

A black and white photograph showing a group of people gathered around a table, looking at and pointing to various documents. A smartphone is lying on the table in the foreground. The scene is brightly lit, with strong shadows.

# **Norfolk County Council**

## **Audit Plan**

Year ended 31 March 2018

23 February 2017



Audit Committee  
Norfolk County Council  
County Hall  
Martineau Lane  
Norwich  
NR1 2DH

23 February 2018

Dear Committee Members

Audit planning report

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as auditor. Its purpose is to provide the Audit Committee with a basis to review our proposed audit approach and scope for the 2017/18 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the Committee's service expectations.

This plan summarises our initial assessment of the key risks driving the development of an effective audit for the Council, and outlines our planned audit strategy in response to those risks.

This report is intended solely for the information and use of the Audit Committee and management, and is not intended to be and should not be used by anyone other than these specified parties.

We welcome the opportunity to discuss this report with you on 19 April 2018 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

*MARK HODGSON*

Mark Hodgson  
Associate Partner  
For and on behalf of Ernst & Young LLP  
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# Contents



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](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 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.





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# Overview of our 2017/18 audit strategy





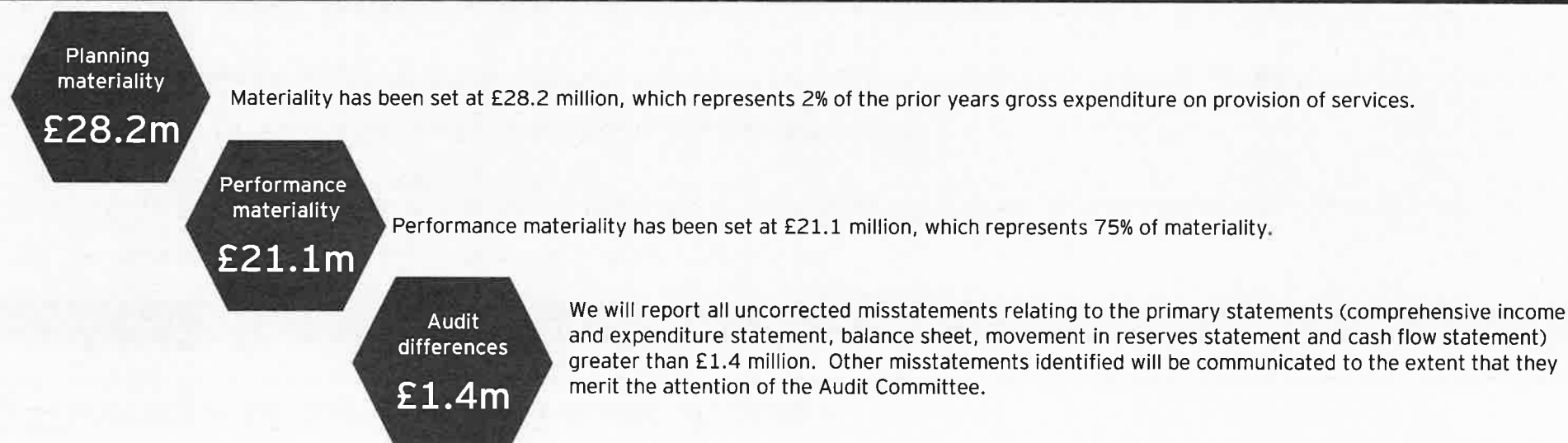
## Overview of our 2017/18 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Audit Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

### Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from FY
Risk of fraud in revenue and expenditure recognition	Fraud Risk	No change in risk or focus
Risk of management override of controls	Fraud risk	No change in risk or focus
Accounting for Academy conversions	Inherent risk	No change in risk or focus
Accounting for Property, Plant and Equipment	Inherent risk	No change in risk or focus
Pensions valuation and disclosures	Inherent risk	No change in risk or focus
Minimum Revenue Provision	Inherent risk	No change in risk or focus

### Materiality



# Overview of our 2017/18 audit strategy

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## Audit scope

This Audit Plan covers the work that we plan to perform to provide you with:

- Our audit opinion on whether the financial statements of Norfolk County Council give a true and fair view of the financial position as at 31 March 2018 and of the income and expenditure for the year then ended; and
- Our conclusion on the Council's arrangements to secure economy, efficiency and effectiveness.

We will also review and report to the National Audit Office (NAO), to the extent and in the form required by them, on the Council's Whole of Government Accounts return.

Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

When planning the audit we take into account several key inputs:

- Strategic, operational and financial risks relevant to the financial statements;
- Developments in financial reporting and auditing standards;
- The quality of systems and processes;
- Changes in the business and regulatory environment; and,
- Management's views on all of the above.

By considering these inputs, our audit is focused on the areas that matter and our feedback is more likely to be relevant to the Council.



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## Audit risks



## Audit risks

### Our response to significant risks

We have obtained an understanding of your strategy, reviewed your principal risks as identified in your 2017/18 Accounts and combined it with our understanding of the sector to identify key risks that impact our audit. We have set out the significant risks (including fraud risks denoted by\*) identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues we identify during the audit.

#### Risk of fraud in revenue recognition\*

#### Financial statement impact

Misstatements that occur in relation to the risk of fraud in revenue and expenditure recognition could affect the income and expenditure accounts.

There could also be a resulting impact on balance sheet accounts and the overall reserves position.

#### What is the risk?

Under ISA240 there is a presumed risk that revenue may be misstated due to improper recognition of revenue. 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 Council has historically performed well in relation to their outturn position for the year. As the Council is more focussed on its financial position over the medium term we have rebutted this risk for the Council's standard 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. We have also considered the completeness of liabilities for any management bias.

These areas have also been considered as being linked to the risk of fraud in management override of controls (see below).

#### What will we do?

In order to address this risk we will carry out a range of procedures including:

- Reviewing the appropriateness of revenue and expenditure recognition accounting policies and testing that they have been applied correctly during our detailed testing;
- Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements (see also the management override of control section below);
- Reviewing income and expenditure accounting estimates for evidence of management bias;
- Performing sample testing on additions to PPE to ensure that they have been correctly classified as capital and included at the correct value to identify any revenue items that have been inappropriately capitalised;
- Testing a sample of liabilities based on our established testing threshold for reasonableness;
- Performing cut-off testing of transactions both before and after year-end to ensure that they were accounted for in the correct year based on our established testing threshold;
- Considering the completeness of liabilities included in the financial statements; and
- Evaluating the business rationale for any significant unusual transactions.



## Our response to significant risks (continued)

### Risk of Management Override\*

#### What is the risk?

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 areas most open to manipulation.

Linking to our risk of fraud in revenue and expenditure recognition above we have considered the capitalisation of revenue expenditure on Property, Plant and Equipment given the extent of the Council's capital programme. We have also considered the completeness of liabilities for any management bias.

#### What will we do?

In order to address this risk we will carry out a range of procedures including:

- ▶ Identifying fraud risks during the planning stages;
- ▶ Inquiry of management about risks of fraud and the controls put in place to address those risks;
- ▶ 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;
- ▶ Determining an appropriate strategy to address those identified risks 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;
- ▶ Reviewing accounting estimates and adjustments between accounting basis and funding basis under regulations for evidence of management bias;
- ▶ Considering the results of our work on revenue and expenditure recognition as set out above, specifically considering any instances of management bias; and
- ▶ Evaluating the business rationale for any significant unusual transactions.

## Audit risks

### Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

What is the risk/area of focus?	What will we do?
<p><b><u>Academies</u></b></p> <p>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.</p> <p>There is a risk that these schools' transactions and balances may be either incorrectly included or omitted.</p> <p>Other balances relating to debtors, creditors, cash balances and income (including dedicated schools grant) and expenditure within the Council's accounts are considered to be lower risk due to their size and nature.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>▶ Review the arrangements for agreeing with the school assets, liabilities and balances for transfers; and</li> <li>▶ Review how the transfers have been accounted for, including 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.</li> </ul>
<p><b><u>Accounting for Property, Plant &amp; Equipment</u></b></p> <p>Property, Plant and Equipment represent a significant balance in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges.</p> <p>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.</p> <p>The Council will engage an external expert valuer who will apply a number of complex assumptions to these assets. Annually assets are assessed to identify whether there is any indication of impairment.</p> <p>As the Council'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.</p> <p>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.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>▶ Consider the work performed by the Council's valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;</li> <li>▶ Sample test key asset information used by the valuers in performing their valuation (e.g. floor plans to support valuations based on price per square metre);</li> <li>▶ Consider the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code for PPE and annually for IP. We have also considered if there are any specific changes to assets that have occurred and that these have been communicated to the valuer;</li> <li>▶ Review assets not subject to valuation in 2017/18 to confirm that the remaining asset base is not materially misstated;</li> <li>▶ Consider changes to useful economic lives as a result of the most recent valuation;</li> <li>▶ Consider circumstances that require the use of EY valuation specialists to review any material specialist assets and the underlying assumptions used; and</li> <li>▶ Test accounting entries have been correctly processed in the financial statements.</li> </ul>

## Audit risks

What is the risk/area of focus?	What will we do?
<p><b><u>Pensions valuations and disclosures</u></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 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 actuary to the pension fund.</p> <p>Accounting for this scheme involves significant estimation and judgement.</p> <p>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.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>▶ Liaise with the auditors of Norfolk Pension Fund to obtain assurances over the information supplied to the actuary in relation to Norfolk County Council;</li> <li>▶ Assess 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 National Audit Office (NAO) for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team; and</li> <li>▶ Review and test the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.</li> </ul>
<p><b><u>Minimum Revenue Provision (MRP)</u></b></p> <p>The MRP represents the minimum amount charged to the Council's revenue account each year in order to meet the costs of repaying amounts borrowed. This ensures that the Council makes a satisfactory annual provision for loan repayments.</p> <p>The Council reviewed their MRP policy during 2016/17 and identified that MRP of £66 million had been over-provided, based on a retrospective application of the Council's new MRP policy. The Council plan to release this amount over the period of the Medium Term Financial Plan (MTFP). This provided a finance general saving of £10 million in 2016/17.</p> <p>We reported to the Council in our 2016/17 Audit Results Report that we gained sufficient assurance for the release of the over provision used in 2016/17. There remains an inherent risk concerning the remaining value of calculated over provision to be released over the lifetime of the MTFP.</p> <p>This will include a review of the Council's decision in 2017/18 to make an additional voluntary MRP set aside of £20 million.</p>	<p>Our approach will focus on:</p> <ul style="list-style-type: none"> <li>▶ Assessing the conclusions drawn on the work and assumptions used by Capita (the Council's treasury management advisor); and</li> <li>▶ Reviewing and testing the accounting entries and disclosures made within the Council's financial statements in relation to MRP.</li> </ul>





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## Value for Money Risks

## Background

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.

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.

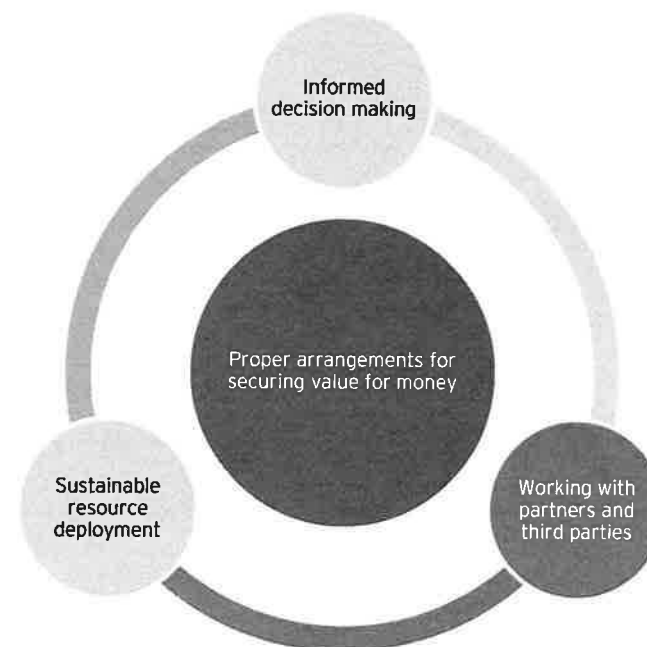
In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

We are only required to determine whether there are any risks that we consider significant, which the Code of Audit Practice defines 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 sufficient work to enable us to deliver a safe conclusion on arrangements to secure value for money and enables us to determine the nature and extent of further work that may be required. If we do not identify any significant risks there is no requirement to carry out further work.

Our risk assessment has therefore considered both the potential financial impact of the issues we have identified, and also the likelihood that the issue will be of interest to local taxpayers, the Government and other stakeholders. This has resulted in the following significant VFM risk which we view as relevant to our value for money conclusion.



## Value for Money Risks

What is the significant value for money risk?	What arrangements does the risk affect?	What will we do?
<p>Sustainable resource deployment: Achievement of savings needed over the medium term</p>	<p>To date the Council has responded well to the financial pressure resulting from the continuing economic downturn. However, substantial savings are required over the period to 2017 to 2020 to balance the budget:</p> <ul style="list-style-type: none"> <li>• 2017/18 = £47.8 million (identified savings)</li> <li>• 2018/19 = £29.8 million (identified savings + budget gap)</li> <li>• 2019/20 = £30.2 million (identified savings + budget gap)</li> </ul> <p>(Source: Norfolk County Council Budget Book 2017-20)</p> <p>The most recent financial forecast for the year ended 31 March 2018 projects an overspend of £2.79 million, subject to the approved use of £2.59 million from Children's Services reserves.</p> <p>This forecast reflects the Council's projection that £5.2 million of the 2017/18 savings target is at risk of delivery.</p> <p>It is clear that the Council 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.</p> <p>Therefore a risk remains that further savings or increased income will not be identified to close the funding shortfalls.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>▶ Assess the adequacy of the Council's budget monitoring process, comparing budget to outturn;</li> <li>▶ Consider the robustness of any key assumptions used in medium term planning;</li> <li>▶ Consider the Council's approach to prioritising resources whilst maintaining services; and</li> <li>▶ Consider the adequacy of savings plans in place and the historic achievement of these.</li> </ul>





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## Audit materiality



## Materiality

### Materiality

For planning purposes, materiality for 2017/18 has been set at £28.2 million (£32.2 million for the group). This represents 2% of the Council's prior year gross expenditure on net cost of services plus financing and investment expenditure. In the prior year we applied a threshold of 1%, meaning that materiality was set as £13.4 million. Although the Council is a major local audit based on its size, we have considered its overall risk profile and public interest in comparison to other Council's, and do not consider there to be any heightened risks that would mean we need to adopt a lower level of materiality. As such we have raised materiality to 2%.

Materiality will be reassessed throughout the audit process. In an audit of a public sector entity, we consider gross expenditure to be the appropriate basis for setting materiality as it is the benchmark for public sector programme activities. We also consider 2% is appropriate on the ground that the Council has significant reserves and our prior year work had not identified any significant matters in relation to the budget setting, including the assumptions used in the financial planning. We have provided supplemental information about audit materiality in Appendix D.



We request that the Audit Committee confirm its understanding of, and agreement to, these materiality and reporting levels.

### Key definitions

**Planning materiality** - the amount over which we anticipate misstatements would influence the economic decisions of a user of the financial statements.

**Performance materiality** - the amount we use to determine the extent of our audit procedures. We have set performance materiality at £21.1 million (£24.2 million for the group) which represents 75% of planning materiality. We have considered a number of factors such as the number of errors in prior year and any significant changes in 2017/18 when determining the percentage of planning materiality.

**Component performance materiality range** - we determine component performance materiality as a percentage of Group performance materiality based on risk and relative size to the Group. Assigned performance materiality is £9 million for Norse and £7.2 million for Independence Matters (IM).

**Audit difference threshold** - we propose that misstatements identified below £1.4 million (£1.6 million for the group) are deemed clearly trivial. We will report to you all uncorrected misstatements over this amount relating to the comprehensive income and expenditure statement and balance sheet that have an effect on income or that relate to other comprehensive income. Other uncorrected misstatements, such as reclassifications and misstatements in the cashflow statement and movement in reserves statement or disclosures, and corrected misstatements will be communicated to the extent that they merit the attention of the Audit Committee, or are important from a qualitative perspective.

**Specific materiality** - We have set a specific materiality for the areas below which reflects our understanding that an amount less than our materiality may influence the economic decisions of users of the financial statements:

- **Fire Pension Scheme** - We have adopted a smaller materiality of 2% of benefits payable to reflect the differing nature of the pension fund. We have applied a materiality of £143,500 with a reporting threshold for audit differences of £7,176.
- **Remuneration disclosures, related party transactions and councillor 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.



05

## Scope of our audit





## Our Audit Process and Strategy

### Objective and Scope of our Audit scoping

Under the Code of Audit Practice our principal objectives are to review and report on the Council's financial statements and arrangements for securing economy, efficiency and effectiveness in its use of resources to the extent required by the relevant legislation and the requirements of the Code.

We issue an audit report that covers:

#### 1. Financial statement audit

Our objective is to form an opinion on the financial statements under International Standards on Auditing (UK and Ireland).

We also perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline below the procedures we will undertake during the course of our audit.

##### Procedures required by standards

- Addressing the risk of fraud and error;
- Significant disclosures included in the financial statements;
- Entity-wide controls;
- Reading other information contained in the financial statements and reporting whether it is inconsistent with our understanding and the financial statements; and
- Auditor independence.

##### Procedures required by the Code

- Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Annual Governance; and
- Reviewing and reporting on the Whole of Government Accounts return, in line with the instructions issued by the NAO [delete if not applicable]

#### 2. Arrangements for securing economy, efficiency and effectiveness (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.

## Our Audit Process and Strategy (continued)

### Audit Process Overview

Our audit involves:

- ▶ Identifying and understanding the key processes and internal controls; and
- ▶ Substantive tests of detail of transactions and amounts.

For 2017/18 we plan to follow a substantive approach to the audit as we have concluded this is the most efficient way to obtain the level of audit assurance required to conclude that the financial statements are not materially misstated.

Analytics:

We will use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular journal entries. These tools:

- ▶ Help identify specific exceptions and anomalies which can then be subject to more traditional substantive audit tests; and
- ▶ Give greater likelihood of identifying errors than random sampling techniques.

We will report the findings from our process and analytics work, including any significant weaknesses or inefficiencies identified and recommendations for improvement, to management and the Audit Committee.

Internal audit:

As in prior years, we will review internal audit plans and the results of their work. We will reflect the findings from these reports, together with reports from any other work completed in the year, in our detailed audit plan, where they raise issues that could have an impact on the year-end financial statements.

## Our Audit Process and Strategy (continued)

### Earlier deadline for production of the financial statements

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 accounts by 31 July 2018.

These changes provide risks for both the preparers and the auditors of the financial statements:

- ▶ The Council now has less time to prepare the financial statements and supporting working papers and has the added complexity of preparing Group financial accounts.
- ▶ As your auditor, we have a more significant peak in our audit work and a shorter period to complete the audit. Risks for auditors relate to delivery of all audits within the same compressed timetable. Slippage at one client could potentially put delivery of others at risk.

To mitigate this risk we will require:

- ▶ good quality draft financial statements and supporting working papers by the agreed deadline;
- ▶ appropriate Council staff to be available throughout the agreed audit period;
- ▶ timely and complete provision of assurances from the component auditor (PwC for Norse); and
- ▶ complete and prompt responses to audit questions.

If you are unable to meet key dates within our agreed timetable, we will notify you of the impact on the timing of your audit, which may be that we postpone your audit until later in the summer and redeploy the team to other work to meet deadlines elsewhere. Where additional work is required to complete your audit, due to additional risks being identified, additional work being required as a result of scope changes, or poor audit evidence, we will notify you of the impact on the fee and the timing of the audit. Such circumstances may result in a delay to your audit while we complete other work elsewhere.

To support the Council we will:

- ▶ Work with the Council to engage early to facilitate early substantive testing where appropriate.
- ▶ Provide an early review on the Council's streamlining of the Statement of Accounts where non-material disclosure notes are removed.
- ▶ Facilitate faster close workshops to provide an interactive forum for Local Authority accountants and auditors to share good practice and ideas to enable us all to achieve a successful faster closure of accounts for the 2017/18 financial year.
- ▶ Put in place a portal to streamline communication and sharing of audit evidence.
- ▶ Agree the team and timing of each element of our work with you.
- ▶ Agree the supporting working papers that we require to complete our audit.



## Scope of our audit

# Scoping the group audit

### Group scoping

Our audit strategy for performing an audit of an entity with multiple locations is risk based. We identify components as:

- 1. Significant components:** A component is significant when it is likely to include risks of material misstatement of the group financial statements, either because of its relative financial size to the group (quantitative criteria), or because of its specific nature or circumstances (qualitative criteria). We generally assign significant components a full or specific scope given their importance to the financial statements.
- 2. Not significant components:** The number of additional components and extent of procedures performed depended primarily on: evidence from significant components, the effectiveness of group wide controls and the results of analytical procedures.

For all other components we perform other procedures to confirm that there is no risk of material misstatement within those locations. These procedures are detailed below.

### Scoping by Entity

Our preliminary audit scopes by number of locations we have adopted are set out below. We provide scope details for each component within Appendix E.

1	Full scope audits
Nil	Specific scope audits
1	Review scope audits
Nil	Specified procedures
Nil	Other procedures

### Scope definitions

**Full scope:** locations where a full audit is performed to the materiality levels assigned by the Group audit team for purposes of the consolidated audit. Procedures performed at full scope locations support an interoffice conclusion on the reporting package. These may not be sufficient to issue a stand-alone audit opinion on the local statutory financial statements because of the materiality used and any additional procedures required to comply with local laws and regulations.

**Specific scope:** locations where the audit is limited to specific accounts or disclosures identified by the Group audit team based on the size and/or risk profile of those accounts.

**Review scope:** locations where procedures primarily consist of analytical procedures and inquiries of management. On-site or desk top reviews may be performed, according to our assessment of risk and the availability of information centrally.

**Specified Procedures:** locations where the component team performs procedures specified by the Group audit team in order to respond to a risk identified.

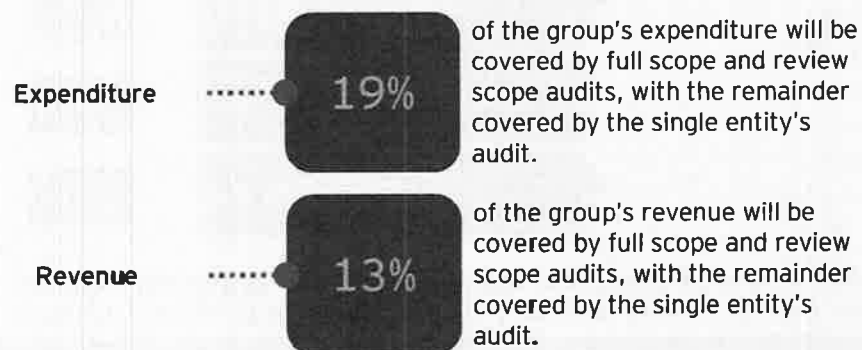
**Other procedures:** For those locations that we do not consider material to the Group financial statements in terms of size relative to the Group and risk, we perform other procedures to confirm that there is no risk of material misstatement within those locations.

## Scope of our audit

### Scoping the group audit (continued)

#### Coverage of Revenue/Profit before tax/Total assets

Based on the group's prior year results, our scoping is expected to achieve the following coverage of the group's expenditure and group's revenue.



Our audit approach is risk based and therefore the data above on coverage is provided for your information only.

The NORSE Group will be audited by PwC, a non-EY member firm, who will confirm their independence via our group instructions.

Independence Matters is audited by EY.

#### Key changes in scope from last year

There have been no changes in scope from last year. Norse remains a significant component, categorised as full scope, and Independence Matters a non-significant component, categorised as review scope.

#### Group audit team involvement in Norse component audit

Auditing standards require us to be involved in the work of our component teams. We have listed our planned involvement below.

- We provide specific instruction to component team and our expectations regarding the detailed procedures;
- We set up initial meeting with component team to discuss the content of the group instructions;
- We will consider the need to perform a file review of component team's work where appropriate; and
- We will attend a closing meeting with component team to discuss their audit procedures and findings.

#### Details of review scope procedures for Independence Matters (IM)

In order to provide us a reasonable assurance over IM, we will carry out analytical review procedures and seek management representation.



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Audit team





## Audit team and use of specialists

### Audit team

The engagement team is led by Mark Hodgson, who has significant experience of the Norfolk County Council audit and leads our Government & Public Sector team across East Anglia. Mark is supported by David Riglar, Senior Manager, who is responsible for the day-to-day direction of audit work and is the key point of contact for the chief accountant. The day to day audit team will be led by Gavin Savage, Senior.

### Specialists

When auditing key judgements, we are often required to rely on the input and advice provided by specialists who have qualifications and expertise not possessed by the core audit team. The areas where either EY or third party specialists provide input for the current year audit are:

Area	Specialists
Valuation of Land and Buildings	Norfolk Property Services (Council's property valuer). We will also consider any valuation aspects that require EY valuation specialists to review any material specialist assets and the underlying assumptions used.
Pensions disclosure	EY Actuaries, PwC (Consulting Actuary to the NAO) and Hymans Robertson (Council's Actuary).
Financial instrument fair value disclosures	Capita (Council's treasury management adviser)

In accordance with Auditing Standards, we will evaluate each specialist's professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work.

We also consider the work performed by the specialist in light of our knowledge of the Council's business and processes and our assessment of audit risk in the particular area. For example, we would typically perform the following procedures:

- ▶ Analyse source data and make inquiries as to the procedures used by the specialist to establish whether the source data is relevant and reliable;
- ▶ Assess the reasonableness of the assumptions and methods used;
- ▶ Consider the appropriateness of the timing of when the specialist carried out the work; and
- ▶ Assess whether the substance of the specialist's findings are properly reflected in the financial statements.



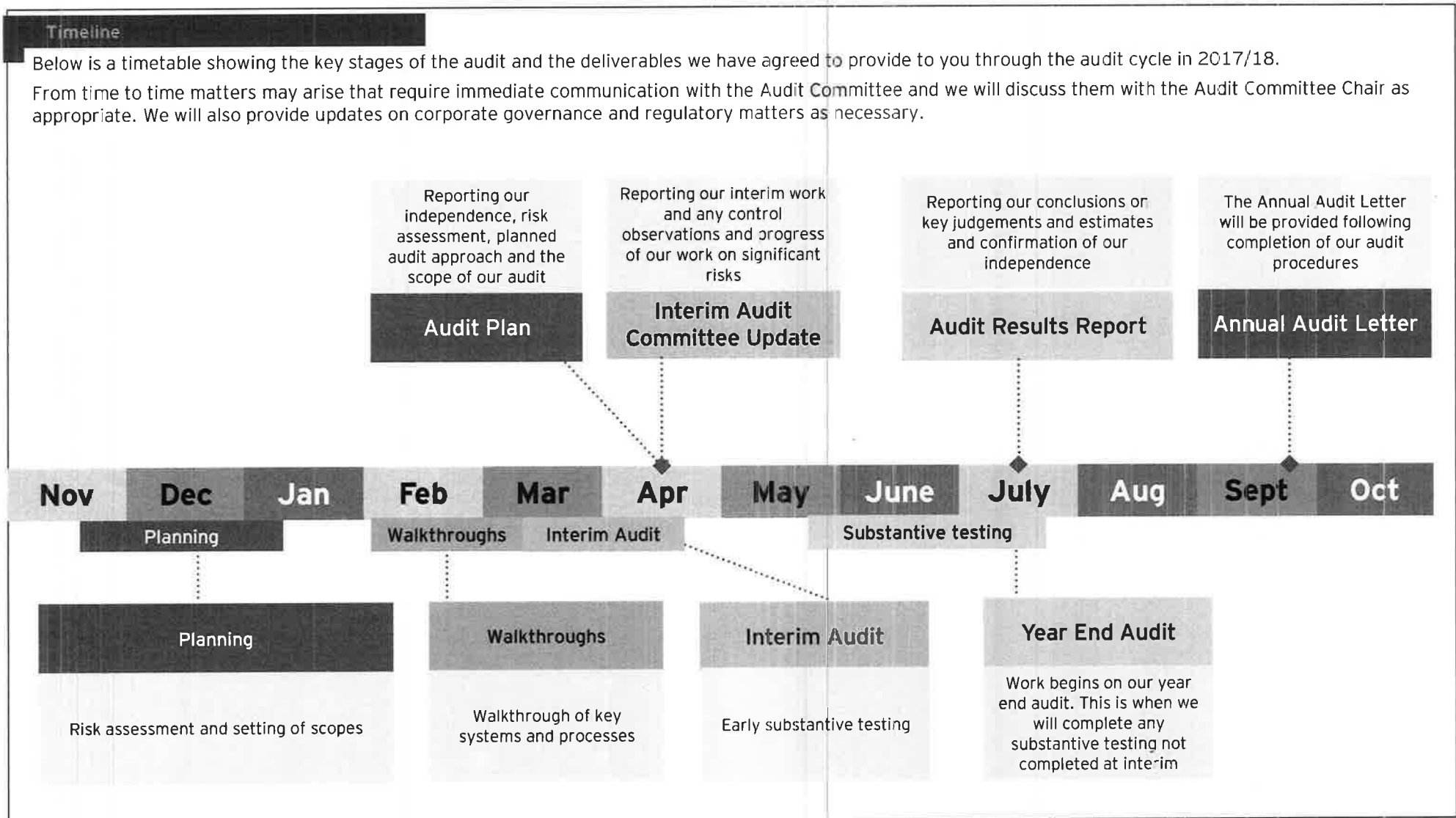
07

## Audit timeline



## Audit timeline

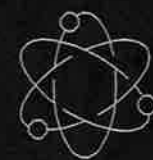
### Timetable of communication and deliverables







# 08 Independence



## Introduction

The FRC Ethical Standard and ISA (UK) 260 "Communication of audit matters with those charged with governance", requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our integrity, objectivity and independence. The Ethical Standard, as revised in June 2016, requires that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

Required communications	
Planning stage	Final stage
<ul style="list-style-type: none"> <li>▶ The principal threats, if any, to objectivity and independence identified by Ernst &amp; Young (EY) including consideration of all relationships between the you, your affiliates and directors and us;</li> <li>▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review;</li> <li>▶ The overall assessment of threats and safeguards;</li> <li>▶ Information about the general policies and process within EY to maintain objectivity and independence.</li> <li>▶ Where EY has determined it is appropriate to apply more restrictive independence rules than permitted under the Ethical Standard.</li> </ul>	<ul style="list-style-type: none"> <li>▶ In order for you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed;</li> <li>▶ Details of non-audit services provided and the fees charged in relation thereto;</li> <li>▶ Written confirmation that the firm and each covered person is independent and, if applicable, that any non-EY firms used in the group audit or external experts used have confirmed their independence to us;</li> <li>▶ Written confirmation that all covered persons are independent;</li> <li>▶ Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy;</li> <li>▶ Details of any contingent fee arrangements for non-audit services provided by us or our network firms; and</li> <li>▶ An opportunity to discuss auditor independence issues.</li> </ul>

In addition, during the course of the audit, we are required to communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place, for example, when accepting an engagement to provide non-audit services.

We also provide information on any contingent fee arrangements, the amounts of any future services that have been contracted, and details of any written proposal to provide non-audit services that has been submitted;

We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period, analysed in appropriate categories, are disclosed.

## Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including the principal threats, if any. We have adopted the safeguards noted below to mitigate these threats along with the reasons why they are considered to be effective. However we will only perform non-audit services if the service has been pre-approved in accordance with your policy.

### Overall Assessment

Overall, we consider that the safeguards that have been adopted appropriately mitigate the principal threats identified and we therefore confirm that EY is independent and the objectivity and independence of Mark Hodgson, your audit engagement partner and the audit engagement team have not been compromised.

### Self interest threats

A self interest threat arises when EY has financial or other interests in the Council. Examples include where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with you. At the time of writing, there are no long outstanding fees.

We believe that it is appropriate for us to undertake permissible non-audit services and we will comply with the policies that you have approved.

Services are prohibited under the FRC's ES or the National Audit Office's Auditor Guidance Note 01 and the services have been approved in accordance with your policy on pre-approval. The ratio of non audit fees to audits fees is not permitted to exceed 70%.

At the time of writing, the current ratio of non-audit fees to audit fees is approximately 0.13:1. No additional safeguards are required.

A self interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to you. We confirm that no member of our audit engagement team, including those from other service lines, has objectives or is rewarded in relation to sales to you, in compliance with Ethical Standard part 4.

There are no other self interest threats at the date of this report.

### Self review threats

Self review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements.

There are no self review threats at the date of this report.

### Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of the Council. Management threats may also arise during the provision of a non-audit service in relation to which management is required to make judgements or decision based on that work.

There are no management threats at the date of this report.



## Relationships, services and related threats and safeguards

### Other threats

Other threats, such as advocacy, familiarity or intimidation, may arise.

There are no other threats at the date of this report.

Description of service	Related independence threat	Period provided	Safeguards adopted and reasons considered to be effective
<p>We have been engaged to undertake the audit of the:</p> <ul style="list-style-type: none"> <li>Teacher's Pension return for 2016/17 at the request of the Council. The agreed upon procedures on the certification arrangements are complete. Our fee level is £7,450.</li> <li>Local Transport Plan Major Project return for 2016/17 at the request of the Council. The reasonable assurance procedures on the certification arrangements are complete. Our fee level is £8,650.</li> </ul>	<p>Self review threat - figures included in the return are also included in the 2016/17 financial statements.</p>	<p>Relates to 2016/17 return for the period to 31 March 2017.</p>	<p>We have assessed the related threats to independence and note that although certain figures in the return are included in the financial statements the procedures are being performed after the signing of the financial statements for 2016/17.</p> <p>The procedures focus on the specific requirements of the certification arrangements and no reliance is placed on this work for the purposes of the financial statements audit. No other threats to independence have been identified.</p>

## Other communications

### EY Transparency Report 2017

Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year ended 1 July 2017 and can be found here:

<http://www.ey.com/uk/en/about-us/ey-uk-transparency-report-2017>



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## Appendices



## Appendix A

### Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Communities and Local Government.

PSAA has published a scale fee for all relevant bodies. This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the NAO Code.

	Planned fee 2017/18	Scale fee 2017/18	Final Fee 2016/17
	£'s	£'s	£'s
Total Fee - Code work	127,742***	127,742	131,084*
Total audit	127,742	127,742	131,084
Other non-audit services not covered above (Teachers Pensions)	**	-	16,100**
Total other non-audit services	**	-	16,100
Total fees	127,742	127,742	147,184

#### *All fees exclude VAT*

\* Our 2016/17 final fee included a fee of £3,342 for additional work to review the Council's revised Minimum Revenue Provision policy. This additional fee is subject to agreement with PSAA. As reported in the *Audit Risks* section, additional work will also be performed in 2017/18.

\*\* As set out in the *Independence* section above, we have recently completed procedures for the Teachers' Pension return and Local Transport Plan Major Project return for 2016/17. We have not yet been engaged to undertake this work for 2017/18 but will provide an update on this as required.

\*\*\* Our planning work has identified two areas where additional work will be required in the 2017/18 audit, a change to the Council's internal reporting structure which will require amendments and re-auditing of the 2016/17 comparative figures, and an in year change to the social services financial system. The fee for this work has not been included in the table but we estimate an additional fee of between £2,000 to £4,000.

The agreed fee presented is based on the following assumptions:

- Officers meeting the agreed timetable of deliverables;
- Our accounts opinion and value for money conclusion being unqualified;
- Appropriate quality of documentation is provided by the Council; and
- The Council has an effective control environment.



If any of the above assumptions prove to be unfounded, we will seek a variation to the agreed fee. This will be discussed with the Council in advance.

Fees for the auditor's consideration of correspondence from the public and formal objections will be charged in addition to the scale fee.

## Appendix B

# Required communications with the Audit Committee




We have detailed the communications that we must provide to the Audit Committee.

Required communications		Our Reporting to you
	 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. The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies. Audit Plan
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. When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team	
Significant findings from the audit	<ul style="list-style-type: none"> <li>▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li> <li>▶ Significant difficulties, if any, encountered during the audit</li> <li>▶ Significant matters, if any, arising from the audit that were discussed with management</li> <li>▶ Written representations that we are seeking</li> <li>▶ Expected modifications to the audit report</li> <li>▶ Other matters if any, significant to the oversight of the financial reporting process</li> </ul>	Audit Results Report






## Appendix B

# Required communications with the Audit Committee (continued)

		 Our Reporting to you
Required communications	 What is reported?	 When and where
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> <li>▶ Whether the events or conditions constitute a material uncertainty</li> <li>▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements</li> <li>▶ The adequacy of related disclosures in the financial statements</li> </ul>	Audit Results Report
Misstatements	<ul style="list-style-type: none"> <li>▶ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation</li> <li>▶ The effect of uncorrected misstatements related to prior periods</li> <li>▶ A request that any uncorrected misstatement be corrected</li> <li>▶ Corrected misstatements that are significant</li> <li>▶ Material misstatements corrected by management</li> </ul>	Audit Results Report
Fraud	<ul style="list-style-type: none"> <li>▶ Enquiries of the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity</li> <li>▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist</li> <li>▶ A discussion of any other matters related to fraud</li> </ul>	Audit Results Report
Related parties	<ul style="list-style-type: none"> <li>▶ Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</li> <li>▶ Non-disclosure by management</li> <li>▶ Inappropriate authorisation and approval of transactions</li> <li>▶ Disagreement over disclosures</li> <li>▶ Non-compliance with laws and regulations</li> <li>▶ Difficulty in identifying the party that ultimately controls the entity</li> </ul>	Audit Results Report




## Appendix B

# Required communications with the Audit Committee (continued)

Required communications	 What is reported?	 Our Reporting to you  When and where
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> <li>▶ The principal threats</li> <li>▶ Safeguards adopted and their effectiveness</li> <li>▶ An overall assessment of threats and safeguards</li> <li>▶ Information about the general policies and process within the firm to maintain objectivity and independence</li> </ul> <p>For public interest entities and listed companies, communication of minimum requirements as detailed in the FRC Revised Ethical Standard 2016:</p> <ul style="list-style-type: none"> <li>▶ Relationships between EY, the Council and senior management, its affiliates and its connected parties</li> <li>▶ Services provided by EY that may reasonably bear on the auditors' objectivity and independence</li> <li>▶ Related safeguards</li> <li>▶ Fees charged by EY analysed into appropriate categories such as statutory audit fees, tax advisory fees, other non-audit service fees</li> <li>▶ A statement of compliance with the Ethical Standard, including any non-EY firms or external experts used in the audit</li> <li>▶ 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</li> <li>▶ Details of any contingent fee arrangements for non-audit services</li> <li>▶ Where EY has determined it is appropriate to apply more restrictive rules than permitted under the Ethical Standard</li> <li>▶ The Audit Committee should also be provided an opportunity to discuss matters affecting auditor independence</li> </ul>	Audit Plan and Audit Results Report




## Appendix B

# Required communications with the Audit Committee (continued)

		 Our Reporting to you
Required communications	 What is reported?	 When and where
External confirmations	<ul style="list-style-type: none"> <li>▶ Management's refusal for us to request confirmations</li> <li>▶ Inability to obtain relevant and reliable audit evidence from other procedures</li> </ul>	Audit Results Report
Consideration of laws and regulations	<ul style="list-style-type: none"> <li>▶ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off</li> <li>▶ 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</li> </ul>	Audit Results Report
Internal controls	<ul style="list-style-type: none"> <li>▶ Significant deficiencies in internal controls identified during the audit</li> </ul>	Audit Results Report
Group audits	<ul style="list-style-type: none"> <li>▶ An overview of the type of work to be performed on the financial information of the components</li> <li>▶ 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</li> <li>▶ 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</li> <li>▶ Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted</li> <li>▶ 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</li> </ul>	Audit Plan Audit Results Report

## Appendix B

# Required communications with the Audit Committee (continued)

		 Our Reporting to you
Required communications	 What is reported?	 When and where
Representations	Written representations we are requesting from management and/or those charged with governance	Audit Results Report
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit Results Report
Auditors report	<ul style="list-style-type: none"> <li>▶ Key audit matters that we will include in our auditor's report</li> <li>▶ Any circumstances identified that affect the form and content of our auditor's report</li> </ul>	Audit Results Report
Fee Reporting	<ul style="list-style-type: none"> <li>▶ Breakdown of fee information when the audit plan is agreed</li> <li>▶ Breakdown of fee information at the completion of the audit</li> <li>▶ Any non-audit work</li> </ul>	Audit Plan Audit Results Report Annual Audit Letter



## Appendix C

# Additional audit information

### Other required procedures during the course of the audit

In addition to the key areas of audit focus outlined in section 2, we have to perform other procedures as required by auditing, ethical and independence standards and other regulations. We outline the procedures below that we will undertake during the course of our audit.

#### Our responsibilities required by auditing standards

- ▶ Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- ▶ Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group and Council's internal control.
- ▶ Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- ▶ Concluding on the appropriateness of management's use of the going concern basis of accounting.
- ▶ Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- ▶ Obtaining sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group and the Council to express an opinion on the consolidated financial statements. Reading other information contained in the financial statements, that **Audit Committee** reporting appropriately addresses matters communicated by us to the **Audit Committee** and reporting whether it is materially inconsistent with our understanding and the financial statements; and
- ▶ Maintaining auditor independence.

### Purpose and evaluation of materiality

For the purposes of determining whether the accounts are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements. Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We would be happy to discuss with you your expectations regarding our detection of misstatements in the financial statements.

Materiality determines:

- ▶ The locations at which we conduct audit procedures to support the opinion given on the Group financial statements; and
- ▶ The level of work performed on individual account balances and financial statement disclosures.

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all of the circumstances that may ultimately influence our judgement about materiality. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the accounts, including the total effect of the audit misstatements we identify, and our evaluation of materiality at that date.