

Government and Public Sector

December 2009

# North Norfolk District Council 2008/09 Annual Audit Letter



The Members  
North Norfolk District Council  
Council Offices  
Holt Road  
Cromer  
Norfolk. NR27 9EN

December 2009

Ladies and Gentlemen

We are pleased to present our Annual Audit Letter summarising the results of our 2008/09 audit.

We look forward to presenting it to the Audit Committee on 9 March 2010.

Yours faithfully



PricewaterhouseCoopers LLP  
Encs

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

*In April 2008 the Audit Commission issued a revised version of the 'Statement of responsibilities of auditors and of audited bodies'. It is available from the Chief Executive of each audited body. The purpose of the statement is to assist auditors and audited bodies by explaining where the responsibilities of auditors begin and end and what is to be expected of the audited body in certain areas. Our reports and management letters are prepared in the context of this Statement. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the audited body and no responsibility is taken by auditors to any Member or officer in their individual capacity or to any third party.*

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# Introduction

## The purpose of this letter

- 1 The purpose of this letter is to provide a high level summary of the results of the 2008/09 audit work we have undertaken at North Norfolk District Council that is accessible for members and other interested stakeholders.
- 2 We have already reported the detailed findings from our audit work to those charged with governance in the following reports:
  - Review of Internal Financial Controls 2008/09 (May 2009);
  - Report to those charged with Governance, International Standards on Auditing (ISA (UK&I) 260) (September 2009);
  - Audit opinion for 2008/09 financial statements, incorporating the conclusion on Use of Resources (September 2009);
  - Audit of the Statement of Accounts for the year ended 31 March 2009 (December 2009);
  - Use of Resources – assessment results (November 2009).
- 3 The matters reported here are those that we consider are most significant for the Council and a summary of the key recommendations that we have made can be found on pages 10 to 12

## Scope of work

- 4 Our audit work is conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.
- 5 The Council is responsible for preparing and publishing its financial statements, including the Annual Governance Statement. It is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.
- 6 As auditors we are responsible for:
  - Forming an opinion on the financial statements;
  - Reviewing the Council's Annual Governance Statement;
  - Forming a conclusion on the arrangements that the Council has in place to secure economy, efficiency and effectiveness in its use of resources; and
  - Undertaking any other work specified by the Audit Commission.
- 7 Our 2008/09 audit work has been undertaken in accordance with the Audit and Inspection Plan that was issued by the Audit Commission in May 2008.

# Executive summary

The key matters referred to in this audit letter are:

- We issued an unqualified audit opinion on the Council's accounts for 2008/09.
- We issued an unqualified conclusion on the Council's arrangements for its use of resources.
- Our detailed use of resources assessment identified that the Council is either performing well or adequately for each of the key lines of enquiry identified by the Audit Commission.
- There is scope for the Council to improve its scores under the use of resources assessment by providing clearer evidence of the outcomes achieved through the action that it takes.
- International Financial Reporting Standards (IFRS) will apply to local authority accounts from 2010/11. This change will require the Council to ensure that it has robust plans in place in order to comply with the new requirements.
- The Council will need to continue to monitor the scale of the deficit relating to its share of the Local Government pension scheme administered by Norfolk County Council and to take into account changes in funding levels in its medium term financial plan.
- The expected state of the public finances in the medium term will require the Council to continue to manage its budgets carefully, identify efficiency savings and identify new ways of working to deliver more, or the same level of service, for less input.

# Key matters arising from the audit of the accounts

## Introduction

8 The Audit Commission Code of Practice requires us to form an opinion as to whether the Statement of Accounts presents fairly the financial position of the Council and its income and expenditure for the year, and whether they have been prepared properly in accordance with relevant legislation and applicable accounting standards. This section summarises the results of our audit work in relation to the Statement of Accounts for the year ended 31 March 2009.

## Accounts preparation and audit process

9 We audited the Council's accounts in line with approved Auditing Standards and issued an unqualified audit report on 30 September 2009. This followed the Council's approval of the accounts in June 2009, before the 30 June 2009 statutory deadline.

10 This was the first year of our appointment as external auditors of the Council and so we are unable to compare the accounts preparation and audit process to previous experience at the Council. However, overall, liaison between officers and the audit team was effective, ensuring completion of the audit before the end of September publishing deadline. We intend to hold an accounts debrief meeting with the Council to identify areas where both parties can make improvements in preparation for the 2009/10 accounts preparation and audit process.

11 Going forward the Council will need to consolidate its application of the new accounting arrangements for revenue expenditure funded by capital resources under statute (formerly known as deferred charges). In common with many councils, the Council sought further guidance, with respect to the Local Government Statement of Recommended Practice (SORP) in this area, during the audit. The final accounts were amended in respect of this matter, dealing with the new arrangements appropriately. This made no difference to the outturn reported.

12 The other, more significant, matters arising from our audit include the need to:

- Ensure provisions and contingencies are identified and accounted for in accordance with Financial Reporting Standard 12 – Provisions, contingencies and commitments;
- Complete the reconciliations of the housing and council tax system to the general ledger on a timely basis; and
- Ensure all lease arrangements have lease agreements in place.

13 The Council should implement these recommendations as soon as possible.

## International Financial Reporting Standards (IFRS)

- 14 The Council has just begun work on preparing for the implementation of IFRS in its financial statements from 2010/11, as opposed to UK based standards (as adapted by the SORP) as in the past. Prior year comparatives will be required to support these financial statements and the Council's Whole of Government Accounts schedules will also need to be prepared on this new basis from 2009/10. This will require a restatement of the Council's balance sheet under IFRS as at 1 April 2009.
- 15 To assist the Council in its 2010/11 budget setting process, it will be important that the Council understands and calculates the impact of IFRS on its financial reporting at an early stage to enable the 2010/11 budget to be prepared on this basis. Careful review and understanding of the Exposure Draft and Invitation to Comment on the Code of Practice on Local Authority Accounting in the United Kingdom 2010 (which will replace the SORP as the source of interpretation and guidance for accounting within Local Government), applicable to accounting periods starting on or after 1 April 2010, will be required to facilitate this.
- 16 The Council will also need to ensure that it has robust plans in place to enable the collection and processing of the information needed to comply with the new Code.
- 17 In our experience the key features of a successful IFRS conversion project have proven to be:
  - Completed impact analysis and comprehensive conversion plans;
  - The commitment of key stakeholders in the organisation;
  - Operational steering and technical groups;
  - Cabinet/audit committee oversight;
  - Regular progress reporting against the plan;
  - The necessary project management resources; and

- Appropriate and timely training for all members and officers with IFRS involvement.

## Financial standing

- 18 In 2008/09 the Council made a surplus of £46,000 against a budget requirement of £15,398,697. The Council had originally budgeted for a deficit of £120,000.
- 19 Overall, the Council's total revenue reserves increased in the year from £4.14m to £5.04m largely as a result of contributions of to earmarked reserves during the year. The Deputy Chief Executive considers the level of reserves to be adequate.

Reserves	31 March 2008 (£m)	31 March 2009 (£m)
General Fund	1.10	1.15
Earmarked Reserves	3.04	3.89
<b>TOTAL</b>	<b>4.14</b>	<b>5.04</b>

- 20 In overall terms, the Council continues to maintain a strong control over its financial resources and this is reflected in its Use of Resources assessment scores.
- 21 The Council will also need to continue to monitor and manage its costs associated with funding the Council's element of the Norfolk County Council Pension Fund. The deficit on the Council's element of this fund increased by £8,031,000 to bring the total deficit to £17,864,000 as at 31 March 2009. This increase was largely due to the current economic climate impacting upon the investments held within the pension fund. The Council will need to monitor the deficit to ensure that, as the global markets begin to recover, the pension deficit reduces in size and that appropriate arrangements are in place to address any funding forecasts provided by the Actuary.

## Financial outlook

- 22 The national and global economy has continued to provide challenges to all aspects of society, including the Council. For example, income streams from property related services are lower during 2009/10 than estimated.
- 23 The Council set a savings target of £350,279 at the beginning of the 2009/10 financial year. As at the end of September 2009, £275,000 is forecast to be achieved.
- 24 It will be important for the Council to continue to carefully monitor its performance against budget in 2009/10, including its savings targets, and set a budget for 2010/11 which is based upon a prudent analysis of risk and the economic environment.



# Key matters arising from the consideration of the Council's Use of Resources

## Use of Resources

25 The Audit Commission requires us to assess the overall arrangements that the Council has in place in the following three areas:

- Managing finances
- Governing the business.
- Managing Resources.

26 We evaluated the arrangements against criteria set by the Audit Commission in underlying Key Lines of Enquiry (KLoE) and reached a score for each based on the following:

- 1 Failure to meet minimum requirements – inadequate performance;
- 2 Meets only minimum requirements – performs adequately
- 3 Exceeds minimum requirements – performs well; or
- 4 Significantly exceeds requirements – performs excellently.

27 The scores for these KLoEs then determines the overall score for each area, using rules issued by the Commission. The Commission in turn then determines an overall score for the Council.

28 Overall, there is a need for the Council to provide clearer, more formal evidence that outcomes have been achieved as a result of actions or processes undertaken. This would be facilitated by ensuring that clear, quantifiable outcomes are determined at the initialisation stage of a project when objective setting. Performance against these objectives should be monitored during the project and once it is concluded to gauge and demonstrate effectiveness.

29 We comment further upon the Council's performance within each individual area and KLoE below. Based upon these findings, the Council should consider ways in which it could strengthen its existing arrangements.

## Managing Finances

30 We have scored the KLoEs for managing finances reporting as follows:

Key Line of Enquiry		Score
1.1	The organisation plans its finances effectively to deliver its strategic priorities and to secure sound financial health	3
1.2	The organisation has a sound understanding of its costs and performance and achieves efficiencies in its activities	2
1.3	The organisation 's financial reporting is timely, reliable and meets the needs of internal users, stakeholders and local people	3

31 We identified the following key areas for improvement on managing finances:

- Ensure that strategies relating to asset management and human resources are updated on an annual basis and that the timing of this is aligned to financial and business planning cycles;
- Review fees and charges against the Council's priorities to ensure, and demonstrate, alignment;
- Continue to develop and expand the use of equality impact assessments into all aspects of service planning and decision making, including at Cabinet and Committee level;
- Achieve a good understanding of costs and their drivers throughout the organisation together with analysis of, and action against, high costs/low service areas;
- Demonstrate the use of performance and financial data to improve outcomes and to challenge the use of resources when delivering priorities;
- Ensure a greater link between performance and financial management together with explicit risk and sensitivity analysis when forecasting budget performance;
- Identify high risk or volatile budgets and monitor them closely; and
- Perform further work to analyse the Council's environmental footprint, including how the Council has chosen a particular method of measuring its environmental impact, the reasonableness of the data underpinning the information and how the Council maintains and uses the model.

### Governing the business

32 We have scored the KLoEs for governing the business as:

Key Line of Enquiry		Score
2.1	The organisation commissions and procures quality services and supplies, tailored to local needs, to deliver sustainable outcomes and value for money.	2

Key Line of Enquiry		Score
2.2	The organisation produces relevant and reliable data and information to support decision making and manage performance	2
2.3	The organisation promotes and demonstrates the principles and values of good governance	2
2.4	The organisation manages its risks and maintains a sound system of internal control	2

33 We identified the following key areas for improvement on governing the business.

- Update the Council's procurement strategy and link it to the sustainable community strategy;
- Complete, implement and embed the Community Engagement and Communication Strategy to formalise arrangements in this area and to involve stakeholders more extensively in commissioning activities;
- Provide greater, more centralised guidance for the ordering of smaller valued items by departments to increase value for money in procurement;
- Analyse the level of the Council's compliance with the Office of the Third Sector's Funding and Procurement Compact Code of Good Practice. Draft, approve and implement an action plan arising from this analysis;
- Address the weaknesses identified in recent internal audit reviews relating to the management of contracts by the Council;
- Establish data sharing protocols with the Council's significant partners (e.g. the Local Strategic Partnership) and put in place arrangements to obtain assurance over the quality of that data.
- Put in place a risk based framework of assurance in relation to data quality at the Council;
- Develop qualitative and quantitative measures on the quality of information and regularly report performance against these, demonstrating continuous improvement;

- Put in place an individualised training plan for each Member to ensure and demonstrate that Members are full equipped to carry out their roles and responsibilities;
- Provide training on ethics to both Members and staff and complete an ethics audit to demonstrate that Members and staff understand the importance and impact of the ethical agenda and their responsibilities;
- Complete the on-going assessment of partnerships in relation to risk management and governance arrangements. Address any weaknesses identified;
- Develop a formal policy on the Council's communication and relationship with voluntary and community based groups and demonstrate that this is working in practice, improving outcomes;
- Demonstrate the active monitoring of the effectiveness and cost efficiency of partnership arrangements;
- Assess the Council's counter fraud arrangements and performance against professional guidance and best practice; and
- Consider and assess the adequacy of the business continuity arrangements in place in relation to the Council's key suppliers/contractors.

### Managing resources

34 We have scored the KLoEs for managing resources as:

Key Line of Enquiry		Score
3.1	The organisation makes effective use of natural resources.	n/a*
3.2	The organisation manages its assets effectively to help deliver its strategic priorities and service needs.	n/a*
3.3	The organisation plans, organises and develops its workforce effectively to support the achievement of its strategic priorities	3

\* KLoE 3.1 and 3.2 are not specified KLoEs for 2008/09 for District Councils and so the

Council was not assessed against these in 2008/09. The Council will be assessed against KLOE 3.1 and 3.2 in 2009/10 for the first time.

35 We identified the following key areas for improvement on managing resources.

- Further reduce sickness absence levels to within the Council's own target levels;
- Update and integrate the Council's workforce strategy with service and corporate planning and priorities as well as include more detail such as expected future levels of turnover, areas for recruitment, etc.;
- Update the Council's analysis of the diversity of its workforce and comparison with the local population;
- Provide diversity training for staff and Members; and
- Implement the new Equality Framework from April 2009, improving the Council's performance when compared to the level 2 achieved against the Equality Standard in Local Government.

### Conclusion on Use of Resources

36 We were also required to issue a conclusion on the adequacy of the Council's arrangements for ensuring economy, efficiency and effectiveness in its use of resources.

37 We issued an unqualified conclusion on the Council's arrangements for its Use of Resources on 30 September 2009.

### Annual Governance Statement

38 Local Authorities are required to produce an Annual Governance Statement (AGS) which is consistent with guidance issued by CIPFA / SOLACE. The AGS was included in the financial statements.

39 We reviewed the AGS to consider whether it complied with the CIPFA / SOLACE guidance 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.

### **Treasury Management**

40 As part of our work on Use of Resources, we carried out a programme of work on Treasury Management. This piece of work was mandated by the Audit Commission. No significant issues arose from this review. In summary, the Council's strategy on Treasury Management appears cautious and risk adverse.

### **Members' Allowances**

41 As part of our work on Use of Resources we reviewed the Council's scheme for members' allowances. We reviewed whether the Council is complying with the regulations applying to Members' Allowances schemes, and whether they have made the required disclosures in respect of the scheme. No issues arose from the review.

### **Audit Committee Training**

42 In April 2009, we held a masterclass for the Audit Committee members on the role of audit committees in local government and best practice in the public and private sectors.

### **Certification of grant claims**

43 We have certified the relevant claims and returns required by grant paying bodies, including the Housing and Council Tax Benefits claim.

44 Matters arising from this certification work will be communicated separately to officers. The most significant matters arising relate to the Housing and Council Tax Benefits claim where we noted a number of areas of concern e.g. incorrect input of data and software error, and which required the Authority to undertake further detailed testing for us to review the results. We recommend that the Authority continues with its programme of spot checks of claims, focusing on ensuring that adequate supporting evidence is held and is accurately input to the housing benefits system.

# Summary of recommendations

We present below a summary of the recommendations contained within this Annual Audit Letter. Further, more detailed recommendations arising from our work during the year are contained in the individual reports referred to in paragraph 2 of this letter.

Paragraph number	Recommendation raised	Management Response	Target Implementation Date
11	<p><b>Treatment of deferred charges</b></p> <p>Consolidate the Council's application of the new accounting arrangements for revenue expenditure funded by capital resources under statute (formerly known as deferred charges). In common with many other councils, the Council did not amend its accounts for the full implications of this change to the Local Government Statement of Recommended Practice (SORP) in the 2008/09 draft accounts.</p>	Agreed	Immediate
12	<p><b>Accounting for provisions and contingencies</b></p> <p>Ensure provisions and contingencies are identified and accounted for in accordance with Financial Reporting Standard 12 – Provisions, contingencies and commitments.</p>	Agreed	Ongoing
12	<p><b>Reconciliation of the housing and council tax system</b></p> <p>Complete the reconciliations of the housing and council tax system to the general ledger on a timely basis.</p>	Agreed	Immediate

Paragraph number	Recommendation raised	Management Response	Target Implementation Date
12	<p><b>Lease agreements</b></p> <p>Ensure all lease arrangements have lease agreements in place.</p>	Agreed	June 2010
15	<p><b>International Financial Reporting Standards (IFRS)</b></p> <p>Understand and calculate the impact of IFRS on the Council's financial reporting at an early stage to enable the 2010/11 budget to be prepared on this basis. Careful review and understanding of the Exposure Draft and Invitation to Comment on the Code of Practice on Local Authority Accounting in the United Kingdom 2010 (which will replace the SORP as the source of interpretation and guidance for accounting within Local Government), applicable to accounting periods starting on or after 1 April 2010, will also be required to facilitate this. The Council will also need to ensure that it has robust plans in place to enable the collection and processing of the information needed to comply with the new Code.</p>	Agreed	January 2010 and ongoing as lease implications are identified in relation to recommendation 12.
21	<p><b>Pension Fund deficit</b></p> <p>Continue to monitor the Council's share of the deficit on the Norfolk County Council Pension Fund to ensure that, as the global markets begin to recover, the pension deficit reduces in size and that appropriate arrangements are in place to address any funding forecasts provided by the Actuary.</p>	Agreed	Ongoing
24	<p><b>Budgeting</b></p> <p>It will be important for the Council to continue to carefully monitor its performance against budget in 2009/10, including its savings targets, and set a budget for 2010/11 which is based upon a prudent analysis of risk and the economic environment.</p>	Agreed	Ongoing – Monthly
28	<p><b>Demonstrating outcomes</b></p> <p>Provide clearer, more formal evidence that outcomes have been achieved as a result of actions or processes undertaken. This would be facilitated by ensuring that clear, quantifiable outcomes are determined at the initialisation stage of a</p>	Capital Strategy Project Management Guidance	December 2009

Paragraph number	Recommendation raised	Management Response	Target Implementation Date
	project, when objective setting, etc. and monitoring performance against these during the project and once it is concluded to gauge and demonstrate effectiveness.		
29	<p><b>Use of resources</b></p> <p>Consider ways in which the Council could strengthen its existing arrangements as a result of the 2009 Use of Resources assessment.</p>	Action plan in place	Ongoing

*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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