

Audit Committee Supplementary Agenda

Time: 2pm
Date: Thursday 22 September 2016
Venue: Colman Room, County Hall.

8 Norfolk County Council and Norfolk Pension Fund Audit Results Reports – Audit Committee Summary for the year ended 31 March 2016.

Report by the Executive Director of Finance

Appendices:

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A2 Norfolk Pension Fund Audit Results Report 2015-16.

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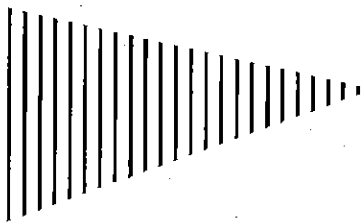
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Norfolk County Council

Audit Results Report - ISA (UK and Ireland) 260
for the year ended 31 March 2016

16 September 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 Audit Results Report is prepared in the context of the Statement of responsibilities. This report is intended solely for the use of the Members of the audited body. 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.

1. Executive summary

The National Audit Office's Code of Audit Practice (the Code) requires us to report to those charged with governance – the Audit Committee – on the work we have carried out to discharge our statutory audit responsibilities together with any governance issues identified. This report summarises the findings from the 2015/16 audit which is substantially complete. It includes messages arising from our audit of your financial statements and the results of the work we have undertaken to assess your arrangements to secure economy, efficiency and effectiveness in your use of resources.

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

Status of the audit

We have substantially completed our audit of the financial statements of Norfolk County Council for the year ended 2015/16.

The following areas of our work programme remain to be completed as of the date of this report:

- completion of disclosure notes concerning financial instruments, capital adjustment account, and capital expenditure and capital financing;
- receipt of component group auditor reporting pack;
- completion of final manager and director review procedures;
- completion of subsequent events review;
- receipt of the signed management representation letter and revised financial statements.

We have performed the procedures outlined in our Audit Plan and subject to satisfactory completion of the outstanding items above anticipate issuing an unqualified opinion on the Authority's financial statements.

We expect to conclude that you have put in place proper arrangements to secure value for money in your use of resources.

We have yet to perform the procedures required by the National Audit Office (NAO) regarding the Whole of Government Accounts (WGA) submission, as the deadline for completion is the 21 October 2016.

Until we have completed these procedures we are unable to certify that we have completed the audit of the accounts in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office. We therefore expect to issue the audit certificate at a later date to the audit opinion.

Audit differences

We have identified one unadjusted audit difference within the draft financial statements, which management have chosen not to adjust. We ask the Audit Committee to consider approving management's rationale as to why these corrections have not been made and, if approved, include this in the Letter of Representation.

Appendix A to this report sets out the uncorrected misstatement. We do not consider this to be material to our audit opinion.

Our audit identified a number of further audit differences which our team have highlighted to management for amendment. These have been corrected during the course of our work and further details are provided at Appendix B. These adjustments have not had an impact on useable reserves.

Scope and materiality

In our audit plan presented at the 21 April 2016 Audit Committee meeting, we communicated that our audit procedures would be performed using a materiality of £13.7 million.

Scope and materiality (continued)

We have reassessed this based on the actual results for the financial year and have increased this amount to £13.95 million. The basis of our assessment is 1% of gross operating expenditure, which has remained consistent with prior years.

The threshold for reporting audit differences which impact the financial statements has increased from £0.689 million to £0.697 million.

We have reassessed group materiality based on the actual results for the financial year and have increased this amount to £15.779 million. For the component locations we applied materiality of £4.7 million to the Norse Group Ltd and £3.1 million to Independence Matters Ltd.

The component reporting limit for audit differences has increased from £0.772 million to £0.788 million.

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

- **Remuneration disclosures including any exit packages and termination benefits:** Reduced materiality level is applied to our testing of disclosures for completeness and accuracy. This is in line with the bandings reported in the accounts;
- **Related party transactions:** Reduced materiality level is applied to testing of disclosures for completeness and accuracy. We also carry out Companies House searches to identify whether any key decision-makers in the Council had undisclosed interests; and
- **Members allowances:** review and test all transactions to supporting evidence and approvals

We carried out our work in accordance with our Audit Plan.

Significant audit risks

We identified the following audit risks during the planning phase of our audit, and reported these to you in our audit plan:

Significant audit risks:

- Pensions valuations and disclosures;
- Norse Group Ltd consolidation;
- Property, plant and equipment valuations;
- Accounting for the Better Care Fund;
- Risk of fraud in revenue recognition; and
- Risk of management override.

Other audit risks

Other audit risks:

- Accounting for schools converting to academy status; and
- Existence of plant and equipment assets.

The 'addressing audit risks' section of this report sets out how we have gained audit assurance over these issues.

Other reporting issues

The audit of property, plant and equipment required significantly more audit time than planned and identified a number of material issues that required adjustment.

The 'addressing audit risks' section of this report provides additional information on the errors identified, and the 'other matters' section of this report reports issues with the supporting records.

Executive summary

Control
observations

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.

Objections

We have received no objections to the 2015/16 accounts from members of the public.

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

Mark Hodgson
Executive Director
For and on behalf of Ernst & Young LLP

2. Responsibilities and purpose of our work

The Council's responsibilities

The Council is responsible for preparing and publishing its Statement of Accounts, accompanied by the Annual Governance Statement (AGS). In the AGS, the Council reports publicly on the extent to which it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in the year, and on any planned changes 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.

Purpose of our work

Our audit was designed to:

- Express an opinion on the 2015/16 financial statements and the consistency of other information published with them;
- Report on an exception basis on the Annual Governance Statement;
- Consider and report any matters that prevent us being satisfied that the Council had put in place proper arrangements for securing economy, efficiency and effectiveness in the use of resources (the value for money conclusion); and
- Discharge our statutory duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

In addition, this report contains our findings related to the areas of audit emphasis and any views on significant deficiencies in internal control or the Council's accounting policies and key judgments.

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

3. Financial statements audit

Addressing audit risks

We identified the following audit risks during the planning phase of our audit, and reported these to you in our Audit Plan. Here, we set out how we have gained audit assurance over those issues.

A significant audit risk in the context of the audit of the financial statements is an inherent risk with both a higher likelihood of occurrence and a higher magnitude of effect should it occur and which requires special audit consideration. For significant risks, we obtain an understanding of the entity's controls relevant to each risk and assess the design and implementation of the relevant controls.

Significant Risks (including fraud risks)	Audit procedures performed	Assurance gained and issues arising
<p>Pensions valuations and disclosures</p> <p>The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding the Local Government Pension Scheme (LGPS) in which it is an admitted body.</p> <p>The Council's current pension fund deficit is a highly material and sensitive item and the Code requires that this liability be disclosed on the Council's Balance Sheet.</p> <p>The information disclosed is based on the IAS19 report issued to the Council by the actuaries to the Norfolk Pension Fund.</p> <p>As part of their actuarial review, councils are being asked to make additional payments to the pensions scheme to fund deficits.</p>	<ul style="list-style-type: none"> • Liaised with the auditors of the Norfolk Pension Fund, to obtain assurances over the information supplied to the actuary in relation to Norfolk County Council; • Assessed the conclusions drawn on the work of the actuary by the Consulting Actuary commissioned by Public Sector Auditor Appointments, PwC; and • Reviewed and tested the accounting entries and disclosures made in relation to IAS19. 	<p>We identified an error in the allocation of pension costs across service headings within the comprehensive income and expenditure statement. Further detail of the adjustment is reported in Appendix B.</p> <p>We have gained sufficient assurance over the pension valuations and disclosures.</p> <p>We have no other matters to report.</p>

Significant Risks (including fraud risks)	Audit procedures performed	Assurance gained and issues arising
<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 will require 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>	<ul style="list-style-type: none"> Assessed the group accounting instructions and consolidation schedules issued to Norse Group Ltd by Norfolk County Council; 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 Ensured that appropriate consolidation procedures were applied when consolidating the Norse Group into the Norfolk County group accounts. 	<p>We have gained sufficient assurance over the consolidation procedures reported in the Group financial statements, but we are waiting for the formal group reporting pack from the component auditors.</p> <p>We have no matters to report.</p>

Significant Risks (including fraud risks)	Audit procedures performed	Assurance gained and issues arising
<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>	<ul style="list-style-type: none"> • 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; • Tested the accounting treatment of valuations made in the year, including the assessment and treatment of impairments; and • Reviewed and tested the Council's application of IFRS13 to ensure the fair value of relevant assets is based on economic best interest. 	<p>We identified the following material errors which are reported in Appendix A and B:</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. • 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.

Significant Risks (including fraud risks)

Better Care Fund

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.

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.

The detailed form of local pooled arrangements is not prescribed and has been agreed locally between partners.

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.

Risk of fraud in revenue recognition

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.

We have rebutted this risk for the Council's income and expenditure streams except for the capitalisation of revenue expenditure on Property, Plant and Equipment given the extent of the Council's capital programme.

Audit procedures performed

- Reviewed the BCF agreements with each of the CCGs and the Council's assessment of the agreements and accounting approach;
- 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
- Tested transactions and disclosures to underlying evidence.

Assurance gained and issues arising

We identified the need for additional disclosures within Note 26 – Pooled Funds for the BCF, these are reported in Appendix B.

We have gained sufficient assurance over the amended BCF disclosures.

- Reviewed and tested revenue and expenditure recognition policies
- Reviewed and discussed with management any accounting estimates on revenue or expenditure recognition for evidence of bias
- Developed a testing strategy to test material revenue and expenditure streams
- Reviewed and tested revenue cut-off at the period end date, and
- Tested the additions to the Property, Plant and Equipment balance to ensure that they are properly classified as capital expenditure.

Our audit procedures have not identified any improper recognition of revenue and expenditure.

We did not identify any matters that we need to bring to your attention.

	Audit procedures performed	Assurance gained and issues arising
Risk of management override <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. We identify and respond to this fraud risk on every audit engagement.</p>	<ul style="list-style-type: none"> Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements Reviewed accounting estimates for evidence of management bias; and Evaluated the business rationale for any significant unusual transactions. 	<p>Our audit work on journals and accounting estimates has not identified any evidence of management bias or significant unusual transactions.</p> <p>We did not identify any matters that we need to bring to your attention.</p>

We also identified the following audit risks during the planning phase of our audit, and reported these to you in our Audit Plan. Here, we set out how we have gained audit assurance over those issues.

Other Risks	Audit procedures performed	Assurance gained and issues arising
Academies <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>	<ul style="list-style-type: none"> Reviewed the arrangements for agreeing with the schools the assets, liabilities and balances for transfer; and Tested how the transfers have been accounted. 	<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>
Existence of plant and equipment assets <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>	<ul style="list-style-type: none"> Reviewed the Council's controls concerning asset verification, and Carried out testing of assets for continuing existence. 	<p>We have gained sufficient assurance over the existence of plant and equipment assets.</p> <p>We have no matters to report.</p>

Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we are required to communicate to you significant findings from the audit and other matters that are significant to your oversight of the Council's financial reporting process, including the following:

- Qualitative aspects of your accounting practices; estimates and disclosures;
- Matters specifically required by other auditing standards to be communicated to those charged with governance. For example, issues about fraud, compliance with laws and regulations, external confirmations and related party transactions;
- Any significant difficulties encountered during the audit; and
- Other audit matters of governance interest.

We have one matter that we wish to report to you.

The audit of Property, Plant and Equipment

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.

In addition, we have highlighted a number of audit adjustments in relation to property, plant and equipment this year. These have been discussed in an earlier section of this report and in Appendix A and B.

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.

Recommendation

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.

We have no other matters we wish to report.

Control themes and observations

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

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:

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

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.

We have reviewed the Annual Governance Statement and can confirm that it is not misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Council.

Request for written representations

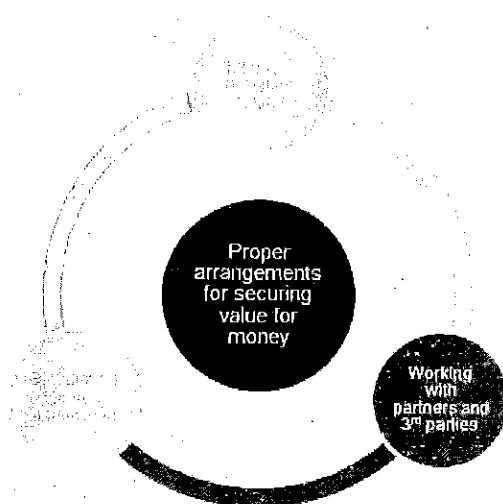
We have requested a management representation letter to gain management's confirmation in relation to a number of matters. We have not requested any specific representations in addition to the standard representations. Our request for such a letter is outlined in Appendix E.

Whole of Government Accounts

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

We are currently concluding our work in this area as the deadline for submission is the 21 October 2016 and will report any matters that arise to the Audit Committee.

4. 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.

Overall conclusion

We identified two significant risks in relation to the Council's arrangements to "ensure it deployed resources to achieve planned and sustainable outcomes for taxpayers and local people" and "take informed decisions" as reported in our audit plan.

We have performed the procedures outlined in our audit plan and the results are set out below. We did not identify any significant weaknesses in the Council's arrangements.

We therefore expect to conclude that you have put in place proper arrangements to secure value for money in your use of resources.

Significant risks

The table below presents the findings of our work in response to the risk area set out in our audit plan.

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"

**VFM risk identified
within our audit plan**
Impacts arrangements for:
Key findings
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.

- Deploying resources in a sustainable manner.

- 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.

**VFM risk identified
within our audit plan**
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.

Impacts arrangements for:

- Informed decision making.

Key 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.'

Appendix A – Uncorrected audit differences

The following differences, which are greater than £0.697 million, have been identified during the course of our audit and have not been considered material by management or by us for adjustments. We are bringing them to the Committee's attention to enable you to form your own view on these items.

Balance sheet and Statement of comprehensive income and expenditure

Item of account	Balance sheet (Decrease) / Increase £000	Comprehensive income and expenditure statement (Decrease) / Increase £000
CIES - Statement of comprehensive income and expenditure – Cost of Services		1,210
BS - Property, Plant and Equipment	(1,210)	
Movement in Reserves Statement – Adjustments between accounting basis and funding basis		(1,210)
BS - Capital Adjustment Account	1,210	

IAS 16, *Property, Plant and Equipment*, sets out the criteria for recognising, valuing and depreciating non-current assets. The standard requires the various components of an asset to be identified and depreciated separately if they have differing patterns of benefits and are significant relative to the total cost of the item. In 2013/14 the Council revised its accounting policy to set a de-minimis level for componentising assets at £1.2 million on the gross book value of buildings.

The Council have incorrectly added the valuation movements for components to the main building asset. As the components have a lower useful existing life compared to the main building asset, depreciation charges are understated. This error has occurred since the Council's componentisation policy was revised in 2013/14. The value of the error has been calculated based on relevant revaluations since 2013/14, adjusted for assets that have transferred to Academy status in the period.

Cumulative effect of unadjusted differences	0	0
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Appendix B – Corrected audit differences

The following corrected differences, which are greater than £0.697 million, have been identified during the course of our audit and warrant communicating to you.

These items have been corrected by management within the revised financial statements.

Balance sheet and Statement of comprehensive income and expenditure

Item of account	Balance sheet (Decrease) / Increase £000	Comprehensive income and expenditure statement (Decrease) / Increase £000
BS - Property, Plant and Equipment - Land and Buildings	5,342	-
BS - Property, Plant and Equipment – Vehicles, Plant and Equipment	2,781	-
BS - Property, Plant and Equipment – Infrastructure Assets	50,375	-
BS - Property, Plant and Equipment – Assets under construction	(58,498)	-
To restate capital expenditure on operational assets that were incorrectly shown as additions to "Assets under Construction".		
CIES - Children's and education services	-	(52,331)
CIES - Other operating expenditure gains/losses on disposal of non-current assets	-	52,331
To restate the assets transferred to Academies as a loss on disposal of a non-current asset. This adjustment also impacted Note 7 - Adjustments between accounting basis and funding basis under regulations, Note 12 Property, Plant and Equipment and Note 33 Capital Expenditure and Capital Financing.		
CIES - Adult Social Care	-	3,707
CIES - Highways & Transport Services	-	1,022
CIES - Other services	-	1,931
CIES - Children's & Education	-	(6,660)
To restate the allocation of retirement benefits (IAS19 pension costs) across service headings.		
Cumulative effect of unadjusted differences	0	0

Disclosures

Disclosure	Description of difference
Balance sheet – Short Term Creditors, Capital Grants Received in Advance, Usable Reserves	<p>The Council put through a prior year adjustment within the draft financial statements to correct an anomaly that it found. The Council amended prior year entries for Short Term Creditors (£0.05), Capital Grants Received in Advance (£0.2 million), and Useable Reserves (£0.15 million) to be consistent with the 2015/16 audited Statement of Accounts.</p> <p>Prior Period Adjustments can only be made where they meet the criteria of IAS 8 – “<i>Accounting Policies, Changes in Accounting Estimates and Errors</i>”. The standard states that “an entity shall correct material prior period errors retrospectively in the first set of financial statements authorised for issue after their discovery”.</p> <p>The amounts that were amended were not material and therefore do not meet the criteria for a prior period error.</p> <p>This change also effected the Movement in Reserves Statement, Note 7 - Adjustments between Accounting Basis and Funding Basis Under Regulations, Note 11 - Taxation and Non Specific Grant Income, and Note 19 - Creditors.</p>
Note 14 - Investment properties	Additional disclosure added to explain large transfer of investment properties to property, plant and equipment during the year.
Note 26 - Pooled Funds	<p>Amended disclosure to report joint arrangements under two sub headings, pooled funds and better care fund.</p> <p>Additional information added to the better care fund disclosure to show source of income and payments made.</p>
Other Notes Notes 14, 28, 29, 32, 35.	Amended for typographical errors and to ensure consistency with other notes or primary statements.

Appendix C – Independence

We confirm there are no changes in our assessment of independence since our confirmation in our Audit Plan dated 21 April 2016.

We complied with the Auditing Practices Board's Ethical Standards for Auditors and the requirements of the Public Sector Audit Appointments Ltd (PSAA)'s Terms of Appointment. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We confirm that we are not aware of any relationships that may affect the independence and objectivity of the firm that we are required by auditing and ethical standards to report to you.

We consider that our independence in this context is a matter that should be reviewed by both you and ourselves. It is therefore important that you consider the facts of which you are aware and come to a view. If you wish to discuss any matters concerning our independence, we will be pleased to do so at the forthcoming meeting of the Audit Committee on 22 September 2016.

We confirm that we have met the reporting requirements to the Audit Committee, as 'those charged with governance' under International Standards on Auditing (UK and Ireland) 260 – Communication with those charged with governance. Our communication plan to meet these requirements was set out in our Audit Plan of 21 April 2016.

Appendix D – Auditor fees

The table below sets out the scale fee and our final proposed audit fees.

Description	Proposed final Fee 2015/16 £'s	Scale Fee 2015/16 £'s	Comments
Total Audit Fee – Code work (Note 1)	To be confirmed	127,762	Note 1
Non-audit work (Note 2)	To be confirmed	14,900	Relates to Teachers Pensions claim and Local Transport Plan Major Project return

The scale 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.

Note 1 - Audit Fee – Code work. We need to review our costs once we have completed the outstanding procedures before reporting formally agreeing the final fee with you within our Annual Audit Letter.

We have undertaken a review of the Council's approach to the Minimum Revenue Provision. This additional work has an additional fee of £2,856 and is currently subject to approval by Public Sector Audit Appointments Ltd (PSAA).

Note 2 – We have not commenced our work in this area. We will report the results of our work and the final fee with you in our Annual Audit Letter.

Appendix E – Request for a Management representation letter



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Simon George
Executive Director of Finance
Norfolk County Council
County Hall
Martineau Lane
Norwich
Norfolk NR1 2DH

16 September 2016

Ref:
Your ref:
Direct line: 01223 394547
Email: M.Hodgson@ncc.norfolk.gov.uk

Dear Simon,

Norfolk County Council – 2015/16 financial year Request for a letter of representation

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

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

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

General statement

That the letter of representations is provided in connection with our audit of the consolidated and council financial statements of Norfolk County Council ("the Group and Council") for the year ended 31 March 2016. That you recognise that obtaining representations from you concerning the information contained in this letter is a significant procedure in enabling us to form an opinion as to whether the financial statements give a true and fair view of the Group and Council financial position of Norfolk County Council as of 31 March 2016 and of its income and expenditure for the year then ended in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.



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

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

A. Financial Statements and Financial Records

1. That you have fulfilled your responsibilities, under the relevant statutory authorities, for the preparation of the Group and Council financial statements in accordance with the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.
2. That you acknowledge your responsibility for the fair presentation of the Group and Council financial statements. You believe the Group and Council financial statements referred to above give a true and fair view of the financial position, financial performance and cash flows of the Group and Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 and are free of material misstatements, including omissions. You have approved the Group and Council financial statements.
3. You confirm that the Responsible Officer has:
 - Reviewed the accounts
 - Reviewed all relevant written assurances relating to the accounts, and
 - Made other enquiries as appropriate.
4. That the significant accounting policies adopted in the preparation of the Group and Council financial statements are appropriately described in the financial statements.
5. As members of management of the Group and Council, we believe that the Group and Council has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16, that are free from material misstatement, whether due to fraud or error
6. You believe that the effects of any unadjusted audit differences, summarised in Appendix 1, accumulated by us during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. Please specify the reasons for not correcting these misstatements.



B. Fraud

1. You acknowledge that you are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud
2. You have disclosed to us the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
3. That you have no knowledge of any fraud or suspected fraud involving management or other employees who have a significant role in the Group or Council internal controls over financial reporting. In addition, you have no knowledge of any fraud or suspected fraud involving other employees in which the fraud could have a material effect on the consolidated and council financial statements. You have no knowledge of any allegations of financial improprieties, including fraud or suspected fraud, (regardless of the source or form and including without limitation, any allegations by "whistleblowers") which could result in a misstatement of the financial statements or otherwise affect the financial reporting of the Group or Council.

C. Compliance with Laws and Regulations

1. You have disclosed to us all known actual or suspected non-compliance with laws and regulations whose effects should be considered when preparing the consolidated and council financial statements.

D. Information Provided and Completeness of Information and Transactions

1. You have provided us with:
 - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters as agreed in terms of the audit engagement.
 - Additional information that we have requested from us for the purpose of the audit; and
 - Unrestricted access to persons within the entity from whom we determined it necessary to obtain audit evidence.
2. That all material transactions have been recorded in the accounting records and are reflected in the financial statements.
3. That you have made available to us all minutes of the meetings of the Council and its relevant committees (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meeting on the following date: 22 September 2016.
4. That you confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Group and Council related parties and all related party relationships and transactions of which you are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary



transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the consolidated and council financial statements.

5. That you believe that the significant assumptions you used in making accounting estimates, including those measured at fair value, are reasonable.
6. That you have disclosed to us, and the Group and Council has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

E. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to us and are appropriately reflected in the financial statements.
2. That you have informed us of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
3. That you have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent, and have disclosed in the financial statements all guarantees that you have given to third parties.

F. Subsequent Events

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

G. Accounting Estimates

1. That you believe that the significant assumptions you used in making accounting estimates, including those measured at fair value, are reasonable.
2. In respect of accounting estimates recognised or disclosed in the financial statements:
 - That you believe the measurement processes, including related assumptions and models, you used in determining accounting estimates is appropriate and the application of these processes is consistent.
 - That the disclosures relating to accounting estimates are complete and appropriate in accordance with the applicable financial reporting framework.
 - That the assumptions you used in making accounting estimates appropriately reflects your intent and ability to carry out specific courses of action on behalf of the entity, where relevant to the accounting estimates and disclosures.
 - That no subsequent event requires an adjustment to the accounting estimates and disclosures included in the financial statements.



H. Segmental reporting

1. That you have reviewed the operating segments reported internally to the Council and that you are satisfied that it is appropriate to aggregate these as, in accordance with IFRS 8: Operating Segments, they are similar in each of the following respects:

- The nature of the products and services
- The nature of the production processes
- The type or class of customer for their products and services
- The methods used to distribute their products

I. Going Concern

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

J. Retirement Benefits

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

K. Use of management experts

1. That you agree with the findings of the experts engaged to evaluate the values of the Council's land and buildings and have adequately considered the qualifications of the experts in determining the amounts and disclosures included within the Council's financial statements and the underlying accounting records. That you did not give or cause any instructions to be given to the experts with respect to the values or amounts derived in an attempt to bias their work, and that you are not otherwise aware of any matters that have had an effect on the independence or objectivity of the experts.

L. Group Audits

1. Necessary adjustments have been made to eliminate all material intra-group transactions amongst parent, subsidiary undertakings and associated undertakings.



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M. Specific Representations

We do not require any specific representations in addition to those above.

I would be grateful if you could provide a letter of representation, which is appropriately signed and dated (by the s151 officer and Chair of Audit Committee) on the proposed audit opinion date (27 September 2018) on formal headed paper.

Yours sincerely

Mark Hodgson
Executive Director
Ernst & Young LLP
United Kingdom



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Appendix 1 – Unadjusted errors

	Balance sheet (Decrease) / Increase £000	Comprehensive income and expenditure statement (Decrease) / Increase £000
CIES - Statement of comprehensive income and expenditure – Cost of Services		1,210
BS - Property, Plant and Equipment	(1,210)	
Movement in Reserves Statement – Adjustments between accounting basis and funding basis		(1,210)
BS - Capital Adjustment Account	1,210	
<p>IAS 16, Property, Plant and Equipment, sets out the criteria for recognising, valuing and depreciating non-current assets. The standard requires the various components of an asset to be identified and depreciated separately if they have differing patterns of benefits and are significant relative to the total cost of the item. In 2013/14 the Council revised its accounting policy to set a de-minimis level for componentising assets at £1.2 million on the gross book value of buildings.</p> <p>The Council have incorrectly added the valuation movements for components to the main building asset. As the components have a lower useful existing life compared to the main building asset, depreciation charges are understated. This error has occurred since the Council's componentisation policy was revised in 2013/14. The value of the error has been calculated based on relevant revaluations since 2013/14, adjusted for assets that have transferred to Academy status in the period.</p>		

Appendix F – Required communications with the audit committee

There are certain communications that we must provide to the Audit Committee of UK clients. These are detailed here:

Required communication	Reference
Planning and audit approach Communication of the planned scope and timing of the audit, including any limitations.	Audit Plan
Significant findings from the audit <ul style="list-style-type: none"> ▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ Significant difficulties, if any, encountered during the audit ▶ Significant matters, if any, arising from the audit that were discussed with management ▶ Written representations that we are seeking ▶ Expected modifications to the audit report ▶ Other matters if any, significant to the oversight of the financial reporting process 	Audit Results Report
Going concern Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: <ul style="list-style-type: none"> ▶ Whether the events or conditions constitute a material uncertainty ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The adequacy of related disclosures in the financial statements 	No conditions or events were identified, either individually or in aggregate, that indicated there could be doubt about Norfolk County Council's ability to continue as a going concern for the 12 months from the date of our report.
Misstatements <ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ In writing, corrected misstatements that are significant 	Audit Results Report
Fraud <ul style="list-style-type: none"> ▶ Enquiries of the audit committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▶ A discussion of any other matters related to fraud 	We have made enquiries of management. We have not become aware of any fraud or illegal acts during our audit.
Related parties Significant matters arising during the audit in connection with the entity's related parties including, when applicable: <ul style="list-style-type: none"> ▶ Non-disclosure by management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures ▶ Non-compliance with laws and regulations ▶ Difficulty in identifying the party that ultimately controls the entity 	We have not matters we wish to report.

Required communication	Reference
External confirmations <ul style="list-style-type: none"> ▶ Management's refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures 	We have received all requested confirmations.
Consideration of laws and regulations <ul style="list-style-type: none"> ▶ 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 ▶ Enquiry of the audit committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of 	We have not identified any material instances of non-compliance with laws and regulations.
Independence <p>Communication of all significant facts and matters that bear on EY's 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"> ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information about the general policies and process within the firm to maintain objectivity and independence 	Audit Plan and Audit Results Report
Significant deficiencies in internal controls identified during the audit	Audit Results Report
Fee Information <ul style="list-style-type: none"> ▶ Breakdown of fee information at the agreement of the initial audit plan ▶ Breakdown of fee information at the completion of the audit 	Audit Plan Audit Results Report Annual Audit Letter if considered necessary

EY | Assurance | Tax | Transactions | Advisory

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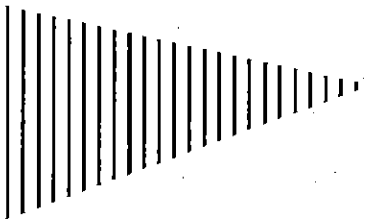
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Norfolk Pension Fund

Audit Results Report - ISA (UK and Ireland) 260
for the year ended 31 March 2016

August 2016

Ernst & Young LLP



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Contents

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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 Audit Results Report is prepared in the context of the Statement of responsibilities. This report is intended solely for the use of the Members of the audited body. 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.

1. Executive summary

The National Audit Office's Code of Audit Practice (the Code) requires us to report to those charged with governance – the Norfolk County Council Audit Committee – on the work we have carried out to discharge our statutory audit responsibilities together with any governance issues identified. This report summarises the findings from the 2015/16 audit which is substantially complete. It includes messages arising from our audit of your financial statements and the results of the work we have undertaken to assess consistency of the financial statements within the pension fund annual report.

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

Status of the audit	<p>We have substantially completed our audit of the financial statements of Norfolk Pension Fund for the year ended 2015/16. Subject to satisfactory completion of the following outstanding items we will issue an audit opinion in the form which appears in Appendix C:</p> <ul style="list-style-type: none"> • review of year end pooled property statements • review of the final version of the financial statements and completion of audit closing procedures • review the annual report for consistency with the financial statements • completion of subsequent events review • receipt of the signed management representation letter <p>We have performed the procedures outlined in our Audit Plan and anticipate issuing an unqualified opinion on the Authority's financial statements.</p>
Audit differences	<p>There are no unadjusted or adjusted audit differences.</p> <p>During the course of our audit we identified a small number of minor disclosure issues for which management amended the financial statements. None of these are considered significant enough to warrant reporting to Members.</p>
Scope and materiality	<p>In our audit plan presented at the 16 June 2016 Norfolk County Council Audit Committee meeting, we communicated that our audit procedures would be performed using a materiality of £28.3m. This was based on interim results. We have reassessed this based on the actual results for the financial year and we have increased this amount to £29m due to net assets being higher at the year end. The basis of our assessment is 1% of net assets, which has remained consistent with prior years.</p> <p>The threshold for reporting audit differences which impact the financial statements has not changed from £1.4m.</p> <p>We also identified related party transactions as area where misstatement at a level lower than our overall materiality level might influence the reader. For this area we developed an audit strategy specific to the area. We carried out our work in accordance with our Audit Plan.</p>
Significant audit risks	<p>We identified the following audit risks during the planning phase of our audit, and reported these to you in our audit plan:</p> <ul style="list-style-type: none"> • Risk of management override. • Valuation of complex investments (Unquoted investments). <p>The 'addressing audit risks' section of this report sets out how we have</p>

Executive summary

gained audit assurance over those issues.

Other reporting
issues

We have no other matters we wish to report

Control
observations

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.

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

Tessa Gilbert
Executive Director
For and on behalf of Ernst & Young LLP

2. Responsibilities and purpose of our work

The Fund's responsibilities

The Fund is responsible for preparing and publishing its Statement of Accounts.

The Fund is also responsible for preparing and publishing its Pension Fund Annual Report; incorporating its Statement of Accounts.

Purpose of our work

Our audit was designed to:

- Express an opinion on the 2015/16 financial statements
- Report on whether information in the Annual Report is consistent with the financial statements

In addition, this report contains our findings related to the areas of audit emphasis and any views on significant deficiencies in internal control or the Fund's accounting policies and key judgments.

This report is intended solely for the information and use of the Fund. It is not intended to be and should not be used by anyone other than the specified party.

3. Financial statements audit

Addressing audit risks

We identified the following audit risks during the planning phase of our audit, and reported these to you in our Audit Plan. Here, we set out how we have gained audit assurance over those issues.

A significant audit risk in the context of the audit of the financial statements is an inherent risk with both a higher likelihood of occurrence and a higher magnitude of effect should it occur and which requires special audit consideration. For significant risks, we obtain an understanding of the entity's controls relevant to each risk and assess the design and implementation of the relevant controls.

Significant Risks (including fraud risks)	Audit procedures performed	Assurance gained and issues arising
Risk of management override 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.	<ul style="list-style-type: none"> Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements Reviewed accounting estimates for evidence of management bias; and Evaluated the business rationale for any significant unusual transactions. 	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.

Other Risks	Audit procedures performed	Assurance gained and issues arising
<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. Judgements 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 judgement 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>	<ul style="list-style-type: none"> Assessed the competence of management experts Reviewed the basis of valuation for property investments and other unquoted investments and assessed the appropriateness of the valuation methods used Reviewed the latest audited accounts for the relevant fund managers, ensuring there are no matters arising that highlight weaknesses in the funds valuation; and Performed analytical procedures and checked the valuation output for reasonableness against our own expectations. 	<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>

Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we are required to communicate to you significant findings from the audit and other matters that are significant to your oversight of Fund's financial reporting process, including the following:

- Qualitative aspects of your accounting practices; estimates and disclosures;
- Matters specifically required by other auditing standards to be communicated to those charged with governance. For example, issues about fraud, compliance with laws and regulations, external confirmations and related party transactions;
- Any significant difficulties encountered during the audit; and
- Other audit matters of governance interest

We have no matters we wish to report.

Control themes and observations

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

We have tested the controls of the Fund only to the extent necessary for us to complete our audit. We are not expressing an opinion on the overall effectiveness of internal control.

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

Request for written representations

We have requested a management representation letter to gain management's confirmation in relation to a number of matters, as outlined in Appendix D. We are not requesting any specific representations over and above the standard ones.

Appendix A – Independence

We confirm there are no changes in our assessment of independence since our confirmation in our Audit Plan dated 6 June 2016.

We complied with the Auditing Practices Board's Ethical Standards for Auditors and the requirements of the Public Sector Audit Appointments Ltd (PSAA)'s Terms of Appointment. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We confirm that we are not aware of any relationships that may affect the independence and objectivity of the firm that we are required by auditing and ethical standards to report to you.

We consider that our independence in this context is a matter that should be reviewed by both you and ourselves. It is therefore important that you consider the facts of which you are aware and come to a view. If you wish to discuss any matters concerning our independence, we will be pleased to do so at the forthcoming meeting of the Audit Committee on 22 September 2016.

We confirm that we have met the reporting requirements to the Audit Committee, as 'those charged with governance' under International Standards on Auditing (UK and Ireland) 260 – Communication with those charged with governance. Our communication plan to meet these requirements was set out in our Audit Plan of 6 June 2016.

Appendix B – Auditor fees

The table below sets out the scale fee and our final proposed audit fees.

Description	Proposed final Fee 2015/16 £	Scale Fee 2015/16 £
Total Audit Fee – Code work	27,099	27,099

Our actual fee is in line with the scale fee set by the PSAA at this point in time, subject to satisfactory clearance of the outstanding work.

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

Appendix C – Draft audit report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF NORFOLK PENSION FUND

Opinion on the pension fund financial statements

We have audited the pension fund financial statements for the year ended 31 March 2016 under the Local Audit and Accountability Act 2014. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes 1 to 26. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

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

Respective responsibilities of the Executive Director of Finance and auditor

As explained more fully in the Statement of the Executive Director of Finance's Responsibilities set out on page 2, the Executive Director of Finance is responsible for the preparation of the Authority's Statement of Accounts, which includes the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Executive Director of Finance; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the 2015/16 Statement of Accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the pension fund financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2016 and the amount and disposition of the fund's assets and liabilities as at 31 March 2016; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

Opinion on other matters

In our opinion, the information given in the 2015/16 Statement of Accounts for the financial year for which the financial statements are prepared is consistent with the financial statements.

Tessa Gilbert
for and on behalf of Ernst & Young LLP, Appointed Auditor
Reading

Appendix D – Management representation letter

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

Dear Simon,

Norfolk Pension Fund – 2015/16 financial year Request for a letter of representation

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

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

I have set out in appendix A what I would expect the letter of representation to include.

I would be grateful if you could provide a letter of representation, which is appropriately signed and dated on the proposed audit opinion date, on formal headed paper.

Yours faithfully

Tessa Gilbert
Executive Director
Ernst & Young LLP
United Kingdom

Appendix A – expected contents of letter of representation

[To be prepared on the Pension Fund's letterhead]

[Date]

Ernst & Young

[Address]

This letter of representations is provided in connection with your audit of the financial statements of Norfolk Pension Fund ("the Pension Fund") for the year ended 31 March 2016. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the financial position of the Pension Fund as of 31 March 2016 and of its income and expenditure for the year then ended in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

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

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

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 and for keeping records in respect of contributions received in respect of active members of the Pension Fund and for making accurate representations to you.
2. We confirm that the Pension Fund is a Registered Pension Fund. We are not aware of any reason why the tax status of the Pension Fund should change.
3. We acknowledge, as members of management of the Pension Fund, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position and the financial performance of the Pension Fund in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16. We have approved the financial statements.
4. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
5. As members of management of the Pension Fund, we believe that the Pension Fund has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16, that are free from material misstatement, whether due to fraud or error.

6. There are no unadjusted audit differences identified during the current audit and pertaining to the latest period presented.

B. Fraud

1. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
2. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
3. We have disclosed to you all significant facts relating to any frauds, suspected frauds or allegations of fraud known to us that may have affected the Pension Fund (regardless of the source or form and including, without limitation, allegations by "whistle-blowers"), whether involving management or employees who have significant roles in internal control. Similarly, we have disclosed to you our knowledge of frauds or suspected frauds affecting the entity involving others where the fraud could have a material effect on the financial statements. We have also disclosed to you all information in relation to any allegations of fraud or suspected fraud communicated by employees, former employees, analysts, regulators or others, that could affect the financial statements.

C. Compliance with Laws and Regulations

1. We have disclosed to you all known actual or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.

D. Information Provided and Completeness of Information and Transactions

1. We have provided you with:
 - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters as agreed in terms of the audit engagement.
 - Additional information that you have requested from us for the purpose of the audit; and
 - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. You have been informed of all changes to the Pension Fund rules.
3. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
4. We have made available to you all minutes of the meetings of the Norfolk Pension Fund Committee (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meeting on the following date: [list date].
5. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Pension Fund's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such

parties at the year end. These transactions have been appropriately accounted for and disclosed in the financial statements.

6. We have disclosed to you, and the Pension Fund has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.
7. No transactions have been made which are not in the interests of the Pension Fund members or the Pension Fund during the Scheme years or subsequently.

E. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
3. We have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent.
4. No other claims in connection with litigation have been or are expected to be received.

F. Subsequent Events

1. There have been no events subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

G. Advisory Reports

1. We have not commissioned advisory reports which may affect the conduct of your work in relation to the Pension Fund's financial statements and schedule of contributions/payment schedule.

H. Independence

1. We confirm that no trustee of the Scheme is connected with, or is an associate of, Ernst & Young LLP which would render Ernst & Young LLP ineligible to act as auditor to the Scheme.

I. Derivative Financial Instruments

1. We confirm that all investments in derivative financial instruments have been made after due consideration by the Pension Fund Committee of the limitations in their use imposed by The Occupational Pension Scheme (Investment) Regulations 2005; namely that they contribute to a reduction in scheme risk, facilitate efficient portfolio management, and that any such investment has been made so as to avoid excessive risk exposure to a single counterparty and to other derivative operations. The Pension Fund's statement of investment principles has been duly reviewed to ensure that such investments comply with any limitations imposed by its provisions.
2. The financial statements disclose all transactions in derivative financial instruments that have been entered into during the period, those still held by the trustees at the scheme year end and the terms and conditions relating thereto.
3. The trustees have duly considered and deemed as appropriate the assumptions and

methodologies used in the valuation of 'over the counter' derivative financial instruments which the Pension Fund is holding, and these have been communicated to you.

J. Actuarial valuation

1. The latest report of the actuary Hymans Robertson as at 31 March 2013 has been provided to you. To the best of our knowledge and belief we confirm that the information supplied by us to the actuary was true and that no significant information was omitted which may have a bearing on his/her report.

K. Accounting Estimates

1. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
2. In respect of accounting estimates recognised or disclosed in the financial statements:
 - We believe the measurement processes, including related assumptions and models, we used in determining accounting estimates is appropriate and the application of these processes is consistent.
 - We confirm that the disclosures relating to accounting estimates are complete and appropriate in accordance with the applicable financial reporting framework.
 - We confirm the significant assumptions used in making accounting estimates appropriately reflects our intent and ability to carry out specific courses of action on behalf of the entity, where relevant to the accounting estimates and disclosures.
 - We confirm that no adjustments are required to the accounting estimates and disclosures in the financial statements due to subsequent events.

L. Investment managers' control reports ISAE 3402

1. The latest reports available do not cover the whole of the 2015/16 audit year. We confirm we are not aware of any issues at the respective investment managers that indicate a reduction in control procedures.

Yours faithfully,

(Executive Director of Finance)

(Chairman of the Pension Committee)

Appendix E – Required communications with the audit committee

There are certain communications that we must provide to the Audit Committee of UK clients. These are detailed here:

Required communication	Reference
Planning and audit approach Communication of the planned scope and timing of the audit, including any limitations.	Audit Plan
Significant findings from the audit <ul style="list-style-type: none"> ▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ Significant difficulties, if any, encountered during the audit ▶ Significant matters, if any, arising from the audit that were discussed with management ▶ Written representations that we are seeking ▶ Expected modifications to the audit report ▶ Other matters if any, significant to the oversight of the financial reporting process 	Audit Results Report
Going concern Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: <ul style="list-style-type: none"> ▶ Whether the events or conditions constitute a material uncertainty ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The adequacy of related disclosures in the financial statements 	No conditions or events were identified, either individually or in aggregate, that indicated there could be doubt about Norfolk Pension Fund's ability to continue as a going concern for the 12 months from the date of our report.
Misstatements <ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ In writing, corrected misstatements that are significant 	Audit Results Report
Fraud <ul style="list-style-type: none"> ▶ Enquiries of the audit committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▶ A discussion of any other matters related to fraud 	We have made enquiries of management. We have not become aware of any fraud or illegal acts during our audit.
Related parties Significant matters arising during the audit in connection with the entity's related parties including, when applicable: <ul style="list-style-type: none"> ▶ Non-disclosure by management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures ▶ Non-compliance with laws and regulations ▶ Difficulty in identifying the party that ultimately controls the entity 	We have no matters we wish to report.

Required communication	Reference
External confirmations <ul style="list-style-type: none"> ▶ Management's refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures 	We have received all requested confirmations.
Consideration of laws and regulations <ul style="list-style-type: none"> ▶ 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 ▶ Enquiry of the audit committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of 	We have not identified any material instances of non-compliance with laws and regulations.
Independence Communication of all significant facts and matters that bear on EY's objectivity and independence Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: <ul style="list-style-type: none"> ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information about the general policies and process within the firm to maintain objectivity and independence 	Audit Plan and Audit Results Report
Significant deficiencies in internal controls identified during the audit	Annual Audit Letter/Audit Results Report
Fee Information <ul style="list-style-type: none"> ▶ Breakdown of fee information at the agreement of the initial audit plan ▶ Breakdown of fee information at the completion of the audit 	Audit Plan Audit Results Report

EY | Assurance | Tax | Transactions | Advisory

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