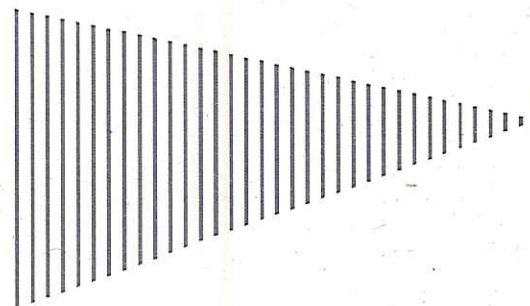


Norfolk County Council

Annual Audit Letter for the year ended 31 March 2016

18 October 2016

Ernst & Young LLP



Building a better
working world

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In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued "Statement of responsibilities of auditors and audited bodies 2015-16". It is available from the Chief Executive of each audited body and 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 from 1 April 2015' 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 holding a pen writing on a document, with a calculator and a cup visible in the background.

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 2016.

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

Area of Work	Conclusion
Opinion on the Council's and Pension Fund's:	Unqualified – the financial statements give a true and fair view of the financial position of the Council and Pension Fund as at 31 March 2016 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 Annual Accounts.
Concluding on the Council's arrangements for securing economy, efficiency and effectiveness	We concluded that you have put in place proper arrangements to secure value for money in your use of resources.

Area of Work	Conclusion
Reports by exception:	
▶ Consistency of Governance Statement	The 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
Reporting to the National Audit Office (NAO) on our review of the Council's Whole of Government Accounts return (WGA).	We had no matters to report.

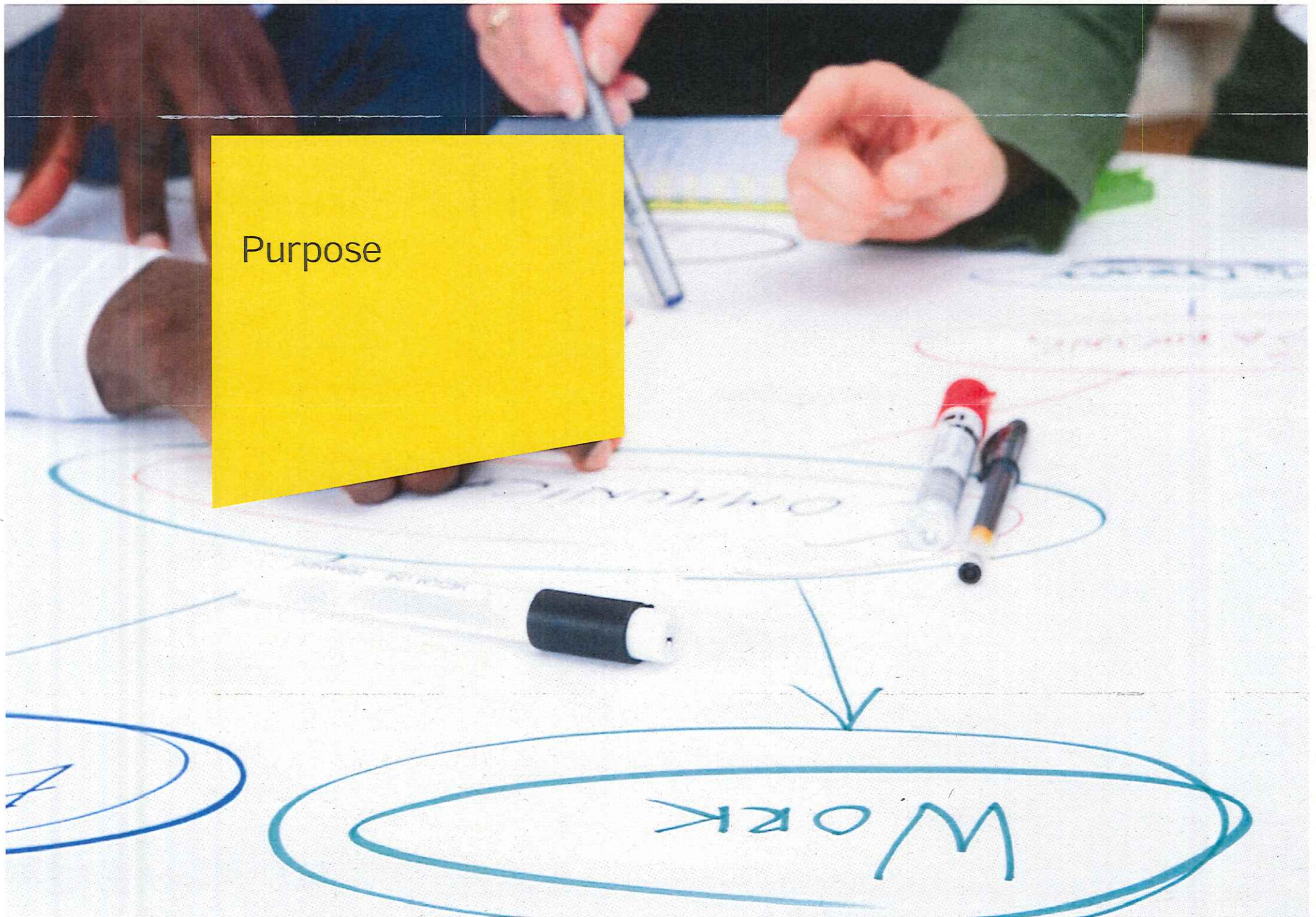
As a result of the above we have also:

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 16 September 2016 for Norfolk County Council and 17 August 2016 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 11 October 2016.

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
Executive Director
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 2015/16 in the following reports:

- 2015/16 Audit Results Report for Norfolk County Council - Reported to the Audit Committee on 22 September 2016; and
- 2015/16 Audit Results Report for the Norfolk County Council Pension Fund - Reported to the Pension Committee on 6 September 2016 and the Audit Committee on 22 September 2016.

We do not repeat those detailed findings in this letter. The matters reported here are the most significant for the Council.

Responsibilities

Responsibilities of the Council

The Council is responsible for preparing and publishing its statement of accounts accompanied by an Annual Governance Statement. 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.

Responsibilities of the Appointed Auditor

Our 2015/16 audit work has been undertaken in accordance with the Audit Plans that we issued we issued for the County Council and the Local Government Pension Fund on 21 April and 6 June 2016 respectively. The audit has been conducted in accordance with the National Audit Office's 2015 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 2015/16 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.

The background of the slide is a blurred photograph of an office desk. It features a laptop on the right, several glasses of water in the foreground and middle ground, and some papers or documents scattered on the desk. The overall lighting is bright and natural, suggesting a window nearby.

Financial Statement Audit

Significant Risk	Conclusion
<p>Norse Group Ltd</p> <p>Norse Group Ltd is a significant component company within the Norfolk County Council group. Norse Group Ltd is significant to the group based on both its size and other risk factors.</p> <p>The Norse Group Ltd moved their year end from 31 January to 31 March. This is now coterminous with that of Norfolk County Council. The financial statements for the Norse Group Ltd for the transition year, 2015/16, will be a fourteen month period. To comply with IFRS 10 Norfolk County Council required a consolidation pack from the Norse Group for the twelve months leading to 31 March 2016 and will consolidate on the basis of that pack.</p> <p>The production of financial statements and disclosure notes for the group accounts and the closedown and consolidation process therefore presents a significant financial statement risk.</p>	<p>We assessed the group accounting instructions and consolidation schedules issued to Norse Group Ltd by Norfolk County Council.</p> <p>We liaised with Grant Thornton LLP, the external auditors of the Norse Group, issuing them with instructions that detailed the required audit procedures they were to undertake on the consolidation schedules prepared by Norse and we ensured that appropriate consolidation procedures were applied when consolidating the Norse Group into the Norfolk County group accounts.</p> <p>We have gained sufficient assurance over the consolidation procedures reported in the Group financial statements.</p> <p>We have no matters to report.</p>

Significant Risk	Conclusion
<p>Property, plant and equipment valuations</p> <p>Property, plant and equipment represent a significant balance in the Council's accounts and this is an area which involves judgemental inputs and estimates.</p> <p>The most significant accounting judgement and estimate that the Council forms in this area relates to the valuation of property, plant and equipment. In order to address this accounting risk the Council employs a valuation expert; Norfolk Property Services.</p> <p>The valuation risk is increased with the prospective application of IFRS13 Fair Value Measurement from 1 April 2015. This is likely to have the largest impact on the Council's surplus assets and investment property portfolio where asset valuations need to be reviewed to ensure they are based on best use.</p>	<p>We reviewed and relied on management's valuation experts, including comparison to industry valuation trends and reliance on our own valuation experts where significant unexplained variations were identified.</p> <p>We tested the accounting treatment of valuations made in the year, including the assessment and treatment of impairments.</p> <p>We reviewed and tested the Council's application of IFRS13 to ensure the fair value of relevant assets is based on economic best interest.</p> <p>We identified the following material errors:</p> <ul style="list-style-type: none"> • Additions to operational assets were incorrectly shown as additions to "Assets under Construction" with a subsequent transfer to operational assets in Note 12: Property, Plant and Equipment. There is no impact on the balance sheet. • The Council was responsible for the construction of new buildings for sponsored academies. The capital expenditure on these buildings has been accounted for under 'Assets under Construction' as the associated land was on a short term lease until the building was complete. These works were completed in 2015/16 and transferred to the Academies under a long term lease. The value in 'Assets under Construction' should have been treated as a loss on disposal in keeping with the transfer of assets to Academies, but was incorrectly treated as 'revenue expenditure funded from capital under statute'. There is no impact on the balance sheet. <p>The Council have not been applying the correct depreciation charge on componentised assets. This has resulted in depreciation charges being under stated by £1.21 million (estimated) for the last three years.</p>

Significant Risk	Conclusion
	<p>We experienced delays in the audit concerning property, plant and equipment. The reporting functions in the Council's fixed asset register are complicated and do not provide a clear audit trail. Officer's use large excel spreadsheets to extract data from the fixed asset register and adjust for reporting in the statement of accounts. This increases the work of Council staff when compiling the statement of accounts, and audit time for testing the spreadsheets. Significant audit time was required to reconcile the fixed asset register to the trial balance and statement of accounts. This is in addition to the audit adjustments reported above.</p> <p>Procedures will need to be improved going forward as the deadlines for preparation, approval and audit opinion move to the 31 May and 31 July respectively in 2017/18.</p> <p>In the County Council's Audit Results Report we recommended the Council should review the current closedown arrangements for preparing the supporting records to the statement of accounts for property, plant and equipment. This should factor in the earlier reporting deadlines in respect of the 2017/18 financial statements.</p>

Significant Risk	Conclusion
<p>Better Care Fund</p> <p>The Better Care Fund (BCF) is a major policy initiative between local authorities, clinical commissioning groups (CCGs) and NHS providers with a primary aim of driving closer integration and improving outcomes for patients, service users and carers.</p> <p>From the 1 April 2015 the Council has set up pooled arrangements with each of the five Norfolk CCGs. The partners use the pooled fund to jointly commission or deliver health and social care services at a local level.</p> <p>The detailed form of local pooled arrangements is not prescribed and has been agreed locally between partners.</p> <p>Local BCF arrangements may be complex and varied, involving a number of different commissioning, governance and accounting arrangements that raise risks of misunderstanding, inconsistencies and confusion between the partners.</p>	<p>We reviewed the BCF agreements with each of the CCGs and the Council's assessment of the agreements and accounting approach.</p> <p>We determined if appropriate accounting arrangements for the BCF have been used, by establishing what relevant activities are to be undertaken and whether participants have control, either jointly or solely, over the arrangement and we tested transactions and disclosures to underlying evidence.</p> <p>We identified the need for additional disclosures within Note 26 – Pooled Funds for the BCF.</p> <p>We have gained sufficient assurance over the amended BCF disclosures.</p>

Significant Risk	Conclusion
<p>Risk of fraud in revenue and expenditure recognition</p> <p>Auditing standards also required us to presume that there is a risk that revenue and expenditure may be misstated due to improper recognition or manipulation. We respond to this risk by reviewing and testing material revenue and expenditure streams and revenue cut-off at the year end.</p> <p>For local authorities the potential for the incorrect classification of revenue spend as capital is a particular area where there is a risk of management override. We therefore review capital expenditure on property, plant and equipment to ensure it meets the relevant accounting requirements to be capitalised.</p>	<p>We reviewed and tested revenue and expenditure recognition policies.</p> <p>We reviewed and discussed with management any accounting estimates on revenue or expenditure recognition for evidence of bias. We tested material revenue and expenditure streams. We reviewed and tested revenue cut-off at the period end date.</p> <p>Our testing has not revealed any material misstatements with respect to revenue and expenditure recognition. Overall our audit work did not identify any issues or unusual transactions which indicated that there had been any misreporting of the Council's financial position. We tested the additions to the Property, Plant and Equipment balance to ensure that they are properly classified as capital expenditure.</p> <p>Our testing did not identify any expenditure which had been inappropriately capitalised.</p>
<p>Management override of controls</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 tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements. We reviewed accounting estimates for evidence of management bias; and we evaluated the business rationale for any significant unusual transactions.</p> <p>We have not identified any material weaknesses in controls or evidence of material management override.</p> <p>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 Council's normal course of business.</p>

Other Key Findings	Conclusion
<p>Academies</p> <p>Schools have continued to convert to academy status during 2014/15. This has implications for the treatment of the schools' property, plant and equipment, debtors, creditors, cash, balances and income (including dedicated schools grant) and expenditure within the Council's accounts.</p> <p>There is a risk that these schools' transactions and balances may be either incorrectly included or omitted.</p>	<p>We reviewed the arrangements for agreeing with the schools the assets, liabilities and balances for transfer and we tested how the transfers have been accounted.</p> <p>We have gained sufficient assurance over the accounting for schools converting to academy status during the year.</p> <p>We have no matters to report.</p>
<p>Existence of plant and equipment assets</p> <p>The Council had vehicle and equipment assets of £28.2 million net book value at 31 March 2015. These assets tend to be more mobile and generally have a shorter useful life.</p> <p>Without a regular asset verification exercise there is a risk that assets recorded on the balance sheet are no longer used by the Council.</p>	<p>We reviewed the Council's controls concerning asset verification, and we carried out testing of assets for continuing existence.</p> <p>We have gained sufficient assurance over the existence of plant and equipment assets.</p> <p>We have no matters to report.</p>

Local Government Pension Fund Accounts

Significant Risk	Conclusion
<p>Risk of management override</p> <p>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.</p> <p>We identify and respond to this fraud risk on every audit engagement.</p>	<p>We tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.</p> <p>We reviewed accounting estimates for evidence of management bias and we evaluated the business rationale for any significant unusual transactions.</p> <p>Our planned procedures in relation to this risk are complete. We have identified no findings that would indicate there is a risk of material misstatement due to fraud or error.</p>

Other Key Findings	Conclusion
<p>Valuation of complex investments (Unquoted investments)</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 assessed the competence of management experts.</p> <p>We reviewed the basis of valuation for property investments and other unquoted investments and assessed the appropriateness of the valuation methods used.</p> <p>We reviewed the latest audited accounts for the relevant fund managers, ensuring there are no matters arising that highlight weaknesses in the funds valuation and we performed analytical procedures and checked the valuation output for reasonableness against our own expectations.</p> <p>Our planned procedures in relation to this risk are complete. We concluded that we could rely on management experts and did not identify a need for our internal valuation specialists to support our work in this area.</p> <p>We agreed the management experts valuations to the investment valuations reported in the financial statements.</p>



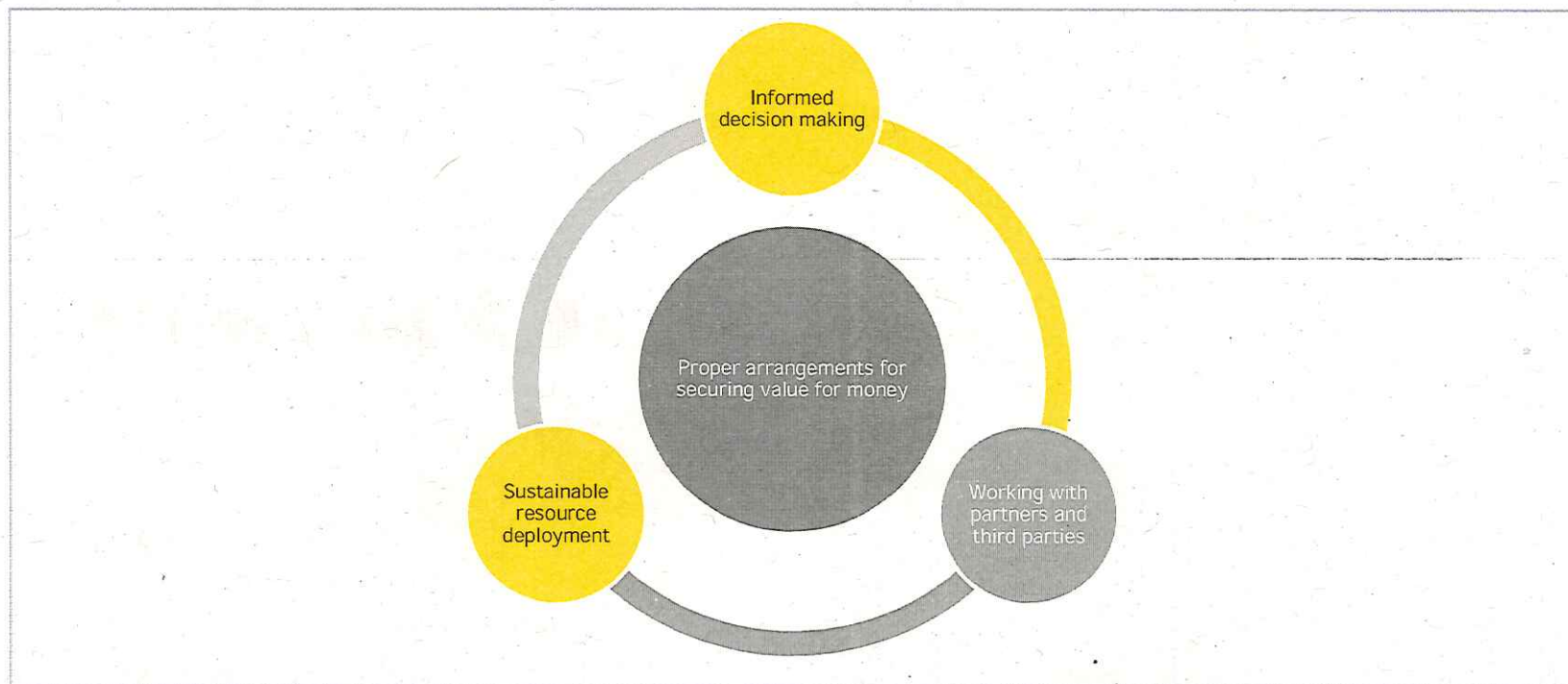
Value for Money

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 issued an unqualified value for money conclusion on 27 September 2016.

Our audit did not identify any significant matters in relation to the Council's arrangements. We did however identify the following areas to bring to your attention.

Key Findings

Deploying resources in a sustainable manner

Risk - Achievement of savings required over the medium term

The medium term financial strategy includes £115 million budget savings to be delivered across four years. The Council has identified plans to make savings in a number of areas.

Although the Council has assessed and identified plans to make the savings, there remains a risk that savings are not achievable at the planned level. In addition, further savings need to be identified to close the funding shortfall in 2017/18 and 2019/20.

Findings

- The Council has appropriate processes for setting its budget, and the budget assumptions appear reasonable. The Council has a good record of identifying and making savings, and in meeting its budget, with cumulative savings of £138.4 million between 2012/13 and 2014/15.
- The medium term financial strategy includes £115.182m budget savings to be delivered across four years. The Council has made good progress in identifying and risk assessing proposals. When setting the 2016/17 budget, the update to the medium term financial strategy reported further savings of £8.827 million were needed to close the funding shortfall in 2017-18.
- The Council have general fund reserves of £19.52 million at 31 March 2016, which is above the minimum levels set by the Council's s151 officer of £19.2 million. The medium term financial strategy is based on general fund reserve balances remaining above the Council's approved minimum level. The Council recognise the risk associated with the level of reserve balances. They are monitored at service and council level, and benchmarked against other Councils.
- The Council also has substantial levels of earmarked reserves. These are £81.774 million (excluding LMS reserves of £21.334 million) at 31 March 2016. These have been set aside to support the Council's planning for future spending commitments. The Council plan to use £48 million of earmarked reserves over the life of the Medium Term Financial Strategy.
- The Council need to identify additional savings proposals to bridge the funding gap, and deliver the significant savings already identified, however the current level of reserves and borrowing headroom 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, would have a detrimental impact on the Council's financial standing.

Challenges for the next year

The Council have made significant savings in prior years, but will have limited opportunity to make further savings through service re-design alone; the Council have developed and challenged budget estimates and budget saving proposals to ensure the robustness of estimates used.

The Council also undertook a large scale public consultation to identify the views of stakeholders on service and spending priorities, the results of this consultation are being factored into the initial planning, that has already been undertaken, to establish the detailed savings plan and the medium term financial strategy.

Delivery of the savings identified will remain a challenge and Member action will be required to monitor progress and to ensure that the necessary delivery action is undertaken.

Informed decision making

Risk - Improvements to services

Ofsted carried out an inspection of Children's services during July 2015. The inspection covered the services for children in need of help and protection, children looked after and care leavers.

The report was published in October 2015 and concluded the Children's services in Norfolk are inadequate. The inspection reported some parts of the service have improved since the last time the county was inspected in 2013, but services for looked after children and care leavers are still not good enough.

Recommendations for service improvements are set out in the report.

Findings

- The Council have established arrangements to consider the recommendations raised in the inspection.
- The Council provide regular reporting to members who are involved in decisions making and monitoring of actions.
- In July 2016, a follow up inspection by Ofsted concluded 'Senior managers and leaders have responded positively to the outcome of the last inspection and are making reasonable progress in addressing the serious and widespread shortfalls that the inspection identified. However, as the local authority recognises, there is still a considerable way to go to achieve the lasting and sustainable shift required in the quality of services that children and young people receive. The pace of improvement needs to increase to make this happen.'

Challenges for the next year

There are significant challenges to delivering the medium term financial strategy particularly in respect of Adult Social Care and Children Services. The Council are considering planned programmes for Adult Social Care and Children Services which are aimed at reviewing the operating model in key areas. At a nation and local level the demand for services is increasing and the ongoing challenge will remain, it is therefore important that once agreed, planned actions are delivered.

A blurred photograph of a meeting or conference. Several people are seated around a large, light-colored wooden table. The background is a warm, orange-toned wall. A yellow rectangular box is overlaid on the left side of the image, containing the text "Other Reporting Issues".

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 2015/16 financial statements from members 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 County Council and Local Government Pension Fund Audit Results Reports to the Audit Committee on 22 September 2016. 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. 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 identified during our audit.

We have tested the controls of the Council only to the extent necessary for us to complete our audit.

We have reviewed IT general controls and have not identified any significant control weaknesses. There are a few areas where controls could be further strengthened in relation to access control. We have shared these observations with management.

In accordance with our Audit Plan we have tested the key financial controls within a number of financial systems.

We have not identified any issues with testing of key controls in the following systems:

County Council

- Accounts receivable
- Accounts payable
- Local Management of Schools (LMS access database)
- Payroll
- Planning and transportation operations (Exor)
- Supporting people (recurring payments database)
- Local Government Pension Fund
- Contributions payable

We have adopted a fully substantive approach for other key processes and have therefore not tested the operation of controls.

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.

A close-up photograph of a person's face, focusing on their eyes as they look through a pair of black binoculars. The person's nose and mouth are visible in the lower half of the frame, slightly out of focus. A bright yellow rectangular box is overlaid on the left side of the image, partially covering the binoculars and the person's face. Inside this box, the text "Focused on your future" is written in a black, sans-serif font.

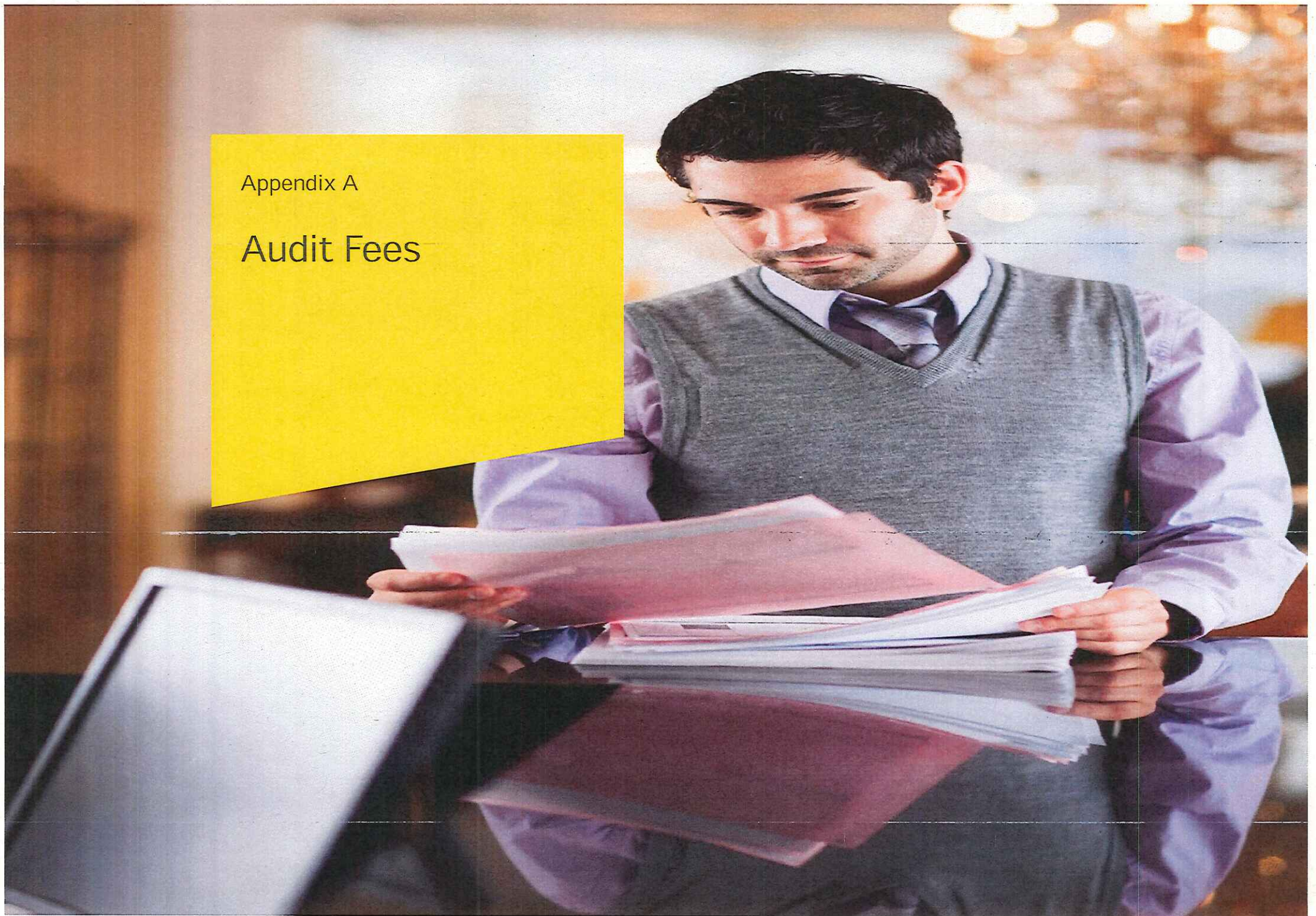
Focused on your
future

Focused on your future

Area	Issue	Impact
EU referendum	Following the majority vote to end the UK's membership of the European Union (EU) in the EU Referendum held on 23 June 2016 there is a heightened level of volatility in the financial markets and increased macroeconomic uncertainty in the UK. All three major rating agencies (S&P, Fitch and Moody's) took action on the UK Sovereign credit rating and, following the rating action on the UK Government. For entities in the public sector, there is likely to be an impact on investment property valuations if confidence in the wider UK property market falls; and the valuation of defined benefit pension obligations may also be affected. It is too early to estimate the quantum of any impact of these issues, but there is likely to be significant ongoing uncertainty for a number of months while the UK renegotiates its relationships with the EU and other nations.	Many of the issues and challenges that face the UK public sector will continue to exist, not least because continued pressure on public finances will need responding to. Additionally it may well be that the challenges are increased if the expected economic impacts of the referendum and loss of EU grants outweigh the benefits of not having to contribute to the EU and require even more innovative solutions. We are committed to supporting our clients through this period, and help identify the opportunities that will also arise. We will engage with you on the concerns and questions you may have, provide our insight at key points along the path, and provide any papers and analysis of the impact of the referendum on the Government and Public Sector market.
Highways Network Asset (HNA)	<p>The Code of Practice on Transport Infrastructure Assets (TIA Code) was first published in 2010 and updated in 2013. The key aim of this document was to improve the asset management of TIA. During 2016, this guidance has been renamed and updated, with the Highways Network Asset (HNA) Code, Guidance Notes and Accounting Guidance being published. Local Government has historically used depreciated historic cost (DHC) as the valuation approach for infrastructure assets. The introduction of the HNA Code will see this valuation basis change to depreciated replacement cost with effect from 1 April 2016. The change will be applied prospectively from that date, so Highways Authorities are not required to disclose comparative information.</p> <p>This is a fundamental change in approach which will require new accounting and estimation approaches as well as amendments to existing systems, or implementation of new systems.</p>	<p>The impact on the Council's Balance Sheet will be highly significant; with the recognition of a single highways network asset of approximately £13 billion. The impact on the audit will also be significant, as auditors will need to obtain sufficient assurance over the material accuracy of this asset.</p> <p>We will continue to work closely with the Council at both the local level, regarding system implementation, valuation procedures and accounting, and at the wider level through the continuation of our HNA Client Workshops.</p>

Appendix A

Audit Fees



Appendix A Audit Fees

The table below sets out the scale fees and the final audit fees for 2015/16.

Description	Proposed Final Fee 2015/16 £	Scale Fee 2015/16 £	Comments
Total Audit Fee – Norfolk County Council	134,081	117,045	Notes 1, 2 and 3
Non-audit work	To be confirmed	14,900	Note 4 - Relates to Teachers Pensions claim and Local Transport Plan Major Project return
Total Audit Fee – Norfolk Pension Fund	27,099	27,099	

Note 1 – The proposed fee includes an additional fee of £10,717 for instructing, liaising with, and reviewing the work of the auditors of Norse Group Ltd. This is consistent with prior years. This is currently subject to final approval by Public Sector Audit Appointments Ltd (PSAA).

Note 2 - The proposed fee includes an additional fee of £2,856. We have undertaken a review of the Council's approach to the Minimum Revenue Provision. This has been approved by Public Sector Audit Appointments Ltd (PSAA).

Note 3 –As reported in the financial statement section, we experienced delays in the audit concerning property, plant and equipment. This increased the audit time for testing, reconciling the fixed asset register to the trial balance and statement of accounts, and resolving a number of audit adjustments. The additional fee for the work, £3,463, is included in the proposed fee. This is currently subject to final approval by Public Sector Audit Appointments Ltd (PSAA).

Note 4 – We have not commenced our work in this area.

We confirm we have not undertaken any non-audit work outside of the PSAA's requirements.

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ED None

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