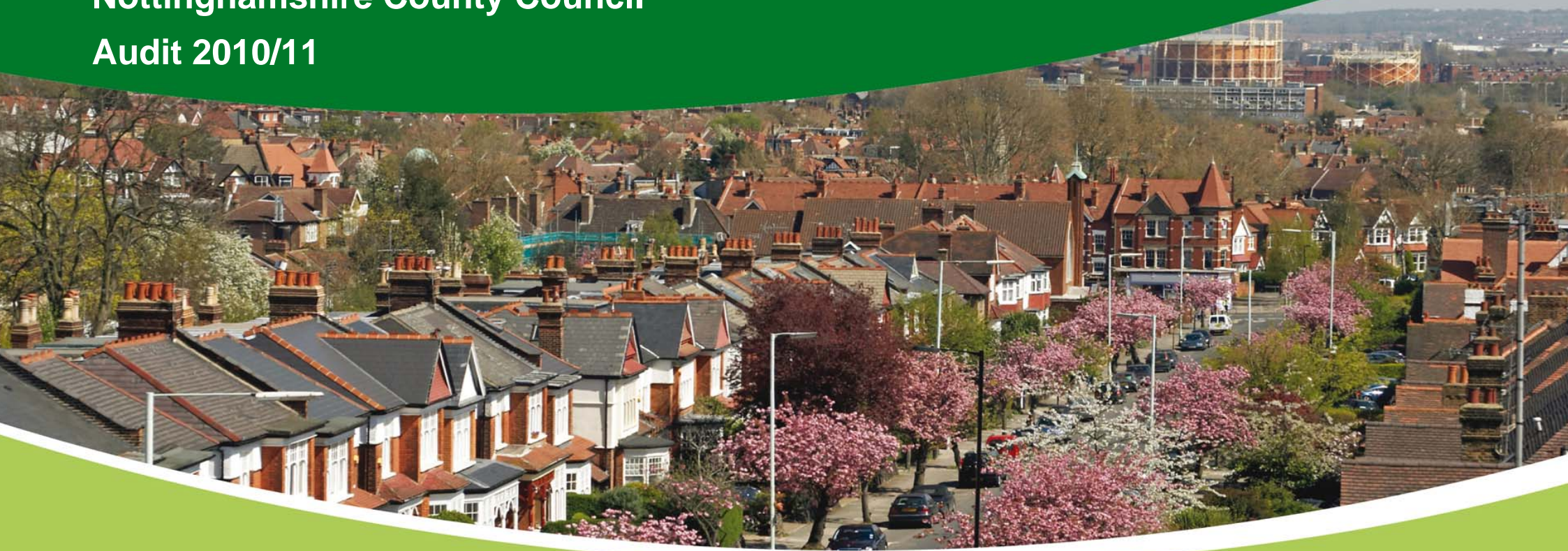


Annual governance report

Nottinghamshire County Council

Audit 2010/11



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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.

Status of the Audit and this Report

The Council's 2010/11 financial statements and this report are to be initially considered by the Audit Committee on 12 September 2011, with the statements formally approved by the County Council at its 22 September 2011 meeting. The statements include both the County Council and Pension Fund accounts. My audits of the two sets of accounts are substantially complete. There are some outstanding issues relating to the County Council accounts which are expected to be resolved by the date of the County Council meeting. I will update the Audit Committee at its meeting on the progress made in relation to the remaining audit enquiries.

Audit opinion and financial statements

Subject to satisfactory clearance of outstanding matters, I plan to issue an audit report including an unqualified opinion on the Council's financial statements.

Value for Money Conclusion

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

Before I complete my audit

I confirm to you

My 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.

Independence

I can confirm that I have complied with the Auditing Practices Board's ethical standards for auditors, including ES 1 (revised) - Integrity, Objectivity and Independence. I can also confirm there were no relationships resulting in a threat to independence, objectivity and integrity.

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

I ask you to confirm to me

I ask the Council to:

- take note of the unadjusted items in the Council's financial statements which are set out in this report (Appendix 2); and
 - approve the letter of representation, provided alongside this report before I issue my opinion and conclusion.
-

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

Subject to satisfactory 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 report.

The outstanding matters largely relate to residual audit procedures where audit work is in progress. These include:

- checking the agreed non-material amendments to disclosure notes, to correct minor errors or to reflect changes to the accounting guidance;
- further information required from officers to help evaluate non material errors identified during the audit regarding certain items of revenue expenditure which has been classified as capital; and
- other routine audit closure steps.

We expect to complete the remaining work and obtain from officers the further information and explanations required by the date of the Audit Committee meeting. I will update the Audit Committee at its 12 September 2011 meeting on the progress made in relation to the remaining audit queries.

Errors in the financial statements

No material errors in the financial statements have been identified in the course of the audit work completed to date. I will update the Audit Committee at its 12 September 2011 meeting if this changes.

Non-material errors have been identified as part of the audit work completed to date and these are summarised in Appendix 2 for your information. I will update the Audit Committee at its 12 September 2011 on this and any additional issues arising from the remaining audit queries.

Key areas of judgement and audit risk

In planning my audit I identified specific risks and areas of judgement that I have considered as part of my audit. These were reported to the Audit Committee in March 2011. I have set out below the outcome of my audit work.

Key audit risk and our findings

Key audit risk	Findings
<p>2010/11 is the first year that the Code of Practice for local government accounting is based solely on IFRS. Incorrect interpretation/adoption of IFRS could potentially lead to material misstatement within the financial statements. This significant change in accounting practice will also require a restatement of the audited 2009/10 accounts. Specific risk areas highlighted through our audit planning include:</p> <ul style="list-style-type: none">■ Plant, Property and Equipment - the categories of non-current assets and the corresponding valuation methods have changed, as have the accounting requirements for significant asset components and subsequent capital expenditure. Schools are a significant group of assets and may now need to be accounted for differently depending on the ownership and management arrangements in place at the school.■ PFI and Leases - the Council's 2009/10 assessment and financial model needs to be kept up to date and other arrangements (eg NET1 and 2, Eastcroft Waste Incinerator) which potentially fall under the new accounting requirements need to be correctly identified, assessed and accounted for. The Council needs to ensure its lease records are up to date and needs to identify and properly classify and account for, under the new standard, all significant leases.■ Grants - the accounting arrangements for revenue and	<p>Although we were able to carry out much of the initial audit work in all of the key areas before the 2010/11 year-end, the fully restated 2009/10 accounts were produced by officers later than anticipated. I reported on the impact of this delay on our planned audit approach to the Audit Committee in March 2011. Much of the detailed audit work on the 2009/10 restatements had to be deferred until July 2011 and was carried out alongside the planned 2010/11 post statements audit work. In relation to the specific risk areas highlighted we found that:</p> <ul style="list-style-type: none">■ Plant, Property and Equipment – we did not identify any material errors in the categorisation or valuation of PPE. The 2009/10 restatement included the expected adjustments to reflect changes in the accounting treatment of foundation and voluntary aided schools.■ PFI and leases – we did not identify any material errors in the accounting treatment of the council's PFI and other arrangements, and the Council has reasonable arrangements for identifying and evaluating these arrangements. The Council had followed a reasonable process in identifying, classifying and accounting for its leases and we did not identify any material errors.■ Grants – the council had taken reasonable steps to identify any 2009/10 grants which needed to be restated and we did not identify any material errors in the accounting treatment of grants.■ Employee Benefits – we did not identify any material errors in the Council's estimate of the value of unused leave at the year end.

Key audit risk	Findings
<p>capital grants in the balance sheet and income and expenditure account have changed and will require significant restatement of the 2009/10 figures. The 2009/10 opening and closing balances of around £45m and £64m respectively are material and cover a wide range of services.</p> <ul style="list-style-type: none"> ■ Employee Benefits - there is a range of information sources and the Council needs to make a reliable estimate of the value of unused leave entitlement at the year end. 	

Significant weaknesses in internal control

I have not identified any significant weakness in the design or operation of an internal control that might result in a material error in the County Council's financial statements of which you are not aware.

I have not provided a comprehensive statement of all weaknesses which may exist in internal control, or of all improvements which may be made. I have reported only those matters which have come to our attention because of the audit procedures we have performed.

Quality of the Council's financial statements

I consider aspects of your accounting practices, accounting policies, accounting estimates and financial statement disclosures. There are no matters relating to the County Council's accounts that I wish to bring to your attention in this report and there were no significant difficulties encountered during that audit that I need to report here.

Other significant matters relating to the County Council audit

There were no significant difficulties encountered during the audit of the County Council's accounts that I need to bring to your attention in this report. There are no other significant matters discussed with or subject to correspondence with management, or other matters relevant to the reporting process which I need to bring to your attention in this report.

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.

I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against two criteria specified by the Audit Commission. I intend to issue an unqualified conclusion stating that the Council had proper arrangements to secure economy, efficiency and effectiveness in your use of resources. My conclusion on each of the two areas is set out below.

Value for money criteria and our findings

Criterion	Findings
1. Financial resilience The organisation has proper arrangements in place to secure financial resilience. Focus for 2010/11: The organisation has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.	I have concluded that the Council has proper arrangements in place and there are no exceptions or points of concern that I need to raise with you in this report. The financial governance arrangements are well established and supported by a strong financial management culture. The medium term financial strategy has continued to be updated. The strategy has been informed by widespread consultation and analysis and shapes the Improvement Programme to deliver significant financial savings over the period of the plan. The budget is comprehensive and service plans reflect the Council's priorities. The steps taken to maintain the Council's financial standing have been effective and action has been taken promptly in year to address any reported overspends. The Council has maintained the planned levels of reserves. The Council has set challenging targets for budget reductions and is making good progress on its programmes to deliver them. Financial monitoring and forecasting information is reliable and is used effectively. The financial reporting arrangements are well established and

Criterion	Findings
	<p>new accounting requirements have been successfully addressed in the year. The Council continues to manage risk effectively and the arrangements are embedded. Internal Audit found that internal controls in the majority of the Council's systems and procedures continue to operate satisfactorily.</p>
<p>2. Securing economy efficiency and effectiveness</p> <p>The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.</p> <p>Focus for 2010/11:</p> <p>The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.</p>	<p>I have concluded that the Council has proper arrangements in place and there are no exceptions or points of concern that I need to raise with you in this report. The Improvement Programme is widely understood and comprehensive. The Improvement Programme governance arrangements are strong and good progress is being made in delivering the Programme. The Programme incorporates a high degree of challenge to service delivery (for example the Trading Services review) and opportunities for service redesign. The Programme has been informed by good analysis of budget pressures and the impacts of increasing demand. A key strand of the Programme is the implementation of a new system to strengthen the arrangements for managing information about cost and performance. Comparative and benchmarking information is being more widely used. The Council has improved its understanding and control of its costs and is delivering efficiency savings.</p>

Report by exception

The Audit Commission requires me to report by exception where significant matters come to my attention, which I consider to be relevant to proper arrangements to secure economy, efficiency and effectiveness in your use of resources. There are no significant matters that I need to report to you.

Appendix 1 – Draft audit report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF NOTTINGHAMSHIRE COUNTY COUNCIL

Opinion on the Authority and Group accounting statements

I have audited the Authority and Group accounting statements of Nottinghamshire County 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 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 Nottinghamshire County 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 Service Director (Finance) and auditor

As explained more fully in the Statement of the Service Director (Finance) Responsibilities, the Service Director (Finance) 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 financial 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 Nottinghamshire County 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.

Opinion on the pension fund accounting statements

I have audited the pension fund accounting statements for the year ended 31 March 2011 under the Audit Commission Act 1998. The pension fund accounting statements comprise the Fund Account, the Net Assets Statement 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 Nottinghamshire County 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 Service Director (Finance) and auditor

As explained more fully in the Statement of the Service Director (Finance) Responsibilities, the Service Director (Finance) is responsible for the preparation of the pension fund'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 fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the fund; 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 pension fund's accounting statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2011 and the amount and disposition of the fund's assets and liabilities as at 31 March 2011, other than liabilities to pay pensions and other benefits after the end of the scheme year; 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.

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, Nottinghamshire County Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2011.

Delay in certification of completion of the audit

The audit cannot be formally concluded yet as objections made by a local elector as part of the 2008/09 audit have not been determined. The audit certificates for 2009/10 and 2010/11 cannot be issued until this issue relating to the 2008/09 audit has been resolved and that year's audit has been formally concluded. I am satisfied that these matters do not have a material effect on the 2009/10 or 2010/11 financial statements.

Ian Sadd
Officer of the Audit Commission
Rivermead House
7 Lewis Court
Grove Park Farm
Enderby
Leicester
LE19 1SU

September 2011

Appendix 2 – Unadjusted misstatements to the financial statements

The following non-material misstatements were identified during the course of my audit to date and the financial statements have not been adjusted by management. Management has been asked to provide further information and explanations to help evaluate the errors. I bring this matter to your attention to assist you in fulfilling your governance responsibilities. If you agree that the effect of the uncorrected errors, individually and collectively, is immaterial, please reflect this in the representation letter. Please attach a schedule of the uncorrected errors to the representation letter.

Description of errors and accounts affected	Total Value of errors
Capitalised revenue expenditure – in the course of our sample testing of additions to Plant, Property and Equipment we identified items of schools' revenue expenditure which had incorrectly been recorded as capital expenditure and funded by a specific capital grant. Officers have been asked to provide further information and explanations to help evaluate the error and to assess the impact of any misstatement on the financial statements. The total value of this schools' grant funded expenditure was £0.9m and, given the other controls and routine checking carried out by officers, it is unlikely that the full amount is misstated. The error understates Education and Children's services expenditure in the Comprehensive Income and Expenditure Statement and overstates the value of Plant, Property and Equipment in the Balance Sheet.	no more than £0.9m

Appendix 3 – 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 Auditing Practices Board (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.

The Code of Audit Practice defines proper arrangements as corporate performance management and financial management arrangements that form a key part of the system of internal control. These comprise the arrangements for:

- planning finances effectively to deliver strategic priorities and secure sound financial health;
- having a sound understanding of costs and performance and achieving efficiencies in activities;
- reliable and timely financial reporting that meets the needs of internal users, stakeholders and local people;
- commissioning and buying quality services and supplies that are tailored to local needs and deliver sustainable outcomes and value for money;
- producing relevant and reliable data and information to support decision making and manage performance;
- promoting and displaying the principles and values of good governance;
- managing risks and maintaining a sound system of internal control;
- making effective use of natural resources;
- managing assets effectively to help deliver strategic priorities and service needs; and
- planning, organising and developing the workforce effectively to support the achievement of strategic priorities.

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.

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- any director/member or officer in their individual capacity; or
- any third party.

