained that the audit had yet to be finalised. It was

highlighted that there had been an element of learning involved during the first year and the fee would therefore be discussed with officers and a fair and equitable fee would be agreed. The information would be shared with Members.

The Deputy Chief Executive added that during the pre-audit plan process it had been agreed that any proposed additional fees would first be discussed with the Chief Financial Officer and Deputy Chief Executive.

In response to questions from Councillor Crofts regarding the Audit Commission being disbanded, R Murray explained that the Audit Commission would be disbanded before Ernst and Young's current five year contract expired. At the end of the five year period, the contract would be subject to an open competitive market exercise and the Borough Council would have the opportunity to choose its own Auditor.

Members were informed that the Auditor's fees were determined by the Audit Commission. The Deputy Chief Executive explained that since the Audit Commission had undertaken the tendering exercise a substantial reduction had been gained in fees.

Following questions from Councillor A Tyler on the changeover of External Auditors, R Murray explained that there were a number of specific standards to adhere to when putting together the Council's accounts which were open to interpretation in some areas. It was highlighted that there were therefore differences between firms of auditors but that the process was regulated by the Audit Commission. R Murray added that the Audit Commission had the power to remove contracts from External Auditors and that he was aware of cases in the past where this had occurred.

The Chairman thanked Ernst and Young for an informative and detailed report.

RESOLVED: That Cabinet be informed that the Resources and Performance Panel – Audit and Risk Committee supports the recommendations as set out in the report to Cabinet.

ARC52: **CABINET REPORT – ANNUAL GOVERNANCE STATEMENT 2012/2013**

In presenting the report, the Performance and Efficiency Manager explained that the preparation and publication of an Annual Governance Statement (AGS) was a statutory requirement. The AGS was a public statement that described and evaluated the Council's overall governance arrangements during a particular financial year.

The Committee was advised that the report sought Cabinet approval of the Council's Annual Governance Statement for 2012/13 attached at Appendix A.

The Performance and Efficiency Manager advised that the Council's Local Code of Corporate Governance set out six principles of good governance that

focused on the systems and processes for the direction and control of the Council and its activities, through which it accounted to, engaged with and led the community.

The Committee was informed that the production of the statement, and the consultation process, had involved input from Management Team, the Audit Manager, the S151 Officer, the Democratic Services Manager, the ICT Manager and the remainder of Extended Management Team, as well as external audit.

It was noted that the statement also commented on actions progressed from the previous year (2011/12).

In conclusion, the Performance and Efficiency Manager advised that it was recommended that the AGS for 2012/2013 be approved for adoption and the Leader of the Council and the Chief Executive signed it accordingly.

Councillor Cousins commented that he was grateful for the training sessions which now formed the first item of each Panel meeting. In response, the Chairman agreed that the format had been successful and would be continued at future meetings.

Councillor Humphrey referred to Section 3.4 paragraph 2 and questioned if this was correct as policy decisions were considered and if appropriate adopted by Full Council. In response, the Performance and Efficiency Manager agreed to amend the wording as set out below:

The Council facilitates policy and decision making through the Policy Review and Development Panels, Scrutiny, Cabinet and Full Council.

Councillor Cousins concurred with comments made by Councillor Humphrey relating to Section 3.4.

Councillor Humphrey referred to paragraph 3.10 and commented that the document should be gender neutral. He added that the Monitoring Officer had been referred to as "she" and the Chief Executive had been referred to as "he". The Performance and Efficiency Manager advised that the AGS had been prepared using the CIPFA guidance, but undertook to amend the paragraph to read:

Paragraph 1 Second Sentence – After consulting with the Head of Paid Service, the Monitoring Officer will report to Full Council if it is considered that any proposal, decision or omission would give rise to unlawfulness or maladministration.

Paragraph 2 Second Sentence – The Chief Executive is required to report to the Council as appropriate with regard to the way in which the different functions of the Council are co-ordinated, the number of grades of staff required for the discharge of these functions, the way in which these people are organised and managed and the way in which they are appointed.

In response to questions and comments from Councillor Humphrey relating to paragraph 3.13 – investigating complaints from the public, the Deputy Chief Executive explained that the Chief Executive was responsible for the corporate complaints procedure and that the Deputy Chief Executive dealt with any incidents of racial complaints to ensure that the procedures were kept separate. Very few racial complaints had been received by the Council and there were a team of 6 officers who were trained to deal with racial complaints.

Councillor Loveless referred to page 150 – paragraph 1 and asked who were the voluntary representatives on the West Norfolk Partnership. In response the Performance and Efficiency Manager advised that Heather Farley, Chief Executive of the WNVCA was the voluntary sector representative on the West Norfolk Partnership.

RESOLVED: That Cabinet be informed that the Resources and Performance Panel – Audit and Risk Committee supports the recommendations with the amendments set out above, as set out in the report to Cabinet.