

Annual governance report

Nottingham City Council

Audit 2010/11

DRAFT

The Audit Commission is a public corporation set up in 1983 to protect the public purse.

The Commission appoints auditors to councils, NHS bodies (excluding NHS Foundation trusts), police authorities and other local public services in England, and oversees their work. The auditors we appoint are either Audit Commission employees (our in-house Audit Practice) or one of the private audit firms. Our Audit Practice also audits NHS foundation trusts under separate arrangements.

We also help public bodies manage the financial challenges they face by providing authoritative, unbiased, evidence-based analysis and advice.

Contents

Key messages	2
Audit opinion	2
Financial statements	3
Value for money	3
Certificate	3
Independence	3
Next steps	4
Before I complete my audit	4
Financial statements	5
Value for money	12
Appendix 1 Draft independent auditor's report to Members of Nottingham City Council	14
Appendix 2 Amendments to the draft financial statements	18
Appendix 3 Draft letter of representation	21
Appendix 4 Glossary	24
Appendix 5 Action Plan	26

Key messages

This report summarises the findings from the 2010/11 audit which is substantially complete. It includes the messages arising from my audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources.

Table 1: **Key messages - financial statements**

Financial statements	Results	Page
Unqualified audit opinion	Yes	5
Important weaknesses in internal control	No	8

Table 2: **Key messages - value for money**

Value for money	Results	Page
Proper arrangements to secure value for money	Yes	12

Audit opinion

1 My work on the financial statements is well progressed but at the time of drafting this report (early September), work is still to be completed in respect of the impact of component accounting as well as substantive testing of items of income and expenditure, short term investments, short term creditors, leases and group financial statements. My aim is to complete this by mid-September 2011.

2 I will update members on the progress and outcome of this outstanding work at the 23 September 2011 Audit Committee meeting.

3 Subject to satisfactory completion of the remaining work and clearance of outstanding matters, I plan to issue an audit report including an unqualified opinion on the financial statements.

Financial statements

4 The financial statements were submitted for audit ahead of the statutory date. I am pleased to report that the Council responded well to the challenge of producing financial statements under International Financial Reporting Standards (IFRS) requirements for the first time this year producing timely and comprehensive working papers for us to review. This was a significant achievement as many authorities struggled to fully implement IFRS in a timely manner. .

5 I identified one material error, three material classification amendments (one of which applies to 2009/10 comparative figures only) and a number of non material non trivial errors in the financial statements and reported these to management. Management has agreed to adjust the financial statements for all of these errors. There are no errors where amendment has not been agreed.

Value for money

6 I intend to issue an unqualified conclusion stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in the use of resources.

Certificate

7 I reported in my annual governance report in 2009/10 that the audit could not be formally concluded and an audit certificate issued until I had completed my consideration of matters brought to my attention by local authority electors. I hope to be in a position to conclude on these matters before the end of September at which point I will conclude the 2009/10 audit. However until the 2009/10 audit is concluded I will be unable to formally conclude the audit and issue the audit certificate on the 2010/11 audit.

Independence

8 I can confirm that I have complied with the Audit Practice Board's ethical standards for auditors, including ES 1 (revised) - Integrity, Objectivity and Independence.

9 I have monitored the independence declaration made by your Audit Manager that I reported in my 2010/11 fee letter issued in March 2010. This was discussed at the time with the Deputy Chief Executive and Corporate Director for Resources when we agreed that there was no significant threat to independence.

10 I made other staff working on the audit aware of the issue at an early stage and monitored the declaration on an on-going basis through regular progress meetings with your Audit Manager.

11 The Audit Commission's Audit Practice has not undertaken any non-audit work for the Council during 2010/11.

Next steps

Before I complete my audit

12 You should note that this report includes only matters of governance interest that have come to my attention in performing my audit. My audit is not designed to identify all matters that might be relevant to you.

13 I ask the Audit Committee to:

- consider the matters raised in the report before approving the financial statements (pages 5 to 11);
- take note of the adjustments to the financial statements which are set out in this report (appendix 2);
- approve the letter of representation on behalf of the Council before I issue my opinion and conclusion (appendix 3); and
- agree your response to the proposed action plan (appendix 5).

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Financial statements

The Council's financial statements and annual governance statement are important means by which the Council accounts for its stewardship of public funds. As Council members you have final responsibility for these statements. It is important that you consider my findings before you adopt the financial statements and the annual governance statement.

Opinion on the financial statements

14 My audit of the Council's financial statements is progressing well but at this time (early September 2011) is not yet complete. Areas of the audit where work remains on-going include:

- Component accounting
- Comprehensive income and expenditure account;
- Short-term investments;
- Short-term creditors;
- Leases; and
- Group financial statements.

15 I expect to complete this work by mid-September 2011 and will update members on the progress and outcome of this outstanding work at the 23 September 2011 Audit Committee meeting.

16 Subject to satisfactory completion of the remaining work and clearance of outstanding matters, I plan to issue an audit report including an unqualified opinion on the financial statements. Appendix 1 contains a copy of my draft audit report.

Key areas of judgement and audit risk

17 In planning my audit I identified specific risks and areas of judgement that I have considered as part of my audit.

Table 3: Key areas of judgement and audit risk

Issue or risk	Finding
<p>International Financial Reporting Standards (IFRS)</p> <p>Introduction of IFRS from 1 April 2010. Council was required to:</p> <ul style="list-style-type: none"> ■ Restate its 2009/10 audited financial statements into IFRS format; and ■ Prepare financial statements under IFRS for the first time in 2010/11. <p>Risk that Council would be unable to prepare financial statements that fully meet IFRS requirements.</p>	<p><i>Restatement of 2009/10 financial statements into IFRS format</i></p> <p>I reviewed the Council's processes for restating its 1 April 2009 balance sheet and its 2009/10 financial statements to meet IFRS requirements.</p> <p>I am pleased to note that the authority took early action and followed a project based approach to the restatement covering areas of risk including:</p> <ul style="list-style-type: none"> ■ Property, Plant and Equipment; ■ Leases; ■ Grants and contributions received; and ■ Schools <p><i>Preparation of 2010/11 financial statements under IFRS</i></p> <p>I reviewed the format and content of the primary statements, including accounting policies and material notes, to check compliance with the IFRS-based CIPFA code of practice on local authority accounting and applicable accounting standards.</p> <p>The Council successfully produced financial statements for 2010/11 under IFRS requirements ahead of the statutory date.</p>
<p>IFRIC 12 implementation – Eastcroft incinerator expenditure</p> <p>Significant issues were reported in my 2009/10 annual governance report regarding the accounting treatment of expenditure related to the Eastcroft incinerator incurred both in 2009/10 and previous financial years.</p> <p>The key issue was around resolution of differing views as to</p>	<p>I reviewed the Council's accounting treatment of expenditure incurred on the Eastcroft incinerator both prior to the 2009/10 financial year and during the 2010/11 financial year.</p> <p>Management carried out further work identifying a further £6.8m of capital expenditure incurred on the incinerator before the 2009/10 financial year. £0.6m of further</p>

Issue or risk	Finding
<p>whether the accounting treatment was 'on' balance sheet (auditor view) rather than 'off' balance sheet (Council view).</p> <p>In response, management amended the 2009/10 financial statements to recognise as an asset £8.1m of capital expenditure incurred on the incinerator but not for previous years' expenditure as further work in 2010/11 was needed to confirm the level of this expenditure.</p> <p>Risk that Council does not quantify the degree of misstatement associated with pre 2009/10 expenditure related to the incinerator.</p>	<p>expenditure has been incurred in 2010/11.</p> <p>All this expenditure has been correctly accounted for in the 2010/11 financial statements as 'on' balance sheet and recognised as non-current assets under the 'other equipment' heading of Property, Plant and Equipment.</p>
<p>Accounts payable</p> <p>I reported in my 2009/10 annual governance report that the Council experienced significant problems with its new arrangements for accounts payable.</p> <p>Extended audit testing was required to provide me with sufficient assurance over expenditure to inform my 2009/10 opinion.</p> <p>Risk that the Council takes insufficient action to address weaknesses in the operation of its accounts payable system in 2010/11 leading to material error in the financial statements.</p>	<p>I reviewed the Council's accounts payable system in 2010/11 concluding that the weaknesses reported last year remain. A significant backlog for processing payments continues with Internal Audit giving a 'limited assurance' opinion over this system for 2010/11 due to the weak controls. No assurance was available to me from the Council's internal controls in this area.</p> <p>In response, the Council put in place extra year-end procedures to mitigate the effect of these weak controls. The Council is also continuing to work on improving the in year controls.</p> <p>As last year I have adopted a substantive approach to the testing of expenditure with extended testing in this area.</p> <p>Testing is in progress and I expect to complete this in mid-September 2011. I will provide an update on the outcome of this work at the September Audit Committee.</p>

Issue or risk	Finding
<p>Payroll</p> <p>I reported in my 2009/10 annual governance report that the Council does not maintain an up to date establishment list.</p> <p>This weakness makes it more difficult to obtain assurance that payroll costs are complete and accurate.</p>	<p>My work in this area is in progress and I expect to complete this in mid-September 2011 ahead of the September Audit Committee meeting.</p>

Recommendation
<p>R1 The Council should take action to address on-going weaknesses in controls over its accounts payable system and improve operation of existing system controls.</p>

Errors in the financial statements

18 I identified one material error, three material classification amendments (one of which applies to 2009/10 comparative figures only) and a number of non material non trivial errors in the financial statements and reported these to management. Management has agreed to adjust the financial statements for all of these errors as set out in appendix 2 and will run through the changes made at the audit committee. There are no errors where amendment has not been agreed.

Important weaknesses in internal control

19 I have not identified any weaknesses in the design or operation of an internal control that might result in a material error in the financial statements of which you are not aware. However, I do want to bring to your attention a matter that I previously reported to you in my 2009/10 annual governance report. This concerns the issue of members' responses to requests for confirmation of related party transactions.

Table 4: **Important weaknesses in internal control**

Description of weakness	Potential effect	Management action
<p>Related party transactions</p> <p>The Council has put in place a process to identify related parties that includes both members and senior</p>	<p>Lack of a 100 per cent response rate increases the risk of undisclosed related parties in</p>	<p>Take steps to ensure that all members and senior officers provide promptly information about related party transactions.</p>

Description of weakness	Potential effect	Management action
<p>officers however, the effectiveness of this remains limited because of the lack of a 100% response rate.</p> <p>Although the response rate this year is substantially better than in 2009/10, a significant number of questionnaires were not returned (26% still outstanding following officer action to encourage responses).</p>	<p>the Council's financial statements and represents weak governance.</p>	

20 These weaknesses are only those I identified during the audit that are relevant to preparing the financial statements. I am not expressing an opinion on the overall effectiveness of internal control.

Recommendation

R2 Improve operation of the current process for identifying related parties by ensuring that all members and senior officers respond promptly to requests for information. Appoint a senior officer to oversee this exercise.

Quality of your financial statements

21 I consider aspects of your accounting practices, accounting policies, accounting estimates and financial statement disclosures.

22 Table 5 contains the issues I want to raise with you.

Table 5: **Accounting practices, policies and estimates and financial statement disclosures**

Issue	Finding
<p>Component accounting</p> <p>As part of the implementation of IFRS component accounting has been introduced for Property, Plant and Equipment (PPE).</p> <p>The CIPFA code of practice on local authority accounting ('the</p>	<p>The Authority has introduced a componentisation policy this year stating that the residual values of replaced components are assumed to be either zero or immaterial.</p> <p>In my view the authority is unable to support this assumption and I have asked management to</p>

Issue	Finding
<p>Code') requires authorities to de-recognise (dispose of) components that have been replaced.</p>	<p>estimate the likely residual value of replaced and refurbished components linked to capital expenditure on Council dwellings (£55.6m) and Property, Plant and Equipment (£27.0m).</p> <p>In the absence of this information, I am unable to assess the impact of the authority's policy on the financial statements which could be material.</p> <p>This means that replaced components are not derecognised leading to double counting and misstatement of both the revaluation reserve and capital adjustment account.</p> <p>I will provide an update to the Audit Committee.</p>
<p>Valuation of pension assets (IAS19 requirements)</p> <p>The authority uses an actuarial estimate for the value of pension fund assets at 31 March 2011. I am required to consider the appropriateness of accounting estimates and judgments.</p>	<p>I have reviewed the subsequent actual valuation of the authority's pension fund assets at 31 March 2011.</p> <p>The actual valuation is 1.2% higher than the original and falls within the tolerance threshold set by the actuary (+/- 2%).</p> <p>I report this matter to you as the difference (£8.8m) is a non-trivial, non-material amount relating to an estimate.</p>
<p>Valuation of social housing stock (IAS 1 requirements)</p> <p>There has been a national change this year to the social housing factor percentage used to value council housing stock.</p> <p>Locally, the factor has reduced significantly resulting in lower asset values leading to an unusually high impairment for these assets this year.</p> <p>The authority has estimated the effect of this change as nearly</p>	<p>I have reviewed the accounting treatment of the impairment associated with this change.</p> <p>Accounting standard IAS1 Presentation of Financial Statements defines items that, if material, need to be separately reported on the face of the Comprehensive Income and Expenditure Statement (CIES).</p> <p>My view is that the element of the housing stock valuation reduction linked to this change is an item that needs to be shown separately on</p>

Issue	Finding
<p>£280m.</p>	<p>the face of the CIES. The Council has agreed to amend the CIES to show this (appendix 2).</p>
<p>Actuarial valuation of pension costs (IAS 1 requirements) The basis for estimating pension costs has changed this year with a move from RPI to CPI as measures for price changes. The authority has estimated the effect of this change on past pension costs at £103m and has included this in the 'Non distributed costs' line of the CIES.</p>	<p>I have reviewed the accounting treatment of past pensions costs associated with this change. Accounting standard IAS1 Presentation of Financial Statements defines items that, if material, need to be separately reported on the face of the Comprehensive Income and Expenditure Statement (CIES). My view is that the RPI to CPI past pension costs adjustment is an item that needs to be shown separately on the face of the CIES. The Council has agreed to amend the CIES to show this (appendix 2).</p>
<p>Disclosure of Property, Plant and Equipment (PPE) impairments The CIPFA code of practice on local authority accounting ('the Code') requires extra information to be given in the financial statements for individual impairment losses or reversal of losses where these are material.</p>	<p>My audit work found two properties having impairment losses which I consider to be material:</p> <ul style="list-style-type: none"> ■ Hadden Park High School (£16.1m) ■ Fernwood Comprehensive School (£8.1m) <p>No extra information has been given about these assets as required by the Code. Management has agreed to amend the financial statements to include this information.</p>

Letter of representation

23 Before I issue my opinion, auditing standards require me to ask you and management for written representations about your financial statements and governance arrangements. Appendix 3 contains the draft letter of representation.

Value for money

I am required to conclude whether the Council put in place proper corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money conclusion.

24 I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against two criteria specified by the Audit Commission. My conclusion on each of the two areas is set out below.

Table 6: **Value for money conclusion criteria assessment**

Criterion	Finding
<p>Securing financial resilience</p>	<p>The Council has well established arrangements for securing financial resilience.</p> <p>My assessment has been informed through an assurance based review of financial resilience and on-going monitoring of the Council's financial position and plans.</p> <p>Financial pressures</p> <p>The Council has a good track record of managing financial pressures.</p> <p>Management took action in the final quarter of 2010/11 to address a forecast £3.6m year end overspend and successfully contained expenditure within its 2010/11 revenue budget.</p> <p>Pressures on demand led budgets for adult and children's services were managed in 2010/11 but in my view remain an on-going risk for 2011/12 and future financial years.</p> <p>Looking ahead, the Authority has up to date medium-term (three year) financial strategy that takes into account the ongoing economic downturn and future reductions in government funding.</p> <p>Conclusion - Criterion met.</p>

Criterion	Finding
Securing economy, efficiency and effectiveness	<p>The Council has arrangements in place for securing economy, efficiency and effectiveness.</p> <p>My assessment has been informed through both an assurance based review and consideration of the VFM profiles for 2009/10 published by the Audit Commission.</p> <p>Reference to the profiles included considering the performance of the Council relative to its 'nearest statistical neighbours' across a number of different indicators.</p> <p>NET phase 2</p> <p>In March 2011 the Council announced that Tramlink Nottingham was its preferred bidder for the NET phase 2 tram extension.</p> <p>Since that time, the Council has continued its work looking at the governance and affordability aspects of the project ahead of awarding the contract later this year.</p> <p>My monitoring of the Council's proposals has included reviewing its proposals for the early termination of the current NET 1 contract with Arrow Light Rail ahead of the NET phase 2 contract being awarded.</p> <p>Conclusion - Criterion met.</p>

25 I intend to issue an unqualified conclusion stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in the use of resources. Appendix 1 contains the wording of my draft report.

Appendix 1 Draft independent auditor's report to Members of Nottingham City Council

Opinion on the Authority and Group accounting statements

I have audited the Authority and Group accounting statements of Nottingham City Council for the year ended 31 March 2011 under the Audit Commission Act 1998. The Authority and Group accounting statements comprise the Authority and Group Movement in Reserves Statement, the Authority and Group Comprehensive Income and Expenditure Statement, the Authority and Group Balance Sheet, the Authority and Group Cash Flow Statement, the Housing Revenue Account, the Movement on the Housing Revenue Account Statement and Collection Fund and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of Nottingham City Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Chief Finance Officer and auditor

As explained more fully in the Statement of the Chief Finance Officer's Responsibilities, the Chief Finance Officer is responsible for the preparation of the Authority and Group's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. My responsibility is to audit the accounting statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the accounting statements sufficient to give reasonable assurance that the accounting statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority and Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Authority and Group; and the overall presentation of the accounting statements. I read all the information in the explanatory foreword to identify material inconsistencies with the audited accounting statements. If I become aware

of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on accounting statements

In my opinion the accounting statements:

- give a true and fair view of the state of Nottingham City Council's affairs as at 31 March 2011 and of its income and expenditure for the year then ended;
- give a true and fair view of the state of the Group's affairs as at 31 March 2011 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

Opinion on other matters

In my opinion, the information given in the explanatory foreword for the financial year for which the accounting statements are prepared is consistent with the accounting statements.

Matters on which I report by exception

I have nothing to report in respect of the governance statement on which I report to you if, in my opinion the governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007.

Conclusion on Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources

Authority's responsibilities

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities

I am required under Section 5 of the Audit Commission Act 1998 to satisfy myself that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

I report if significant matters have come to my attention which prevent me from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. I am not required to consider, nor have I considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Basis of conclusion

I have undertaken my audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2010, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for me to consider under the Code of Audit Practice in satisfying myself whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2011.

I planned my work in accordance with the Code of Audit Practice. Based on my risk assessment, I undertook such work as I considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2010, I am satisfied that, in all significant respects, Nottingham City Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2011.

Certificate (assuming completion of 2009/10 audit and issue of certificate prior to 30 September 2011)

I certify that I have completed the audit of the Authority and Group accounts of Nottingham City Council in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Or

Delay in certification of completion of the audit

The audit cannot be formally concluded and an audit certificate issued until I have completed my consideration of matters brought to my attention by local authority electors in 2009/10 and issued a certificate for that year. I am satisfied that these matters do not have a material effect on the financial statements.

Sue Sunderland
Officer of the Audit Commission
Westthorpe Business Innovation Centre
Westthorpe Fields Road
Killamarsh
Sheffield
S21 1TZ

23 September 2011

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Appendix 2 Amendments to the draft financial statements

I identified the following misstatements during my audit and management have adjusted the financial statements. I bring them to your attention to help you in fulfilling your governance responsibilities.

Table 7:

Adjusted mis-statement	Comprehensive income and expenditure statement		Balance sheet	
	Dr £'000	Cr £'000	Dr £'000	Cr £'000
Description	Account entry and value			Account entry and value
CIES				
Understated actuarial gain on pension liabilities:				
- Other comprehensive income and expenditure			304,570	
- Unusable reserves		304,570		
CIES				
Classification of HRA social housing revaluation adjustment as an exceptional item:				
- Exceptional item	279,680			
- Local authority housing (HRA)		279,680		
CIES				
Classification of one-off reduction in pension costs resulting from the change of valuation basis from RPI to CPI as an exceptional item:				
- Non distributed costs	103,104			

Adjusted mis-statement	Comprehensive income and expenditure statement	Balance sheet
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- Exceptional item	103,104	
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Balance sheet - PPE

Incorrect valuation calculation for Eastcroft depot:

- Capital adjustment account	333	
- PPE (other land and buildings)		333

Balance sheet - PPE

Reclassify Severns House as a surplus asset:

- PPE (surplus assets)	1,801	
- PPE (other land and buildings)		1,801

Balance sheet - PPE

Reclassify Severns Building (Castle Gate):

- PPE (other land and buildings)	968	
- PPE (surplus assets)		968

Balance sheet - IFRS restatement *

Correction of opening balances at 1st April 2009 for finance lease assets recorded twice as both a non current asset and a debtor.

- Unusable reserves (capital adjustment account)	1,313	
- PPE		1,251
- Investment property		62

Adjusted mis-statement	Comprehensive income and expenditure statement	Balance sheet
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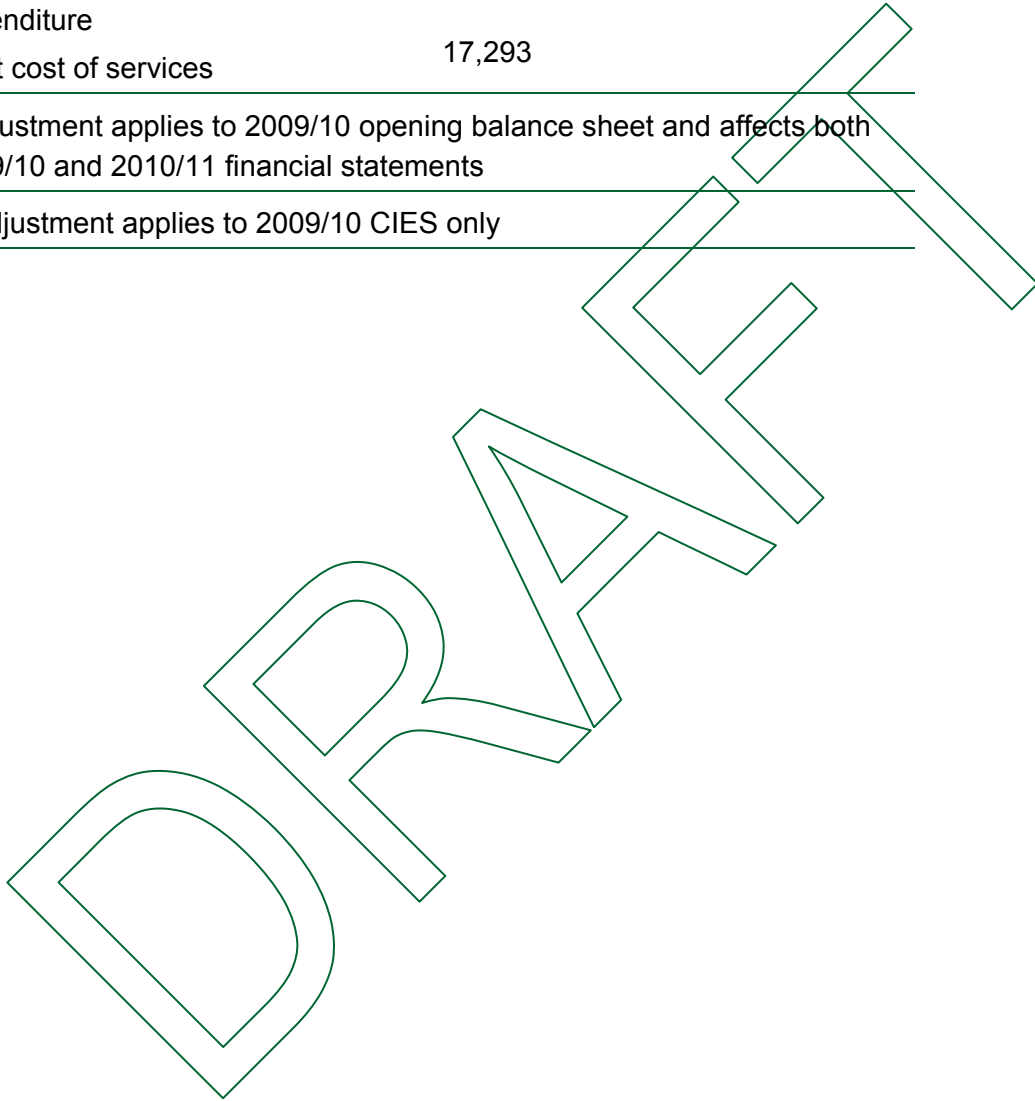
CIES - IFRS restatement **

Reclassify NET1 unitary payment:

- Financing and investment income and expenditure	17,293	
- Net cost of services	17,293	

* adjustment applies to 2009/10 opening balance sheet and affects both 2009/10 and 2010/11 financial statements

** adjustment applies to 2009/10 CIES only



Appendix 3 Draft letter of representation

The following wording needs to be copied onto Council letter headed paper and signed by your Deputy Chief Executive & Corporate Director for Resources as the Council's section 151 officer.

Mrs Sue Sunderland
District Auditor
Audit Commission
Westthorpe Business Innovation Centre
Westthorpe Fields Road
Killamarsh
Sheffield
S21 1TZ

Nottingham City Council - Audit for the year ended 31 March 2011

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other officers of Nottingham City Council, the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2011. All representations cover the Council's accounts and Group accounts included within the financial statements.

Compliance with the statutory authorities

I have fulfilled my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Code of Practice for Local Authority Accounting in the United Kingdom which give a true and fair view of the financial position and financial performance of the Council, for the completeness of the information provided to you, and for making accurate representations to you.

Uncorrected misstatements

The effects of uncorrected financial statements misstatements summarised in the attached schedule are not material to the financial statements, either individually or in aggregate.

Supporting records

All relevant information and access to persons within the entity has been made available to you for the purpose of your audit, and all the transactions undertaken by the Council have been properly reflected and recorded in the financial statements.

Internal control

I have communicated to you all deficiencies in internal control of which I am aware.

Irregularities

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

I also confirm that I have disclosed:

- my knowledge of fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements;
- my knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others; and
- the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

Law, regulations, contractual arrangements and codes of practice

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

Transactions and events have been carried out in accordance with law, regulation or other authority. The Council has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance.

All known actual or possible litigation and claims, whose effects should be considered when preparing the financial statements, have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.

Accounting estimates including fair values

I confirm the reasonableness of the significant assumptions used in making the accounting estimates, including those measured at fair value.

For the measurement and valuation of investments and borrowings disclosed under Financial Instruments, I confirm:

- the appropriateness of the measurement method; and
- that subsequent events do not require adjustment to the fair value measurement.

Group entities

I acknowledge that the Council supports and will continue to support the financial position of its wholly owned subsidiary companies including Enviroenergy Limited and Nottingham City Homes Limited.

Assets

The following have been properly recorded and, where appropriate, adequately disclosed in the financial statements:

- losses arising from sale and purchase commitments;
- agreements and options to buy back assets previously sold; and
- assets pledged as collateral.

Compensating arrangements

There are no formal or informal compensating balancing arrangements with any of our cash and investment accounts.

Contingent liabilities

There are no other contingent liabilities, other than those that have been properly recorded and disclosed in the financial statements. In particular:

- there is no significant pending or threatened litigation, other than those already disclosed in the financial statements;
- there are no material commitments or contractual issues, other than those already disclosed in the financial statements; and
- no financial guarantees have been given to third parties.

Related party transactions

I confirm that I have disclosed the identity of Nottingham City Council's related parties and all the related party relationships and transactions of which I am aware. I have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirement of the framework.

PFI schemes

I confirm that for the Council's PFI schemes that there have been no changes to existing schemes and contracts.

Subsequent events

All events subsequent to the date of the financial statements, which would require additional adjustment or disclosure in the financial statements, have been adjusted or disclosed.

Signed on behalf of Nottingham City Council.

I confirm that this letter has been discussed and agreed by the Audit Committee on 23 September 2011.

Signed

Name Carole Mills-Evans

Position Deputy Chief Executive & Corporate Director for Resources

Date 23 September 2011

Appendix 4 Glossary

Annual governance statement

A statement of internal control prepared by an audited body and published with the financial statements.

Audit closure certificate

A certificate that I have completed the audit following statutory requirements. This marks the point when I have completed my responsibilities for the audit of the period covered by the financial statements.

Audit opinion

On completion of the audit of the financial statements, I must give my opinion on the financial statements, including:

- whether they give a true and fair view of the financial position of the audited body and its spending and income for the year in question; and
- whether they have been prepared properly, following the relevant accounting rules.

Opinion

If I agree that the financial statements give a true and fair view, I issue an unqualified opinion. I issue a qualified opinion if:

- I find the statements do not give a true and fair view; or
- I cannot confirm that the statements give a true and fair view.

Materiality (and significance)

The APB defines this concept as ‘an expression of the relative significance or importance of a particular matter for the financial statements as a whole. A matter is material if its omission would reasonably influence users of the financial statements, such as the addressees of the auditor’s report; also a misstatement is material if it would have a similar influence. Materiality may also be considered for any individual primary statement within the financial statements or of individual items included in them. We cannot define materiality mathematically, as it has both numerical and non-numerical aspects’.

The term ‘materiality’ applies only to the financial statements. Auditors appointed by the Commission have responsibilities and duties under statute, as well as their responsibility to give an opinion on the financial statements, which do not necessarily affect their opinion on the financial statements.

'Significance' applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit in relation to the financial statements. Significance has both qualitative and quantitative aspects.

Weaknesses in internal control

A weakness in internal control exists when:

- a control is designed, set up or used in such a way that it is unable to prevent, or detect and correct, misstatements in the financial statements quickly; or
- a control necessary to prevent, or detect and correct, misstatements in the financial statements quickly is missing.

An important weakness in internal control is a weakness, or a combination of weaknesses that, in my professional judgement, are important enough that I should report them to you.

Value for money conclusion

The auditor's conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources based on criteria specified by the Audit Commission. I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against two criteria specified by the Audit Commission ie;

- 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.

If I find that the audited body had adequate arrangements, I issue an unqualified conclusion. If I find that it did not, I issue a qualified conclusion.

Appendix 5 Action Plan

Recommendations

Recommendation 1

The Council should take action to address on-going weaknesses in controls over its accounts payable system and improve operation of existing system controls.

Responsibility

Priority

Date

Comments

Recommendation 2

Improve operation of the current process for identifying related parties by ensuring that all members and senior officers respond promptly to requests for information. Appoint a senior officer to oversee this exercise.

Responsibility

Priority

Date

Comments