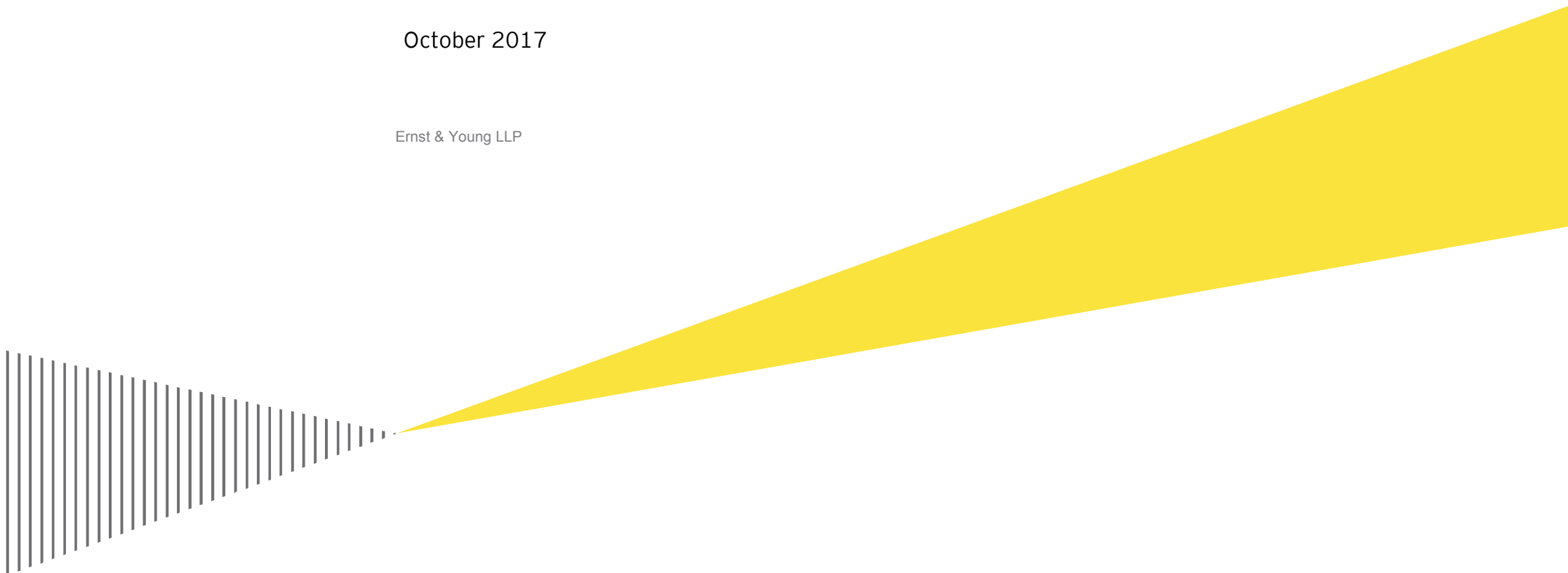


# Norfolk County Council

Annual Audit Letter for the year ended 31 March 2017

October 2017

Ernst & Young LLP



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Public Sector Audit Appointments Ltd (PSAA) have issued a "Statement of responsibilities of auditors and audited bodies". It is available from the Chief Executive of each audited body and via the PSAA website ([www.psaa.co.uk](http://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 23 February 2017)" issued by 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 statute, and covers matters of practice and procedure which are of a recurring nature.

This Annual Audit Letter is prepared in the context of the Statement of responsibilities. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure - If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

A hand with white nail polish is writing on a document with a blue pen. In the background, there is a calculator, a white cup, and a laptop. A yellow rectangular box is overlaid on the left side of the image.

## Executive Summary

## Executive Summary

We are required to issue an annual audit letter to Norfolk County Council (the Council) following completion of our audit procedures for the year ended 31 March 2017.

Below are the results and conclusions on the significant areas of the audit process.

Area of Work	Conclusion
<b>Opinion on the Council's and Pension Fund's:</b>	Unqualified - the financial statements give a true and fair view of the financial position of the Council as at 31 March 2017 and of its expenditure and income for the year then ended.
▶ Financial statements	
▶ Consistency of other information published with the financial statements	Other information published with the financial statements was consistent with the Statement of Accounts.
<b>Concluding on the Council's arrangements for securing economy, efficiency and effectiveness</b>	We concluded that you have put in place proper arrangements to secure value for money in your use of resources.

Area of Work	Conclusion
<b>Reports by exception:</b>	
▶ Consistency of Governance Statement	The Annual Governance Statement was consistent with our understanding of the Council.
▶ Public interest report	We had no matters to report in the public interest.
▶ Written recommendations to the Council, which should be copied to the Secretary of State	We had no matters to report.
▶ Other actions taken in relation to our responsibilities under the Local Audit and Accountability Act 2014	We had no matters to report.

Area of Work	Conclusion
<b>Reporting to the National Audit Office (NAO) on our review of the Council's Whole of Government Accounts return (WGA).</b>	We had no matters to report.

As a result of the above we have also:

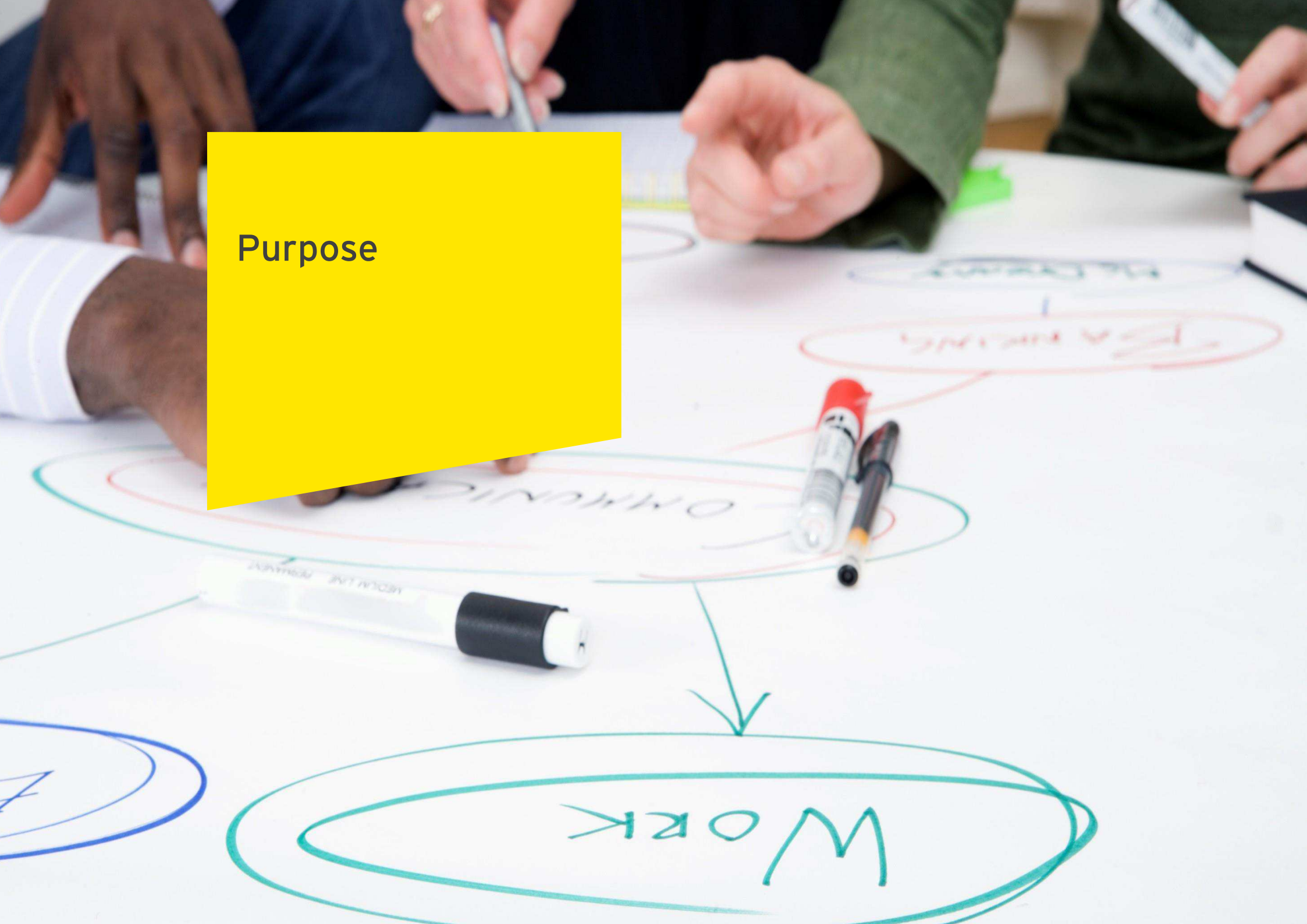
Area of Work	Conclusion
Issued a report to those charged with governance of the Council communicating significant findings resulting from our audit.	Our Audit Results Report was issued on 12 September 2017 for Norfolk County Council and 7 September 2017 for Norfolk Pension Fund.
Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2015 Code of Audit Practice.	Our certificate was issued on 27 September 2017.

We would like to take this opportunity to thank the Council and Pension Fund staff for their assistance during the course of our work.

Mark Hodgson

Associate Partner  
For and on behalf of Ernst & Young LLP

Purpose



## Purpose

### The Purpose of this Letter

The purpose of this annual audit letter is to communicate to Members and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to the attention of the Council.

We have already reported the detailed findings from our audit work in the following reports:

- 2016/17 Audit Results Report for Norfolk County Council - Reported to the Audit Committee on 21 September 2017; and
- 2016/17 Audit Results Report for the Norfolk County Council Pension Fund - Reported to the Pension Committee on 19 September 2017 and the Audit Committee on 21 September 2017.





# Responsibilities



## Responsibilities

### Responsibilities of the Appointed Auditor

Our 2016/17 audit work has been undertaken in accordance with the Audit Plan that we issued on 15 June 2017 and is conducted in accordance with the National Audit Office's Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office.

As auditors we are responsible for:

- ▶ Expressing an opinion:
  - ▶ On the 2016/17 financial statements including the Pension Fund; and
  - ▶ On the consistency of other information published with the financial statements.
- ▶ Forming a conclusion on the arrangements the Council has to secure economy, efficiency and effectiveness in its use of resources.
- ▶ Reporting by exception:
  - ▶ If the annual governance statement is misleading or not consistent with our understanding of the Council;
  - ▶ Any significant matters that are in the public interest;
  - ▶ Any written recommendations to the Council, which should be copied to the Secretary of State; and
  - ▶ If we have discharged our duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

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

## **Responsibilities of the Council**

The Council is responsible for preparing and publishing its statement of accounts accompanied by an Annual Governance Statement (AGS). In the AGS, the Council reports publicly each year on how far it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in year, and any changes planned in the coming period.

The Council is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

The background is a blurred office scene. In the foreground, there are several clear glass tumblers filled with water on a wooden desk. Behind them, a laptop screen displays some data. In the immediate foreground, there are papers with charts and tables, and a black pen. The overall lighting is bright and natural, suggesting a window in the background.

## Financial Statement Audit

## Financial Statement Audit

### Key Issues

The Council's Statement of Accounts is an important tool for the Council to show how it has used public money and how it can demonstrate its financial management and financial health.

We audited the Council and Pension Fund's Statement of Accounts in line with the National Audit Office's Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office and issued an unqualified audit report on 27 September 2017.

Our detailed findings were reported to the September 2017 Audit Committee.

The key issues identified as part of our audit were as follows:

### Norfolk County Council and Group Accounts

Significant Risk	Conclusion
<p><b>Management override of controls</b></p> <p>A risk present on all audits is that 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.</p> <p>Auditing standards require us to respond to this risk by testing the appropriateness of journals, testing accounting estimates for possible management bias and obtaining an understanding of the business rationale for any significant unusual transactions.</p>	<p>We did not identify any material weaknesses in controls or evidence of material management override.</p> <p>We did not identify any instances of inappropriate judgements being applied.</p> <p>We did not identify any other transactions during our audit which appeared unusual or outside the Council's normal course of business.</p>



<p><b>Risk of fraud in revenue recognition</b></p> <p>Under ISA240 there is a presumed risk that revenue may be misstated due to improper recognition of revenue.</p> <p>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.</p> <p>We have rebutted this risk for the Council's income and expenditure streams except for the capitalisation of revenue expenditure on Property, Plant and Equipment given the extent of the Council's capital programme.</p>	<p>We did not identify any material weaknesses in the recognition of revenue.</p> <p>We did not identify any instances of inappropriate judgements or estimates being applied.</p>
Other Key Findings	Conclusion
<p><b>Presentation of the financial statements</b></p> <p>Amendments have been made to the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 (the Code) changing the way the financial statements are presented.</p> <p>The new reporting requirements impact the Comprehensive Income and Expenditure Statement (CIES) and the Movement in Reserves Statement, and include the introduction of a new Expenditure and Funding Analysis note as a result of the 'Telling the Story' review of the presentation of local authority financial statements.</p> <p>This change in the Code will require a new structure for the primary statements, new notes and full retrospective restatement of comparatives. This restatement will require audit review, which could potentially incur additional costs, depending on the complexity and manner in which the changes are made.</p>	<p>We did not identify any material issues in the work performed.</p>

Other Key Findings (continued)	Conclusion
<p><b>Property, plant and equipment valuations</b></p> <p>Property, Plant and Equipment (PPE) represents a material item on the Council's balance sheet. PPE is initially measured at cost and then revalued to fair value (determined by the amount that would be paid for the asset in its existing use) on a 5 year rolling basis.</p> <p>This is carried out by an expert valuer and is based on a number of complex assumptions. Annually assets are assessed to identify whether there is any indication of impairment.</p>	<p>Following full consideration of their work, we placed reliance on the Council's valuer. We did not identify any material issues in relation to the valuations.</p> <p>There were no other matters to report.</p>
<p><b>Academies</b></p> <p>As set out in our audit plan, a number of schools have continued to convert to academy status since 2015/16. This has implications for the treatment of the schools' property, plant and equipment (PPE), debtors, creditors, cash, balances and income (including dedicated schools grant) and expenditure within the Council's accounts. Due to the size of the Authority's PPE balance we have focussed our work on this area. There is a risk that these schools' transactions and balances may be either incorrectly included or omitted.</p>	<p>We did not identify any exceptions in the completion of our audit work.</p>

Other Key Findings (continued)	Conclusion
<p><b>Pensions valuations and disclosures</b></p> <p>The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding the Local Government Pension Scheme (LGPS) in which it is an admitted body.</p> <p>The Council's current pension fund deficit is a highly material and sensitive item and the Code requires that this liability be disclosed on the Council's Balance Sheet.</p> <p>The information disclosed is based on the IAS19 report issued to the Council by the actuaries to the Norfolk Pension Fund.</p> <p>As part of their actuarial review, councils are being asked to make additional payments to the pensions scheme to fund deficits.</p>	<p>Assumptions used by the actuary and adopted by the Council are considered to be generally acceptable.</p> <p>The sensitivities surrounding these assumptions have been correctly disclosed in Note 6 and 39 to the financial statements.</p> <p>No issues were identified in completing our work.</p>

## Norfolk Pension Fund Accounts

Significant risk	Conclusion
<p><b>Risk of management override</b></p> <p>As identified in ISA 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and to prepare fraudulent financial statements by overriding controls that otherwise seem to be operating effectively. We identify and respond to this fraud risk on every audit engagement.</p>	<p>We did not identify any material weaknesses in controls or evidence of material management override.</p> <p>We did not identify any instances of inappropriate judgements being applied.</p> <p>We did not identify any other transactions during our audit which appeared unusual or outside the Fund's normal course of business</p>
Other Key Findings	Conclusion
<p><b>Valuation of complex investments (Unquoted investments)</b></p> <p>The Fund's investments include unquoted pooled investment vehicles such as private equity, and property investments.</p> <p>Judgments are taken by the Investment Managers to value those investments whose prices are not publically available. The material nature of Investments means that any error in judgment could result in a material valuation error.</p> <p>Current market volatility means such judgments can quickly become outdated, especially when there is a significant time period between the latest available audited information and the fund year end. Such variations could have a material impact on the financial statements.</p> <p>As these investments are more complex to value, we have identified the Fund's investments in private equity and pooled property investments higher risk, as even a small movement in these assumptions could have a material impact on the financial statements.</p>	<p>We did not identify any other issues in the completion of our work.</p>



## Our application of materiality

When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole.

Item	Thresholds applied
Planning materiality: Norfolk County Council	We determined planning materiality to be £14.5 million, which is 1% of gross revenue expenditure on services reported in the accounts of £1,450 million.
Norfolk Pension Fund	We determined planning materiality to be £34.2 million which is 1% of Net Assets.
Reporting threshold: Norfolk County Council	We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £0.726 million.
Norfolk Pension Fund	The threshold for reporting audit differences is £1.7 million.

We also identified the following areas where misstatement at a level lower than our overall materiality level might influence the reader. For these areas we developed an audit strategy specific to these areas. The areas identified and audit strategy applied include:

- Remuneration disclosures - reduced materiality level of £5,000 applied in line with bandings disclosed.
- Related party transactions, members' allowances and exit packages - reduced materiality level applied equal to the reporting threshold.
- Fire Pension Scheme - We have adopted a smaller materiality of 1% of benefits payable to reflect the differing nature of the Pension Scheme.
- Members' allowances - As these disclosures are considered to be of interest to users of the accounts we have adopted judgement in ensuring that we have tested the disclosures in sufficient detail to ensure they are correctly disclosed.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations.

A close-up, shallow depth-of-field photograph of a stack of old, worn metal coins. The coins are stacked haphazardly, with some showing their edges and others their faces. The metal has a yellowish-brown patina, suggesting age. Some characters are visible on the edges of the coins, such as 'L', 'W', 'Y', 'F', 'C', 'M', 'Y', 'F', 'C', 'M', 'Y', 'F'. A bright yellow rectangular box is overlaid on the left side of the image, containing the text 'Value for Money' in a black, sans-serif font.

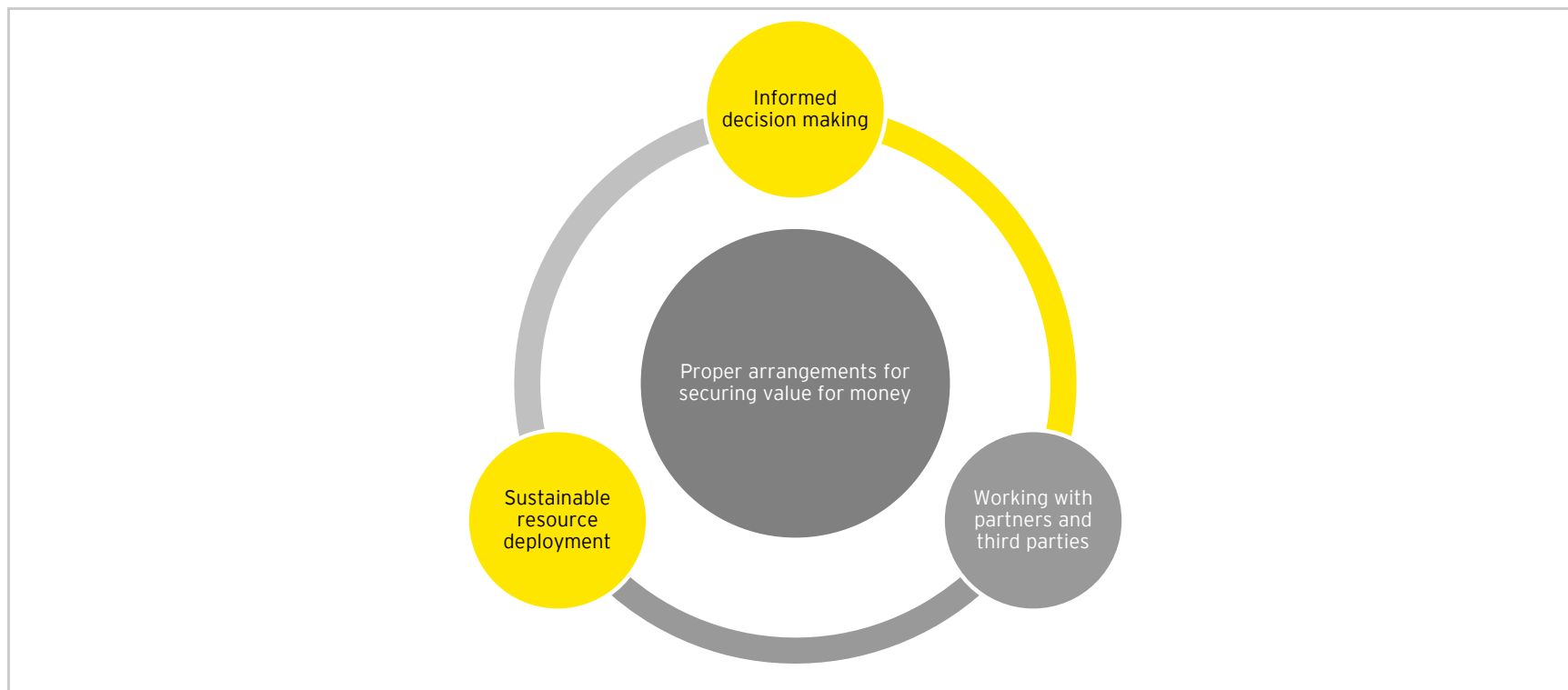
Value for Money

## Value for Money

We are required to consider whether the Council 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.

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.



We identified one significant risk in relation to these criteria.

## Key Findings

### **Sustainable resource deployment: Achievement of savings needed over the medium term**

#### **Risk**

In its Medium Term Financial Strategy issued in February 2015, the Council identified a cumulative budget gap of £85.7 million over the three years 2015/16 to 2017/18.

Since that time, the Council has extended its projections to 2018/19, which has resulted in the inclusion of new cost pressures and increased its saving targets by a further £82.9 million. This includes a total of £58 million to mitigate the impact of any unanticipated financial pressures, and to allow member choices around the delivery of a balanced budget.

Although the Council has assessed savings, there remains a risk that savings are not achievable at the planned level.

#### **Findings**

The Council has a good record of identifying and making savings, and in meeting its budget.

- ▶ The Council has a savings target of £47.774 million in 2017/18 and the medium term financial strategy sets a further net savings requirement of £43.481 for 2018/19. The scale of savings and service transformation to be delivered by the Council over the medium term remain significant. However, at the end of May 2017 the Council was forecasting to deliver savings of £46.592 million, and during the 2017/18 budget setting process the Council had already identified savings for 2018/19 amounting to £27.772 million.
- ▶ In addition, the Council's level of un-earmarked general fund reserves (£19.301 million at 31 March 2017) are being maintained at the minimum levels range set by the Council's s151 officer. These provide the Council 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 Council's financial standing.
- ▶ The Council also has in place general fund earmarked reserves (£75.187 million at 31 March 2017). The existence of these reserves provides further evidence of the Council's prudent approach to financial management.
- ▶ Our review of the budget setting process, assumptions used in financial planning, in year financial monitoring, and the Council's history of delivery has not identified any significant matters that we wish to report to you.

We therefore issued an unqualified value for money conclusion on 27 September 2017.





## Other Reporting Issues

## Other Reporting Issues

### Whole of Government Accounts

We performed the procedures required by the National Audit Office on the accuracy of the consolidation pack prepared by the Council for Whole of Government Accounts purposes. We had no issues to report.

### Annual Governance Statement

We are required to consider the completeness of disclosures in the Council's annual governance statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it is misleading.

We completed this work and did not identify any areas of concern.

### Report in the Public Interest

We have a duty under the Local Audit and Accountability Act 2014 to consider whether, in the public interest, to report on any matter that comes to our attention in the course of the audit in order for it to be considered by the Council or brought to the attention of the public.

We did not identify any issues which required us to issue a report in the public interest.

### Written Recommendations

We have a duty under the Local Audit and Accountability Act 2014 to designate any audit recommendation as one that requires the Council to consider it at a public meeting and to decide what action to take in response.

We did not identify any issues which required us to issue a written recommendation.

### Objections Received

We did not receive any objections to the 2016/17 financial statements from member of the public.

### Other Powers and Duties

We identified no issues during our audit that required us to use our additional powers under the Local Audit and Accountability Act 2014.

## Independence

We communicated our assessment of independence in our Audit Results Report to the Audit Committee on 27 September 2017. 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 regulatory and professional requirements.

## Control Themes and Observations

As part of our work, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. In accordance with our Audit Plan we have tested the key financial controls within the accounts receivable, accounts payable, payroll and LMS financial systems.

Testing of controls in the Accounts Payable financial system identified that it is possible for the same person to both raise an order and receive delegated responsibility to approve the payment. This represents a lack of segregation of duties. As we see this as a key control, we carried out additional procedures to ensure this control weakness had not resulted in a material error within the financial statements.

**Recommendation:** *The Council should review delegation procedures for the accounts payable financial system to mitigate the same person raising an order and approving payment.*

We have no other matters that we wish to report.

Focused on your  
future





## Focused on your future

Area	Issue	Impact
<i>Earlier deadline for production and audit of the financial statements from 2017/18</i>	The Accounts and Audit Regulations 2015 introduced a significant change in statutory deadlines from the 2017/18 financial year. From that year the timetable for the preparation and approval of accounts will be brought forward with draft accounts needing to be prepared by 31 May and the publication of the audited accounts by 31 July.	<p>These changes provide challenges for both the preparers and the auditors of the financial statements.</p> <p>To prepare for this change the Council has reviewed and amended the closedown process to achieve draft accounts production by early June for 2016/17.</p> <p>We will work with the Council to engage early, following the completion of the 2016/17 audit, to facilitate early substantive testing for 2017/18 and also to consider steps the Council can take, for example:</p> <ul style="list-style-type: none"> <li>Streamlining the Statement of Accounts removing all non-material disclosure notes;</li> <li>Bringing forward the commissioning and production of key externally provided information such as IAS 19 pension information, asset valuations;</li> <li>Providing training to departmental finance staff regarding the requirements and implications of earlier closedown;</li> <li>Re-ordering tasks from year-end to monthly/quarterly timing, reducing year-end pressure;</li> <li>Establishing and agreeing working materiality amounts with the auditors.</li> </ul>

Appendix A

## Audit Fees



## Appendix A      Audit Fees

Our fee for 2016/17 is in line with the scale fee set by Public Sector Audit Appointments Ltd(PSAA) and reported in our September 2017 Audit Results Report.

Description	Final Fee 2016/17 £'s	Planned Fee 2016/17 £'s	Scale Fee 2016/17 £'s	Final Fee 2015/16 £'s
<b>Total Audit Fee - Code work (Note 1)</b>	131,084	127,742	127,742	134,081
<b>Total Audit Fee - Non- audit work (Note 2)</b>	TBC	TBC	N/A	14,900
<b>Total Audit Fee - Norfolk Pension Fund (Note 3)</b>	29,402	27,099	27,099	27,099

**Note 1:** Our actual fee is higher than the scale fee set by the Public Sector Audit Appointments (PSAA) Ltd due to additional work required to review the Council's revised Minimum Revenue Provision policy. This additional work had an additional fee of £3,342. These additional fees are subject to agreement with PSAA.

**Note 2:** The fee for non-audit work will be discussed with management and reported to the Audit Committee in subsequent reporting once the scope of work has been agreed for 2016/17. This work relates to the certification arrangements for the Teachers' Pension grant return and Major Projects Return.

**Note 3:** The additional fee relates to the procedures we are requested to undertake by auditors for admitted bodies for the purposes of IAS 19 requirements. This has been approved by the PSAA.

We will confirm our final fees following the completion our non-audit work.

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ED None

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