Norfolk County Council Audit Results report

Year ended 31 March 2018

19 July 2018

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19 July 2018

Dear Audit Committee Members

We are pleased to attach our audit results report for the forthcoming meeting of the Audit Committee. This report summarises our preliminary audit conclusion in relation to the audit of Norfolk County Council (the 'Authority') for 2017/18. We will issue our final report at the Audit Committee meeting scheduled for 31 July 2018.

We have substantially completed our audit of Norfolk County Council for the year ended 31 March 2018.

Subject to concluding the outstanding matters listed in our report, we confirm that we expect to issue an unqualified audit opinion on the financial statements in the form at Section 3, before the statutory deadline of 31 July 2018. We also have no matters to report on your arrangements to secure economy, efficiency and effectiveness in your use of resources

This report is intended solely for the use of the Audit Committee, other members of the Authority, and senior management. It should not be used for any other purpose or given to any other party without obtaining our written consent.

We would like to thank your staff for their help during the engagement.

We welcome the opportunity to discuss the contents of this report with you at the Audit Committee meeting on 31 July 2018.

Yours faithfully

MARK HODGSON

Mark Hodgson

Associate Partner

For and on behalf of Ernst & Young LLP

Encl

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In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued "Statement of responsibilities of auditors and audited bodies". It is available from the via the PSAA website (www.PSAA.co.uk).

The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The "Terms of Appointment (updated February 2017)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to the Audit Committee and management of Norfolk County Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit Committee, and management of Norfolk County Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit Committee and management of Norfolk County Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.

01 Executive Summary

Executive Summary

Scope update

In our audit planning report tabled at the 19 April 2018 Audit Committee meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We carried out our audit in accordance with this plan, with the following exception:

Changes in materiality: We planned our procedures using a materiality of £28.2 million for Norfolk County Council's single entity financial statements (for the group this was £32.2 million). We reassessed this using the draft actual results for the financial year, which has reduced the materiality to £27.8 million (for the group this remained at £32.2 million). The threshold for reporting audit differences (£1.4 million) did not change.

The basis of our assessment of materiality represents 2% of the gross expenditure on net cost of services plus financing and investment expenditure. We also identified areas where misstatement at a lower level than materiality might influence the reader of the accounts and developed a specific audit strategy for them. These areas are remuneration disclosures, related party transactions and councillor allowances. There have been no changes to the areas identified for which specific materiality levels were identified.

Fire Pension Scheme – We have adopted a smaller materiality level of 2% of benefits payable to reflect the differing nature of the Pension Scheme. We have applied a materiality of £178,720 with a reporting threshold for audit differences of £8,936.

A summary of our approach to the audit of the balance sheet including any changes to that approach from the prior year audit is included in Appendix A. The changes to the group materiality levels have not had an impact on the extent of the audit procedures we have performed.

Status of the audit

We have substantially completed our audit of Authority's financial statements for the year ended 31 March 2018 and have performed the procedures outlined in our Audit Plan. Subject to satisfactory completion of the following outstanding items we expect to issue an unqualified opinion on the Authority's financial statements in the form which appears at Section 3. However until work is complete, further amendments may arise:

- Clearance of audit questions on the Authority's application of it's Minimum Revenue Provision.
- Receipt of valuation reports to support valuation adjustments to the Authority's share of Norwich Airport assets.
- Complete testing of manual journals.
- Completion of subsequent events review.
- Receipt and review of the final version of the financial statements.
- Receipt of the signed management representation letter.

We have yet to perform the procedures required by the National Audit Office (NAO) regarding the Whole of Government Accounts (WGA) submission, as the deadline for completion is the 31 August 2018. We therefore expect to issue the audit certificate at a later date to the audit opinion.

Executive Summary

Audit differences

Adjusted audit differences

At the time of writing this report, we have not identified any audit differences with an aggregated impact above our reporting level of £20.9 million. Further details on the adjustments agreed with Management can be found in Section 4 - Audit Differences.

We have also identified a number of minor disclosure adjustments which have been corrected by management in the revised financial statements subject to approval.

Unadjusted audit differences

We have identified two unadjusted audit differences in the draft financial statements which management has chosen not to adjust. We ask that they be corrected or a rationale as to why they are not corrected be approved by the Audit Committee and included in the Letter of Representation.

The first relates to an estimate of Norse's share of the increase in pension assets (Group Accounts only) – the aggregated impact of unadjusted audit differences is £1.6 million. We agree with management's assessment that the impact is not material.

The second relates to a disclosure note. Note 36 of the financial statements: PFI (Private Finance Initiative) and similar contracts. We have re-worked the financial model for the Norwich Schools PFI and Street Lighting PFI and identified the internal rate of return (IRR) used in the calculations for interest payments and the reimbursement of capital expenditure payments used indexed figures. The Code of Practice on Local Authority accounting does not permit the use of indexation for these calculations. The impact is immaterial for the 2017/18 payments but is above our reporting level for the disclosure of payments between years 2-15. The aggregated impact of unadjusted audit differences is £10.6 million. We agree with management's assessment that the impact is not material.

Further details on these differences can be found in Section 4 - Audit Differences.

Areas of audit focus

Our Audit Plan identified key areas of focus for our audit of Authority's financial statements This report sets out our observations and conclusions, including our views on areas which might be conservative, and where there is potential risk and exposure. We summarise our consideration of these matters, and any others identified, in the "Key Audit Issues" section of this report.

We ask you to review these and any other matters in this report to ensure:

- There are no other considerations or matters that could have an impact on these issues
- You agree with the resolution of the issue
- There are no other significant issues to be considered.

There are no matters, apart from those reported by management or disclosed in this report, which we believe should be brought to the attention of the Audit Committee.

Executive Summary

Control observations

We have adopted a fully substantive approach, so have not tested the operation of controls. During the audit, we have not identified any significant deficiencies in internal controls that require reporting to you.

Value for money

We have considered your arrangements to take informed decisions; deploy resources in a sustainable manner; and work with partners and other third parties. In our Audit Plan we identified the following significant risk:

- Sustainable resource deployment: Achievement of savings needed over the medium term.

We have no matters to report about your arrangements to secure economy efficiency and effectiveness in your use of resources.

Other reporting issues

We have reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of the Authority. We have no matters to report as a result of this work.

We will perform the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts (WGA) submission. At the time of writing this report we are yet to complete our work on the Whole of Government Accounts (WGA) return and will provide you with an update at the Audit Committee.

We have no other matters to report.

Independence

Please refer to Section 8 for our update on Independence. There are no relationships from 1 April 2017 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

02 Areas of Audit Focus

Significant risk of fraud in expenditure recognition

Risk of fraud in expenditure recognition through inappropriate capitalisation of expenditure

What is the risk?

Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.

The Authority has a net underspend against its budget of £0.235 million in 2017/18 (£0.048 million in 2016/17) and has ambitious savings targets to achieve financial balance over the next 3-5 years. As the Authority is more focussed on its financial position over the medium term we have considered the Authority’s revenue and expenditure streams and consider the risk to be more prevalent in the inappropriate capitalisation of revenue expenditure on Property, Plant and Equipment (PPE) given the extent of the Authority’s capital programme. We have also considered the completeness of liabilities for any management bias in achieving financial balance in the current financial year.

What judgements are we focused on?

In considering this risk we have focussed on management’s judgement in capitalising expenditure as PPE. The Authority has a number of large capital programmes and therefore judgement can be exercised in the allocation of costs between revenue expenditure and capital expenditure.

This judgement impacts the valuation/measurement of the expenditure and also the existence of the asset on the balance sheet and completeness of expenditure included within the Comprehensive Income and Expenditure Statement (CIES).

We have also considered the completeness of liabilities at the year end with a focus on any judgements management have made in relation to the expenditure which spans the financial year end.

We have set out the procedures we have undertaken in relation to the above, as well as other supplementary procedures we have performed to provide assurances over the identified risks, on the next page.

What are our conclusions?

Our testing has not identified any material misstatements from the inappropriate capitalisation of expenditure and completeness of liabilities.

Overall our audit work did not identify any material issues or unusual transactions to indicate any misreporting of the Authority’s financial position.

Significant Risk

Significant risk of fraud in expenditure recognition

Further details on procedures/work performed

We have performed the following specific procedures over the identified risk areas:

- Capital additions testing - We selected a sample of capital additions based on our established testing threshold and tested these to confirm that all amounts could be agreed to appropriate audit evidence (e.g. invoice, valuation certificate etc.) and that the item being capitalised was capital in nature. No issues were noted in our testing.
- Journal entry testing - As part of our journal testing we included specific tests to search for unusual activity that:
    - Moves expenditure from the CIES to PPE on the balance sheet.
    - Reduces expenditure and creditors.

  No unusual activity was identified as part of our review.

Other procedures

As set out in our audit planning report we confirm that we have also performed the following supplementary procedures to gain additional assurances around the recognition of revenue/expenditure recognition:

- Reviewed the appropriateness of revenue and expenditure recognition accounting policies and testing that they had been applied correctly during our detailed testing.
- Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements (refer to details included in the management override of control section below).
- Reviewed accounting estimates (e.g. IAS 19 liability and valuation of PPE) for evidence of management bias (see relevant sections below).
- Tested the completeness of liabilities by performing sample testing over cut off over transactions both before and after the year end and unrecorded liabilities testing over post year end cash payments to ensure that they were accounted for in the correct year based on our established testing threshold. We have also considered the overall completeness of liabilities included within the financial statements to ensure they are not materially misstated.
- Evaluated the business rationale for any significant unusual transactions.

No issues were identified in completion of our audit procedures.

Significant risk - Misstatements due to fraud or error

Misstatements due to fraud or error

What is the risk?

The risk is the financial statements as a whole are not free of material misstatements whether caused by fraud or error.

As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.

We have assessed journal amendments, accounting estimates, adjustments between accounting basis and funding basis under regulations and unusual transactions as the area's most open to manipulation. Linking to the presumed risk of fraud in revenue and expenditure recognition we have identified the inappropriate capitalisation of expenditure on Property, Plant and Equipment as a risk. This has been identified as a specific risk as set out on the previous page, and therefore we have not repeated that information here.

What judgements are we focused on?

In undertaking our work on management override of controls we have considered the balances included in the Authority's financial statements that are the most susceptible to judgement or estimation techniques. The key areas are considered to be:

- The valuation of Property, Plant and Equipment (including the correct completion status and accrual of expenditure on the Northern Distributor Road);
- Valuation of pension liabilities; and
- Adjustments between accounting basis and funding basis under regulations.

Further information on these is given on the next page.

What did we do?

- We tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in preparing the financial statements;
- We reviewed accounting estimates for evidence of management bias; and
- We tested the adjustments between accounting basis and funding basis under regulations.

We have set out the procedures we have undertaken in relation to the above, as well as other supplementary procedures we have performed to provide assurances over the identified risks, on the next page.

What are our conclusions?

We have not identified any material weaknesses in controls or evidence of material management override.

We have not identified any instances of inappropriate judgements being applied.

We did not identify any other transactions during our audit which appeared unusual or outside the Authority's normal course of business.

As set out in our other area of audit focus for pension liabilities we identified a misstatement in the calculation of the net liability. This was not indicative of management bias.

Significant Risk

Significant risk - Misstatements due to fraud or error

Further details on procedures/work performed

Journal entry testing

We have tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements. We obtained a full list of journals posted to the general ledger during the year and using our data analytics tool confirmed the completeness of the population and analysed these journals using criteria we set to identify any unusual journal types or amounts. We then tested a sample of journals that met our criteria and tested these to supporting documentation. No issues were identified.

Accounting estimates

As set out on the previous page, key estimates are considered to be related to the valuation of Property, Plant and Equipment and the valuation of pension liabilities. Due to the significance of these on the financial statements we have included them as higher inherent risks in our audit strategy and include a separate section to report on these separately below. Given that the impact of valuation and measurement of property, plant and equipment and pension liabilities do not impact the general fund we do not consider these to be significant estimates subject to fraudulent misreporting.

Specifically in relation to other liabilities we note that accruals are low risk as the majority are based on known values/invoices.

The provisions balance in the financial statements is £26.832 million at 31 March 2018 (£25.673 million at 31 March 2017). This includes two key balances being; a self insurance provision as informed by the Authority's insurance broker (£10.995 million) and a landfill provision calculated in accordance with guidance from the Environment Agency (£12.357 million). We judge these balances as low risk as there is limited management judgement involved. Detailed testing over the balances has not identified any issues to report.

The remainder of the Authority's estimates, including PFI, bad debt provision and depreciation are considered to be low risk. No issues were noted in our work in these areas.

Adjustments between accounting basis and funding basis under regulations

The adjustments between accounting basis and funding basis under regulation in the financial statements materially changes the charges to the General Fund balance. This line is shown in the Movement on Reserves Statement. As the Regulations are varied and complex there is therefore an inherent risk that management use this line to manipulate the General Fund balance. We identified the following areas as having a higher risk of management override:

- Revenue items incorrectly identified as Revenue Expenditure Funded from Capital Under Statute,(REFCUS) thus funded from capital. This risk is linked to our risk of fraud in expenditure recognition through inappropriate capitalisation of expenditure.
- Removal of capital grants from the General Fund through the MiRS. These are material amounts and could be incorrectly applied to fund revenue items.
- Depreciation, impairment and revaluation losses. Charged to the surplus or deficit on the provision of services and then adjusted through the MiRS to unusable reserves.

No issues were noted in our work in these areas.

Significant risk - Misstatements due to fraud or error

Further details on procedures/work performed

Other procedures - As set out in our audit planning report we confirm that we have also performed the following supplementary procedures to gain additional assurances management override of control/misstatements due to fraud or error:

- Identifying fraud risks during the planning stages and determining an appropriate strategy to address those identified risks of fraud.
- Inquiring of management about risks of fraud and the controls put in place to address those risks and understanding the oversight given by those charged with governance of management's processes over fraud.
- Consideration of the effectiveness of management's controls designed to address the risk of fraud.
- Performing mandatory procedures regardless of specifically identified fraud risks, including testing of journal entries and other adjustments in the preparation of the financial statements.
- Considering the results of our work on revenue and expenditure recognition as set out above, specifically considering any instances of management bias.
- Evaluating the business rationale for any significant unusual transactions.

We have no matters to report in relation to the above.

Other areas of audit focus – Accounting for Property, Plant and Equipment

Accounting for Property, Plant & Equipment

What is the risk and what judgements are we focused on?

Property, Plant and Equipment represent a significant balance in the Authority's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the Balance Sheet for land and buildings in particular.

The Authority engages an external expert valuer who applies a number of complex assumptions and therefore we are concerned with the reasonableness of the underlying assumptions used. Annually, assets are also assessed to identify whether there is any indication of impairment.

As the Authority's asset base is significant, and the outputs from the valuer are subject to estimation, there is a risk fixed assets may be under/overstated or the associated accounting entries incorrectly posted. This risk relates to assets that are revalued, being 'Other land and Buildings' and 'Surplus assets'. Vehicles, plant and equipment, infrastructure assets and community assets are held at cost.

ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

What did we do?

- Considered of the work performed by the Authority's valuers, NPS, including the adequacy of the scope of the work performed, professional capabilities and the results of their work.
- Reviewed and sample tested key asset information used by the valuers in performing their valuation (e.g. floor plans).
- Considered of the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code. We have also considered if there are any specific changes to assets that have occurred and that these have been communicated to the valuer.
- Reviewed the desktop review performed by management over assets not subject to valuation in 2017/18 to confirm that the remaining asset base is not materially misstated.
- Considered external evidence of assets values via reference to the specific Local Government Gerald Eve report contracted by the NAO for auditor use. Specifically we have considered if this indicates any material variances to the asset valuations performed by the valuers and the desktop review by management.
- Considered changes to useful economic lives as a result of the most recent valuation and tested that the valuation accounting entries have been correctly processed in the financial statements, including the treatment of impairments.
- Tested the corresponding accounting entries.

What are our conclusions?

We have not identified any instances of inappropriate judgements being applied.

We did not identify any significant issues in the assumptions used by the Authority in estimating the value of property, plant and equipment.

Other areas of audit focus - Pension valuations and disclosures

Pension Valuations and Disclosures

What is the risk?

The Local Council Accounting Code of Practice and IAS19 require the Authority to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme (LGPS) which is also administered by the Authority. The Authority's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Authority's balance sheet. At 31 March 2018 this totalled £833.446 million (£861.326 million at 31 March 2017).

Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. The information disclosed is based on the IAS 19 report issued to the Authority by the actuary to the administering body. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

What judgements are we focused on?

We have focused on the following areas, which are consistent with those of management:

- The reasonableness of the underlying assumptions used by the Authority's expert – Hymans Robertson.
- Ensuring the information supplied to the actuary in relation to the Authority was complete and accurate
- Ensuring the accounting entries and disclosures made in the financial statements were consistent with the report from Hymans Robertson.

What did we do?

We have liaised with the auditors of Norfolk Pension Fund to obtain assurances over the information supplied to the actuary in relation to Norfolk County Council.

We have assessed the work of the Pension Fund actuary (Hymans) including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by the National Audit Office (NAO) for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team. The assumptions used by the actuary have been reviewed by both PwC and our EY actuarial team who have both concluded that the assumptions and methodology used are considered to be appropriate.

We have reviewed and tested the accounting entries and disclosures made within the Authority's financial statements in relation to IAS19 – no issues have been noted.

What are our conclusions?

In calculating the scheme assets as at 31 March 2018 the actuary performs a roll forward technique based on asset data submitted to them by the Pension Fund at 31 December 2017.

The reporting from the Pension Fund auditors highlighted that the market value of the pension fund assets at 31 March 2018 was £3,579.9 million. When compared to the actuaries estimate of the fund assets at 31 March 2018 of £3,529.2 million this creates a difference of £50.7 million.

The Authority's share of the assets equates to approximately 50% of the fund. The Authority's share of the difference was therefore approximately £25.35 million.

Management has obtained a revised IAS19 report from the actuary and has amended the accounts for the updated asset figures, reducing the net liability by £16.546 million. This is detailed in Section 4.

No other significant matters were reported by the Pension Fund auditors.

No other issues have been identified in completing our work.

Assumptions used by the actuary and adopted by the Authority are considered to be generally acceptable. The sensitivities surrounding these assumptions have been correctly disclosed in the notes to the financial statements.

Areas of Audit Focus

Other areas of audit focus

Conversion of schools to Academies

As set out in our audit plan, a number of schools have continued to convert to academy status during 2017/18. This has implications for the treatment of the schools' balances in the financial statements, with the most significant relating to property, plant and equipment.

There is a risk that these schools' transactions and balances may be either incorrectly included or omitted.

Other balances relating to debtors, creditors, cash balances and income (including dedicated schools grant) and expenditure within the Authority's accounts are considered to be lower risk due to their size and nature.

In completing our audit procedures we have reviewed the arrangements for agreeing Schools assets, liabilities and balances for transfer and reviewed how they have been accounted for. This has also included reconciling the Schools that have converted to academies during the year to the various systems including those that have been disposed of in the Fixed Asset Register during the year.

We identified one school that had been maintained on the Authority's balance sheet as the lease agreement had not been signed due to ongoing building works. As the majority of the school was operational and managed by the Academy we agreed with management that this element should be included in the Authority's disposals. The value of the amendment was £11.815 million. We have not identified any other exceptions in the completion of our audit work.

Minimum Revenue Provision (MRP)

The Authority are required to charge the minimum revenue provision (MRP) to the Authority's revenue account each year in order to meet the costs of repaying amounts borrowed. This ensures that the Authority makes a satisfactory annual provision for loan repayments. The Authority reviewed their MRP policy in 2016/17 and identified that MRP of £66m had been over-provided, based on a retrospective application of the Authority's new MRP policy. The Authority plan to release this amount over the period of the Medium Term Financial Plan. This provided a finance general saving of £10 million in 2016/17 and planned release of £12 million in 2017/18.

We have assessed the conclusions drawn on the work and assumptions used by Capita (the Authority's treasury management advisor); and tested the accounting entries and disclosures made within the Authority's financial statements in relation to MRP.

We have raised a number of questions concerning the calculation, but have obtained sufficient assurance for the release of the over provision used in 2017/18. We will conclude this work with officers in 2018/19.

Areas of Audit Focus

Other matters

The 2018/19 Code introduces two new standards, the accounting change and impact is reported in the financial statements, note 4. We have reviewed the Authority's readiness for these standards:

Implementation of IFRS 15 Revenue from Contracts with Customers

The 2018/19 Code confirms that IFRS 15 replaces IAS 18 Revenue and IAS 11 Construction Contracts and their associated interpretations, with implementation from 1 April 2018. The core principle in IFRS 15 for local authorities is that they should recognise revenue to depict the transfer of promised goods or services to the service recipient or customer in an amount that reflects the consideration to which the authority expects to be entitled in exchange for those goods or services. The Code adopts IFRS15 without adaptation. The scope includes:

- all contracts with customers except leases, financial instruments and insurance contracts; and
- excludes Council Tax and NDR income

Given the nature of the Authority's income streams, it is unlikely that the future implementation of IFRS 15 will have a material impact on the single entity financial statements of the Authority. However, the Authority is yet to carry out a review of contract income from service recipients to assess the potential impact.

Implementation of IFRS 9 Financial Instruments

Although the 2018/19 Code has now been issued, providing guidance on the application of the standard, along with other provisional information issued by CIPFA on the approach to adopting IFRS 9, until the Guidance Notes are issued and any statutory overrides are confirmed there remains some uncertainty. However, what is clear is that the Council will have to:

- Reclassify existing financial instrument assets;
- Re-measure and recalculate potential impairments of those assets; and
- Prepare additional disclosure notes for material items.

Based on the information available the authority have assessed the likely impact of IFRS9 and reported the position in the financial statements.

03 Audit Report

Audit Report

Our opinion on the financial statements

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

Opinion

We have audited the financial statements and the firefighters' pension fund financial statements of Norfolk County Council for the year ended 31 March 2018 under the Local Audit and Accountability Act 2014.

The financial statements comprise the Authority and Group Movement in Reserves Statement, Authority and Group Comprehensive Income and Expenditure Statement, Authority and Group Balance Sheet, Authority and Group Cash Flow Statement, and the related notes 1 to 44 to the Authority Accounts and notes 1 to 13 to the Group Accounts and include the firefighters' pension fund financial statements comprising the Fund Account, the Net Assets Statement and the related notes 1 to 3.

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

In our opinion the financial statements:
- give a true and fair view of the financial position of Norfolk County Council and Group as at 31 March 2018 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the authority and group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's (C&AG) AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements.
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:
- the Executive Director of Finance and Commercial Services' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Executive Director of Finance and Commercial Services has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Audit Report (Continued)

Our opinion on the financial statements

Other information

The other information comprises the information included in the Statement of Accounts 2017-18, other than the financial statements and our auditor's report thereon. The Executive Director of Finance and Commercial Services is responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matters prescribed by the Local Audit and Accountability Act 2014

Arrangements to secure economy, efficiency and effectiveness in the use of resources
In our opinion, based on the work undertaken in the course of the audit, having regard to the guidance issued by the C&AG in November 2017, we are satisfied that, in all significant respects, Norfolk County Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

Matters on which we report by exception

We report to you if;

- in our opinion the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Council;
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

Audit Report (Continued)

Our opinion on the financial statements

Responsibility of the Executive Director of Finance and Commercial Services

As explained more fully in the "Statement of Responsibilities" set out on page 13, the Executive Director of Finance and Commercial Services is responsible for the preparation of the Statement of Accounts, which includes the Authority financial statements and the firefighters pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18, and for being satisfied that they give a true and fair view.

In preparing the financial statements, the Executive Director of Finance and Commercial Services is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Authority either intends to cease operations, or have no realistic alternative but to do so.

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 for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources
We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General (C&AG) in November 2017, as to whether the Norfolk County Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether Norfolk County Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

Audit Report (Continued)

Our opinion on the financial statements

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

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves 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 National Audit Office (NAO) requires us to report to you our conclusion relating to proper arrangements.

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

Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the Authority's Whole of Government Accounts consolidation pack. We are satisfied that this work does not have a material effect on the financial statements or on our value for money conclusion.

Use of our report

This report is made solely to the members of Norfolk County Council, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

04 Audit Differences

Audit Differences

In the normal course of any audit, we identify misstatements between amounts we believe should be recorded in the financial statements and the disclosures and amounts actually recorded. These differences are classified as "known" or "judgemental". Known differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation.

Summary of adjusted differences

We highlight the following misstatements greater than £1.4 million which have been corrected by management that were identified during the course of our audit:

- £16.5 million adjustment to the net pension liability as the actual Norfolk Pension Fund asset valuation at the 31 March 2018 was £50.7 million greater than the Actuary's estimate. This adjustment is a result of a timing difference between an estimate made by the Actuary, and information that has become available since the time of their initial report. The Authority correctly used the information provided within the original IAS 19 report within its draft financial statements. The adjustment represents the Authority's share on the increase in pension assets.
- £11.8 million adjustment to Property, Plant and Equipment. A trust school was included in the balance sheet at 31 March 2018. The school was being built by the Authority, the build was substantially complete but the formal lease not signed. However, the completed element of the school was under the management of the Trust from February 2018. This element of the asset has therefore been adjusted to derecognise the asset from the Council's balance sheet (as a disposal).
- £2.4 million amendment to short term creditors for S106 developer contributions that did not have conditions to repay. The adjustment reduces short term creditors with a corresponding increase in the capital grants unapplied account.
- £12.0 million reclassification adjustment to Note 3 expenditure and income analysed by nature. Income was moved from government grants and contributions into fees, charges and other service income.
- £8.4 million reclassification adjustment to Note 14 Property, Plant and Equipment. Capital additions that did not add value were moved from the 'Reclassifications and Transfers' line to the 'Impairment losses recognised in the surplus or deficit on provision of services' line.
- £6.0 million adjustment to Note 28 - Joint Arrangements, Better Care Fund. The income attributable to North Norfolk CCG was overstated by £6.0 million.

The changes have had no impact on the Authority's general fund reserve balance.

Disclosure Adjustments - We have also identified a limited number of minor disclosure adjustments during the audit that have been updated by management in the financial statements. We do not deem any of these to be so significant that they require reporting to you.

Audit Differences

Summary of unadjusted differences

In addition we highlight the following misstatements to the financial statements and/or disclosures which were not corrected by management. We request that these uncorrected misstatements be corrected or a rationale as to why they are not corrected be considered and approved by the Audit Committee and provided within the Letter of Representation:

Uncorrected misstatements 31 March 2018 (£000)	Effect on the current period:	Balance Sheet (Decrease)/Increase			
	Comprehensive income and expenditure statement Debit/(Credit)	Assets current Debit/ (Credit)	Assets non current Debit/ (Credit)	Liabilities current Debit/ (Credit)	Liabilities non-current Debit/ (Credit)
Errors					
Judgemental differences:					
Adjustment to the net group pension liability as the actual Norfolk Pension Fund asset valuation at the 31 March 2018 was £50.7 million greater than the Actuary's estimate. This adjustment is a result of a timing difference between an estimate made by the Actuary, and information that has become available since the time of their initial report. The difference represents an estimate of Norse's share on the increase in pension assets. (Component, therefore impact on group only).	(1,600)				1,600

Uncorrected disclosure misstatements

Note 36 of the financial statements: PFI (Private Finance Initiative) and similar contracts

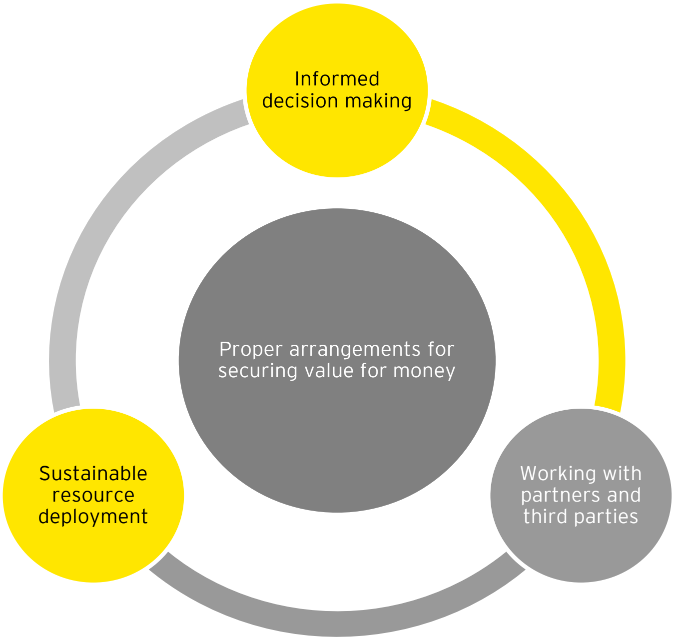
We have re-worked the financial model for the Norwich Schools PFI and Street Lighting PFI and identified:

- The internal rate of return (IRR) used in the calculations for interest payments and the reimbursement of capital expenditure payments used indexed figures. The code of practice on local authority accounting does not permit the use of indexation for these calculations. The impact is immaterial for the 2017/18 payments but is above our reporting level for the disclosure of payments between years 2-15. We estimate the following disclosure errors in payments within years 2-15:
  - Reimbursement of capital expenditure is overstated by £1.6 million.
  - Interest is overstated by £9.2 million.
- We identified management costs of £365,780 per annum in the operator's model that were not included in the financing model. These should be included to estimate accurately the fair value of services that the operator provides to the grantor. The impact is immaterial for the 2017/18 payments but is above our reporting level for the disclosure of payments between years 2-15. We estimate the disclosure of payments within years 2-15 are understated by £5.6 million.

There are no amounts that we identified that are individually or in aggregate material to the presentation and disclosures of the consolidated financial statements for the year ended 31 March 2018.

05 Value for Money Risks

Value for Money



Background

We are required to consider whether the Authority has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. This is known as our value for money conclusion.

For 2017/18 this is based on the overall evaluation criterion:

"In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people"

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- Take informed decisions;
- Deploy resources in a sustainable manner; and
- Work with partners and other third parties.

In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

Financial Resilience and Assessment of the Authority's Reserve Position

As part of our assessment of your proper arrangements, we considered the Authority's financial resilience over the medium term and the impact on the level of General Fund Reserve balances at the 31 March 2018 and at the 31 March 2021.

Our assessment of this is set out on the next page.

Overall conclusion

We are only required to determine whether there are any risks that we consider significant within the Code of Audit Practice, where risk is defined as:

"A matter is significant if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public"

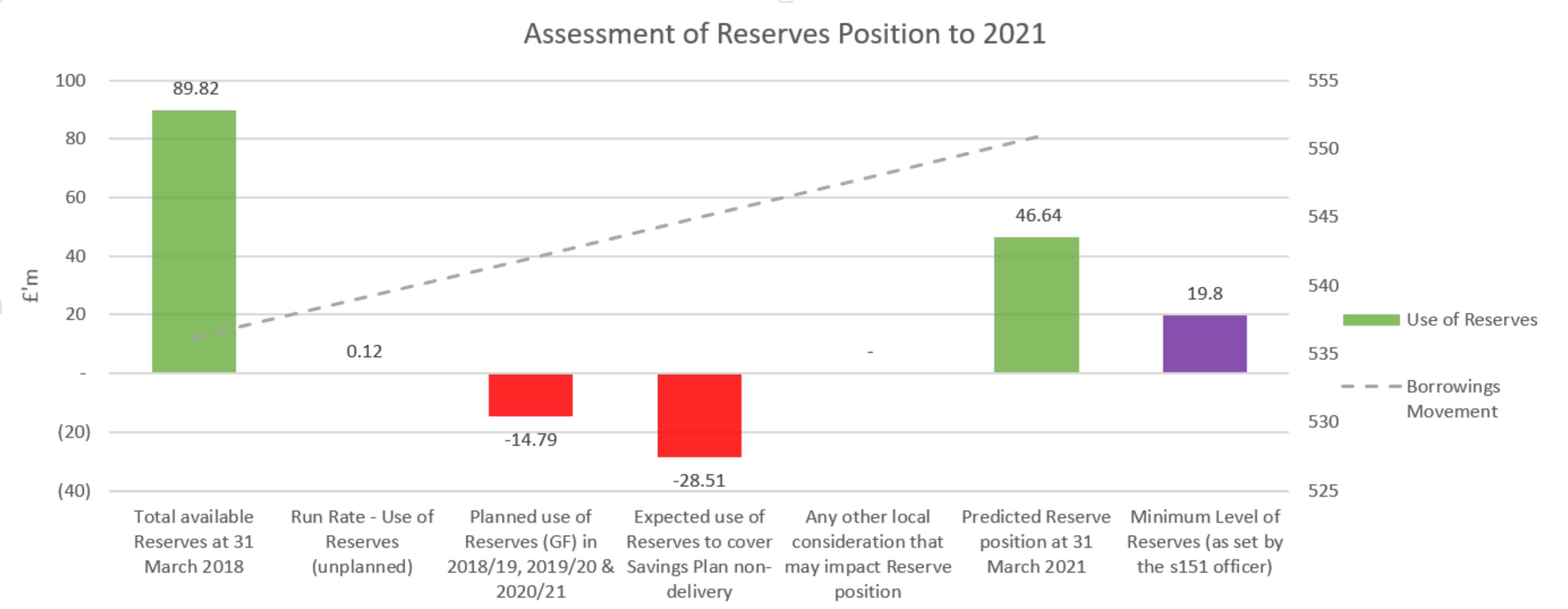
Our risk assessment supports the planning of enough work to deliver a safe conclusion on your arrangements to secure value for money, and enables us to determine the nature and extent of any further work needed. If we do not identify a significant risk we do not need to carry out further work.

We identified one significant risk around these arrangements. The following pages present our findings in response to the risks in our Audit Plan and any other significant weaknesses or issues we want to bring to your attention. We therefore expect having no matters to report about your arrangements to secure economy, efficiency and effectiveness in your use of resources.

Value for Money Risks

What is the significant value for money risk?	What arrangements did the risk affect?	What are our findings?
Substantial savings are required over the period 2017 to 2020 to balance the budget: • 2017/18 = £47.8 million (identified savings) • 2018/19 = £29.8 million (identified savings + budget gap) • 2019/20 = £30.2 million (identified savings + budget gap) (Source: Norfolk County Council Budget Book 2017-20) The Authority approved a 2017/18 net revenue budget of £358.812 million. The Authority reported a net underspend of £0.235 million for the year ended 31 March 2018. However it is clear that the Authority is facing a number of financial pressures which may impact on its ability to develop and deliver sustainable financial and service plans for current and future years. Therefore a risk remains that further savings or increased income will not be identified to close the funding shortfalls.	▸ Taking informed decisions ▸ Deploying resources in a sustainable manner	We have undertaken the procedures as set out in our audit strategy which have focused on: ▸ Assessing the adequacy of the Authority's budget monitoring process, comparing budget to outturn; ▸ Considering the robustness of any assumptions used in medium term planning; ▸ Considering the Authority's approach to prioritising resources whilst maintaining services; and ▸ Considering the savings plans in place, and assessing the likelihood of whether these plans can provide the Authority with the required savings/efficiencies over the medium term. The Authority is maintaining its current level of un-earmarked general fund reserves above the prudential minimum of £19.536 million set and approved by Council. These provide the Authority with the flexibility to manage its financial position over the short-to-medium term, and reduce the risk that an unexpected overspend, or unexpected one-off item of expenditure, has a detrimental impact on the Authority's financial standing. The Authority plans to increase the level of General Fund reserves to £23.6 million by 31 March 2021. The Authority also has in place substantial levels of earmarked reserves (£70.282 million at 31 March 2018, excluding LMS reserves). These have been established for a number of purposes, including the financial consequences of matters that have not yet arisen or to fund specific service areas/projects. The existence of these reserves provides further evidence of the Authority's prudent approach to financial management. The Authority achieved c89% of required savings in 2017/18 and to date the Authority has identified the savings required for 2018/19 of £29.9 million. However, the Authority faces significant pressure and uncertainly concerning legislative and policy changes, and the increasing demand for services. Business Rates Localisation, and implementing the Fair Funding Review adds further uncertainty to the Authority's future funding levels. The Authority's Section 151 officer has reported the importance of delivering planned savings and the identification of further savings to close the remaining budget gaps. Whilst the Authority has continued financial pressures, our review of the budget setting process, assumptions used in financial planning, in year financial monitoring, and the Authority's history of delivering savings plans has not identified any significant matters that we wish to report to you.

Value for Money



Our Assessment

In our assessment we considered the Authority's:

- level of savings requirement to balance the General Fund budget in each of the next 3 years;
- planned use of reserves to support the General Fund budget in each of the next 3 years;
- history of delivering savings plans and therefore the potential to call upon reserves to make up a shortfall in future savings plan delivery;
- history of over or under spending on the General Fund budget, and the impact this trajectory would have on the use of General Fund reserves; and
- any other unusual future transactions or reliance upon the commercialisation agenda to derive future income streams, upon which the MTFS is reliant.

We have also looked at the Authority's planned use of borrowing over the same time frame to inform our assessment.

As a result of our assessment, we are satisfied that based on the current circumstances, the Authority's General Fund reserve balance at the 31 March 2021 will remain above the Authority's approved minimum level.

06 Other reporting issues

Other reporting issues

Consistency of other information published with the financial statements, including the Annual Governance Statement

We must give an opinion on the consistency of the financial and non-financial information in the Norfolk County Council Statement of Accounts 2017/18 with the audited financial statements.

We must also review the Annual Governance Statement for completeness of disclosures, consistency with other information from our work, and whether it complies with relevant guidance.

Financial information in the Norfolk County Council Statement of Accounts 2017/18 and published with the financial statements was consistent with the audited financial statements.

We have reviewed the Annual Governance Statement and can confirm it is consistent with other information from our audit of the financial statements and we have no other matters to report.

Whole of Government Accounts

Alongside our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of our review, and the nature of our report, is specified by the National Audit Office.

We are yet to complete our work on the Whole of Government Accounts (WGA) return. Once completed we will report any matters arising to the Audit Committee.

Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Authority to consider it or to bring it to the attention of the public (i.e. “a report in the public interest”). We did not identify any issues which required us to issue a report in the public interest.

We also have a duty to make written recommendations to the Authority, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014. We did not identify any issues.

Other reporting issues

Other matters
As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of the Authority's financial reporting process. They include the following: • Significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures; • Any significant difficulties encountered during the audit; • Any significant matters arising from the audit that were discussed with management; • Written representations we have requested; • Expected modifications to the audit report; • Any other matters significant to overseeing the financial reporting process; • Related parties; • External confirmations; • Going concern; • Consideration of laws and regulations; and • Group audits. The Authority's process for preparing the related party transactions disclosure includes obtaining returns from chief officers and councillors. These are then reviewed to assess the disclosure required. Our audit work identified that a number of returns from councillors had not been received. Additional procedures were performed to gain assurance over the completeness of disclosures. The Authority should ensure a full response to the process in 2018/19. We have no matters to report.

07 Assessment of Control Environment

Assessment of Control Environment

Financial controls

It is the responsibility of the Authority to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the Authority has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. As we have adopted a fully substantive approach, we have therefore not tested the operation of controls.

Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant deficiencies in internal control.

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware.

08 Independence

Confirmation

We confirm that there are no changes in our assessment of independence since our confirmation in our audit planning board report dated 23 February 2018.

We complied with the FRC Ethical Standards and the requirements of the PSAA's Terms of Appointment. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We consider that our independence in this context is a matter which you should review, as well as us. It is important that you and your Audit Committee consider the facts known to you and come to a view. If you would like to discuss any matters concerning our independence, we will be pleased to do this at the meeting of the Audit Committee on 31 July 2018.

We confirm we have undertaken non-audit work outside the PSAA Code requirements in relation to our work on the 2016/17 Teachers Pension return and the 2016/17 Local Transport Plan Major Project return. The audit work on these returns was completed during the 2017/18 financial year. We have adopted the necessary safeguards in our completion of this work.

Relationships, services and related threats and safeguards

The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and your Authority, and its directors and senior management and its affiliates, including all services provided by us and our network to your Authority, its directors and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on the our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats.

There are no relationships from 01 April 2017 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

Services provided by Ernst & Young

Below includes a summary of the fees that you have paid to us in the year ended 31 March 2018 in line with the disclosures set out in FRC Ethical Standard and in statute. Full details of the services that we have provided and the related threats and safeguards are included above.

We confirm that none of the services has been provided on a contingent fee basis.

As at the date of this report, there are no future services which have been contracted and no written proposal to provide non-audit services has been submitted.

Fee analysis

As part of our reporting on our independence, we set out below a summary of the fees paid for the year ended 31 March 2018.

We confirm that we have undertaken non-audit work outside the PSAA Code requirements in relation to Teachers' Pension Return and Local Transport Plan Major Project return for 2016/17. We have adopted the necessary safeguards in completing this work and complied with Auditor Guidance Note 1 issued by the NAO in Month Year.

	Planned fee 2017/18	Scale fee 2017/18	Final Fee 2016/17
	£'s	£'s	£'s
Total Fee – Code work	134,347 - Note 1	127,742	131,084
Total audit	134,347	127,742	131,084
Other non-audit services not covered above (Teachers Pensions and Local Transport Plan Major Project return)		-	16,100
Total other non-audit services		-	16,100
Total fees	134,347	127,742	147,184

All fees exclude VAT

Note 1 – As reported in our Audit Plan we will also need to levy an additional fee in respect of:

- £1,428 for audit procedures required on the re-statement of the 2016/17 Comprehensive Income and Expenditure Account and Expenditure Funding Analysis as a result of the Directorate structure change.
- £1,268 for audit work on the change to the Social Services financial system.
- £3,909 for additional work to review the Authority's revised Minimum Revenue Provision policy.

All scale fee variations will be subject to agreement with the PSAA. We will report the final fee within our Annual Audit Letter.

09 Appendices

Appendix A

Audit approach update

We summarise below our approach to the audit of the balance sheet and any changes to this approach from the prior year audit.

Our audit procedures are designed to be responsive to our assessed risk of material misstatement at the relevant assertion level. Assertions relevant to the balance sheet include:

- Existence: An asset, liability and equity interest exists at a given date
- Rights and Obligations: An asset, liability and equity interest pertains to the entity at a given date
- Completeness: There are no unrecorded assets, liabilities, and equity interests, transactions or events, or undisclosed items
- Valuation: An asset, liability and equity interest is recorded at an appropriate amount and any resulting valuation or allocation adjustments are appropriately recorded
- Presentation and Disclosure: Assets, liabilities and equity interests are appropriately aggregated or disaggregated, and classified, described and disclosed in accordance with the applicable financial reporting framework. Disclosures are relevant and understandable in the context of the applicable financial reporting framework.

Appendix A

Balance sheet category	Audit Approach in current year	Audit Approach in prior year	Explanation for change
‣ Property, plant and equipment ‣ Investment property ‣ Long term debtors ‣ Short term investments ‣ Cash and cash equivalents ‣ Short and long term borrowings ‣ PFI liability (short and long term) ‣ Liability related to Defined Benefit Pension Scheme ‣ Provisions (short and long term) ‣ Capital grants received in advance ‣ Useable and unusable reserves	Substantively tested all relevant assertions	Substantively tested all relevant assertions	N/A
‣ Intangible assets ‣ Heritage assets ‣ Inventories ‣ Assets held for sale	Immaterial - Substantively tested assertion for presentation and disclosure	Immaterial - Substantively tested assertion for presentation and disclosure	N/A
‣ Long term investments	Immaterial - Substantively tested assertion for presentation and disclosure	Substantively tested all relevant assertions	Balance is no longer material.
Short term debtors	Substantively tested all relevant assertions	We tested controls over all relevant assertions with limited substantive testing performed in accordance with auditing standards	Due to the efficiency and the use of data analytics, we have adopted a substantive approach to test short term debtors.
Short term creditors	Substantively tested all relevant assertions	We tested controls over all relevant assertions with limited substantive testing performed in accordance with auditing standards	Due to the efficiency, we have adopted a substantive approach to test short term creditors.

Appendix B

Summary of communications

Date	Nature	Summary
18 January 2018	Meeting	The partner in charge of the engagement, along with other senior members of the audit team, met with the management to debrief on the 2016/17 audit and discuss audit planning for 2017/18.
23 January 2018	Meeting	The partner in charge of the engagement met management and with the Audit Committee as part of our ongoing liaison and attendance at Audit Committee meetings.
19 April 2018	Meeting/Report	The partner in charge of the engagement met with the Audit Committee to discuss focus areas of the audit committee to discuss the updated audit planning report and areas of focus for the audit. This included confirmation of independence.
12 June 2018	Meeting	The partner in charge of the engagement, along with other senior members of the audit team, met with the management to discuss 2017/18 audit work and medium term financial planning.
19 July 2018	Report	The Audit Results Report, including confirmation of independence, was issued to the Audit Committee.
31 July 2018	Meeting	The partner in charge of the engagement, accompanied by other senior members of the audit team, will meet with the Audit Committee to discuss the contents of the Audit Results Report.

In addition to the above specific meetings and letters the audit team met with the management team multiple times throughout the audit to discuss audit findings. The partner in charge of the engagement, along with other senior members of the audit team also met with the external auditor for Norse to communicate group instructions work.

Appendix C

Required communications with the Audit Committee

There are certain communications that we must provide to the Audit Committees of UK clients. We have detailed these here together with a reference of when and where they were covered:

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Terms of engagement	Confirmation by the Audit Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit Plan - 23 February 2018
Significant findings from the audit	▸ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▸ Significant difficulties, if any, encountered during the audit ▸ Significant matters, if any, arising from the audit that were discussed with management ▸ Written representations that we are seeking ▸ Expected modifications to the audit report ▸ Other matters if any, significant to the oversight of the financial reporting process	Audit Results Report – 19 July 2018
Going concern	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: ▸ Whether the events or conditions constitute a material uncertainty ▸ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▸ The adequacy of related disclosures in the financial statements	No conditions or events were identified, either individually or together to raise any doubt about Norfolk County Council's ability to continue for the 12 months from the date of our report.
Misstatements	▸ Uncorrected misstatements and their effect on our audit opinion ▸ The effect of uncorrected misstatements related to prior periods ▸ A request that any uncorrected misstatement be corrected ▸ Material misstatements corrected by management	Audit Results Report – 19 July 2018

Appendix C

Required communications	What is reported?	Our Reporting to you When and where
Subsequent events	▶ Enquiry of the audit committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements.	No matters have been identified.
Fraud	▶ Enquiries of the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Authority ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▶ Unless all of those charged with governance are involved in managing the Authority, any identified or suspected fraud involving: a. Management; b. Employees who have significant roles in internal control; or c. Others where the fraud results in a material misstatement in the financial statements. ▶ The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected ▶ Any other matters related to fraud, relevant to Audit Committee responsibility.	Audit Results Report - 19 July 2018
Related parties	Significant matters arising during the audit in connection with the Authority's related parties including, when applicable: ▶ Non-disclosure by management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures ▶ Non-compliance with laws and regulations ▶ Difficulty in identifying the party that ultimately controls the Authority	Audit Results Report - 19 July 2018
Consideration of laws and regulations	▶ Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur ▶ Enquiry of the audit committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of	We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations.

Appendix C

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Public Interest Entities	For the audits of financial statements of public interest entities our written communications to the audit committee include: ▸ A declaration of independence ▸ The identity of each key audit partner ▸ The use of non-member firms or external specialists and confirmation of their independence ▸ The nature and frequency of communications ▸ A description of the scope and timing of the audit ▸ Which categories of the balance sheet have been tested substantively or controls based and explanations for significant changes to the prior year, including first year audits ▸ Materiality ▸ Any going concern issues identified ▸ Any significant deficiencies in internal control identified and whether they have been resolved by management ▸ Subject to compliance with regulations, any actual or suspected non-compliance with laws and regulations identified relevant to the audit committee ▸ Subject to compliance with regulations, any suspicions that irregularities, including fraud with regard to the financial statements, may occur or have occurred, and the implications thereof ▸ The valuation methods used and any changes to these ▸ The scope of consolidation and exclusion criteria if any and whether in accordance with the reporting framework ▸ The identification of any non-EY component teams used in the group audit ▸ The completeness of documentation and explanations received ▸ Any significant difficulties encountered in the course of the audit ▸ Any significant matters discussed with management ▸ Any other matters considered significant	Audit Plan - 23 February 2018 and Audit Results Report - 19 July 2018

Appendix C

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Independence	Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence. Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: ▸ The principal threats ▸ Safeguards adopted and their effectiveness ▸ An overall assessment of threats and safeguards ▸ Information about the general policies and process within the firm to maintain objectivity and independence Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place. For public interest entities and listed companies, communication of minimum requirements as detailed in the FRC Revised Ethical Standard 2016: ▸ Relationships between EY, the company and senior management, its affiliates and its connected parties ▸ Services provided by EY that may reasonably bear on the auditors' objectivity and independence ▸ Related safeguards ▸ Fees charged by EY analysed into appropriate categories such as statutory audit fees, tax advisory fees, other non-audit service fees ▸ A statement of compliance with the Ethical Standard, including any non-EY firms or external experts used in the audit ▸ Details of any inconsistencies between the Ethical Standard and Group's policy for the provision of non-audit services, and any apparent breach of that policy ▸ Details of any contingent fee arrangements for non-audit services ▸ Where EY has determined it is appropriate to apply more restrictive rules than permitted under the Ethical Standard ▸ The audit committee should also be provided an opportunity to discuss matters affecting auditor independence	Audit Plan – 23 February 2018 and Audit Results Report – 19 July 2018

Appendix C

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
External confirmations	▸ Management's refusal for us to request confirmations ▸ Inability to obtain relevant and reliable audit evidence from other procedures.	Management have given consent for us to request external confirmations.
Consideration of laws and regulations	▸ Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur ▸ Enquiry of the audit committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of	We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations
Significant deficiencies in internal controls identified during the audit	▸ Significant deficiencies in internal controls identified during the audit.	Audit Results Report – 19 July 2018
Group Audits	▸ An overview of the type of work to be performed on the financial information of the components ▸ An overview of the nature of the group audit team's planned involvement in the work to be performed by the component auditors on the financial information of significant components ▸ Instances where the group audit team's evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work ▸ Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted ▸ Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial statements.	Audit Plan – 23 February 2018 and Audit Results Report – 19 July 2018
Written representations we are requesting from management and/or those charged with governance	▸ Written representations we are requesting from management and/or those charged with governance	Audit Results Report – 19 July 2018

Appendix C

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	► Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit Results Report – 19 July 2018
Auditors report	► Any circumstances identified that affect the form and content of our auditor's report	Audit Results Report – 19 July 2018
Fee Reporting	► Breakdown of fee information when the audit planning report is agreed ► Breakdown of fee information at the completion of the audit ► Any non-audit work	Audit Plan – 23 February 2018 and Audit Results Report – 19 July 2018

Appendix D - Request for a Letter of Representation

Management Rep Letter

Ernst & Young LLP
One Cambridge Business Park
Cambridge
CB4 0WZ

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ey.com

Simon George
Executive Director of Finance and Commercial Services
Norfolk County Council
County Hall
Martineau Lane
Norfolk NR1 2DH

19 July 2018

Ref:
Your ref:

Direct line: 01223 394547

Email: MHodgson@uk.ey.com

Dear Simon,

Norfolk County Council – 2017/18 financial year
Request for a letter of representation

International Standards on Auditing set out guidance on the use by auditors of management representations (ISA (UK&I) 580) and on possible non-compliance with laws and regulations (ISA (UK&I) 250). I have interpreted this guidance as it affects Local Government bodies and I expect the following points to apply:

- auditors may wish to obtain written representation where they are relying on management's representations in respect of judgemental matters (for example the level of likely incidence of a claim), which may not be readily corroborated by other evidence;
- auditors are likely to request written representations on the completeness of information provided;
- auditors may wish to obtain written representation on issues other than those directly related to the Statement of Accounts;
- the letter is dated on the date on which the auditor signs the opinion and certificate;
- the letter is signed by the person or persons with specific responsibility for the financial statements; and
- the letter is formally acknowledged as having been discussed and approved by the Audit Committee, as those charged with governance of the Council.

I would expect the letter of representation to include the following matters.

General statement

That the letter of representations is provided in connection with our audit of the consolidated and council financial statements of Norfolk County Council ("the Group and Council") for the year ended 31 March 2018.

You recognise that obtaining representations from you concerning the information contained in this letter is a significant procedure in enabling us to form an opinion as to whether the consolidated and council financial statements give a true and fair view of the Group and Council financial position of Norfolk County Council as of 31 March 2018 and of its financial performance (or operations) and its cash flows for the year then ended in accordance with, for the Group and Council CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

You understand that the purpose of our audit of your consolidated and council financial statements is to express an opinion thereon and that our audit was conducted in accordance with International Standards on Auditing, which involves an examination of the accounting system, internal control and related data to the extent we considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, you make the following representations, which are true to the best of your knowledge and belief, having made such inquiries as you considered necessary for the purpose of appropriately informing ourselves:

A. Financial Statements and Financial Records

1. You have fulfilled your responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with, for the Group and the Council the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.
2. You acknowledge, as members of management of the Group and Council, your responsibility for the fair presentation of the consolidated and council financial statements. You believe the consolidated and council financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the Group and Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 and are free of material misstatements, including omissions. You have approved the consolidated and council financial statements.
3. The significant accounting policies adopted in the preparation of the Group and Council financial statements are appropriately described in the Group and Council financial statements.
4. As members of management of the Group and Council, you believe that the Group and Council have a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 for the Group and Council that are free from material misstatement, whether due to fraud or error.
5. That you believe that the effects of any unadjusted audit differences, summarised in the Audit Results Report, if relevant, accumulated by us during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

B. Non-compliance with law and regulations, including fraud

1. You acknowledge that you are responsible to determine that the Group and Council's activities are conducted in accordance with laws and regulations and that we are responsible to identify and address any non-compliance with applicable laws and regulations, including fraud.
2. You acknowledge that you are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.

Appendix D – Request for a Letter of Representation (continued)

Management Rep Letter

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3. You have disclosed to us the results of your assessment of the risk that the consolidated and Council financial statements may be materially misstated as a result of fraud.

4. You have disclosed to us, and provided us full access to information and any internal investigations relating to, all instances of identified or suspected non-compliance with law and regulations, including fraud, known to you that may have affected the Group or Council (regardless of the source or form and including, without limitation, allegations by "whistleblowers") including non-compliance matters:

   - involving financial statements;
   - related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the consolidated or Council's financial statements;
   - related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Group or Council's activities, its ability to continue to operate, or to avoid material penalties;
   - involving management, or employees who have significant roles in internal controls, or others; or
   - in relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

C. Information Provided and Completeness of Information and Transactions

1. You have provided us with:
   - Access to all information of which you are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
   - Additional information that we have requested from you for the purpose of the audit; and
   - Unrestricted access to persons within the entity from whom we determined it necessary to obtain audit evidence.

2. All material transactions have been recorded in the accounting records and are reflected in the consolidated and council financial statements.

3. You have made available to us all minutes of the meetings of the Council, and committees of the relevant committees (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meeting on the following date: 31 July 2018.

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4. You confirm the completeness of information provided regarding the identification of related parties. You have disclosed to us the identity of the Group and Council's related parties and all related party relationships and transactions of which you are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the year ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the consolidated and council financial statements.

5. You believe that the significant assumptions you used in making accounting estimates, including those measured at fair value, are reasonable.

6. You have disclosed to us, and the Group and Council has complied with, all aspects of contractual agreements that could have a material effect on the consolidated and council financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

D. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the consolidated and council financial statements.

2. You have informed us of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.

3. You have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent, and have disclosed in the consolidated and council financial statements all guarantees that we have given to third parties.

E. Subsequent Events

1. Other than described in the relevant notes to the consolidated and council financial statements, there have been no events subsequent to year end which require adjustment of or disclosure in the consolidated and council financial statements or notes thereto.

F. Group audits

1. There are no significant restrictions on your ability to distribute the retained profits of the Group because of statutory, contractual, exchange control or other restrictions other than those indicated in the Group financial statements.

2. Necessary adjustments have been made to eliminate all material intra-group unrealised profits on transactions amongst council, subsidiary undertakings and associated undertakings.

3. You confirm that entities excluded from the consolidated financial statements are immaterial on a quantitative and qualitative basis.

Management Rep Letter

G. Other information

1. You acknowledge your responsibility for the preparation of the other information. The other information comprises the Narrative Report and glossary of terms included in the Norfolk County Council Statement of Accounts 2017-18.

2. You confirm that the content contained within the other information is consistent with the financial statements.

H. Going Concern

1. You have made us aware of any issues that are relevant to the Group and Council's ability to continue as a going concern, including significant conditions and events, your plans for future action, and the feasibility of those plans

I. Ownership of Assets

1. Except for assets capitalised under finance leases, the Group and Council has satisfactory title to all assets appearing in the balance sheet(s), and there are no liens or encumbrances on the Group and Council's assets, nor has any asset been pledged as collateral. All assets to which the Group and Council has satisfactory title appear in the balance sheet(s).

J. Reserves

1. You have properly recorded or disclosed in the consolidated and council financial statements the useable and unusable reserves.

K. Use of the Work of a Specialist – Property, plant and equipment

1. You agree with the findings of the specialists that you engaged to evaluate the Valuation of Property Plant and Equipment and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the consolidated and council financial statements and the underlying accounting records. You did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

L. Valuation of Property, Plant and Equipment Assets

1. You believe that the measurement processes, including related assumptions and models, used to determine the accounting estimate(s) have been consistently applied and are appropriate in the context of the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

2. You confirm that the significant assumptions used in making the valuation of assets appropriately reflect our intent and ability to carry out specific courses of action on behalf of the entity.

3. You confirm that the disclosures made in the consolidated and council financial statements with respect to the accounting estimate(s) are complete and made in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

4. You confirm that no adjustments are required to the accounting estimate(s) and disclosures in the consolidated and council financial statements due to subsequent events.

5. You confirm that you have performed a desktop review of all assets not subject to revaluation as part of the 5 year rolling programme for valuations and that each asset category is not materially misstated.

   You confirm that for assets carried at historic cost that no impairment is required

M. Retirement benefits

1. On the basis of the process established by you and having made appropriate enquiries, you are satisfied that the actuarial assumptions underlying the scheme liabilities are consistent with your knowledge of the business. All significant retirement benefits and all settlements and curtailments have been identified and properly accounted for.

N. Use of the Work of a Specialist – Pension Liabilities

1. You agree with the findings of the specialists that you engaged to evaluate the Valuation of Pension Liabilities and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the consolidated and council financial statements and the underlying accounting records. You did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and you are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

O. Valuation of Pension Liabilities

1. You believe that the measurement processes, including related assumptions and models, used to determine the accounting estimate(s) have been consistently applied and are appropriate in the context of the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

2. You confirm that the significant assumptions used in making the valuation of the pension liability appropriately reflect our intent and ability to carry out specific courses of action on behalf of the entity.

3. You confirm that the disclosures made in the consolidated and council financial statements with respect to the accounting estimate(s) are complete and made in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

4. You confirm that no adjustments are required to the accounting estimate(s) and disclosures in the consolidated and council financial statements due to subsequent events.

Appendix D – Request for a Letter of Representation (continued)

Management Rep Letter

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I would be grateful if you could provide a letter of representation, which is appropriately signed and dated (by the s151 officer and Chair of Audit Committee) on the proposed audit opinion date (currently 31 July 2018) on formal headed paper.

Yours sincerely

Mark Hodgson
Associate Partner
Ernst & Young LLP
United Kingdom