

**Norfolk County Council
Audit results report**

Year ended 31 March 2017



Building a better
working world



Dear Audit Committee Members

12 September 2017

We have substantially completed our audit of Norfolk County Council (the Council) for the year ended 31 March 2017.

Subject to concluding the outstanding matters listed in our report, we confirm that we expect to issue an unqualified audit opinion on the financial statements in the form in Section 3, before the statutory deadline of 30 September 2017.

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

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

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

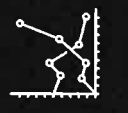
We look forward to discussing with you any aspects of this report or any other issues arising from our work.

Yours faithfully

Mark Hodgson
Executive Director

For and on behalf of Ernst & Young LLP
United Kingdom

Contents

01 Executive Summary	02 Areas of Audit Focus	03 Audit Report	04 Audit Differences	05 Value for Money	06 Other Reporting Issues	07 Assessment of Control Environment	08 Appendices
							

In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued "Statement of responsibilities of auditors and audited bodies", it is available from the via the PSAA website (www.PSAA.co.uk). The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The "Terms of Appointment (updated September 2015)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.. This report is made solely to the Audit Committee, other members of the Authority and management of Norfolk County Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit Committee, other members of the Authority and management of Norfolk County Council for this report or for the opinions we have formed. It should not be provided to any third-party without obtaining our written consent.



01 Executive Summary



Executive Summary

Overview of the audit

Scope and materiality

In our Audit Plan presented to your Audit Committee meeting on the 15 June 2017, we gave you an overview of how we intended to carry out our responsibilities as your auditor. We carried out our audit in accordance with this plan.

We planned our procedures using a materiality of £13.4 million (for group this was £15.3 million). We reassessed this using the actual results for the financial year, which has increased this amount to £14.5 million (for group this was £16.1 million). The threshold for reporting audit differences has increased from £0.672 million to £0.726 million (for group this has increased from £0.764 million to £0.807 million). The basis of our assessment is 1% of gross operating expenditure, which has remained consistent with prior years.

We also identified areas where misstatement at a lower level than materiality might influence the reader and developed a specific audit strategy for them. They include:

- ▶ Fire Pension Scheme - We have adopted a smaller materiality of 1% of benefits payable to reflect the differing nature of the Pension Scheme. We have applied a materiality of £71,750 with a reporting threshold for audit differences of £3,588.
- ▶ 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 - The accounting standard requires us to consider the disclosure from the point of materiality to either side of the transaction. We have therefore considered the nature of the relationship in applying materiality; and
- ▶ Members' allowances - As these disclosures are considered to be of interest to users of the accounts we have adopted judgement in ensuring that we have tested the disclosures in sufficient detail to ensure they are correctly disclosed.



Executive Summary

Status of the audit

We have substantially completed our audit of Norfolk County Council's financial statements for the year ended 31 March 2017 and have performed the procedures outlined in our Audit plan. Subject to satisfactory completion of the following outstanding items (outstanding as of 12 September 2017) we expect to issue an unqualified opinion on the Council's financial statements in the form which appears at Section 3 - Audit Report. However until work is complete, further amendments may arise:

- ▶ Receipt of group reporting pack from the external auditors to Norse and review of the work performed by the external auditors to Norse to inform their group reporting pack;
- ▶ Complete our testing on the WGA return;
- ▶ Final Director and Manager review of the completed audit work;
- ▶ Review of the final version of the financial statements;
- ▶ Completion of subsequent events review; and
- ▶ Receipt of the signed accounts and management representation letter.

We expect to issue the audit certificate at the same time as the audit opinion.



Executive Summary

Executive summary (continued)

Audit differences

There are no unadjusted audit differences arising from our audit.

We have identified a limited number of adjustments which have been corrected by management in the revised financial statements subject to approval. These are set out in Section 4.

We also identified a limited number of minor disclosure adjustments which have also been corrected by management. The more significant of these are set out in Section 4.

Areas of audit focus

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

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

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

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

Value for money

We have considered your arrangements to take informed decisions; deploy resources in a sustainable manner; and work with partners and other third parties.

In our Audit Plan we identified one significant risk concerning sustainable resource deployment and the achievement of savings needed over the medium term.

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



Executive Summary

Executive summary (continued)

Other reporting issues

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

Alongside our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of our review, and the nature of our report, is specified by the National Audit Office. We are yet to complete our work on the Whole of Government Accounts (WGA) return. We are currently scheduled to complete this work prior to 30 September 2017. Once completed we will report any matters arising to the Audit Committee, if required.

We have no other matters to report.

Control observations

In accordance with our Audit Plan we have tested the key financial controls within the Accounts Receivable, Accounts Payable, Payroll and LMS Schools financial systems. We have been able to place reliance on the general IT controls supporting these financial systems. We have identified one control weakness concerning the Accounts Payable financial system.

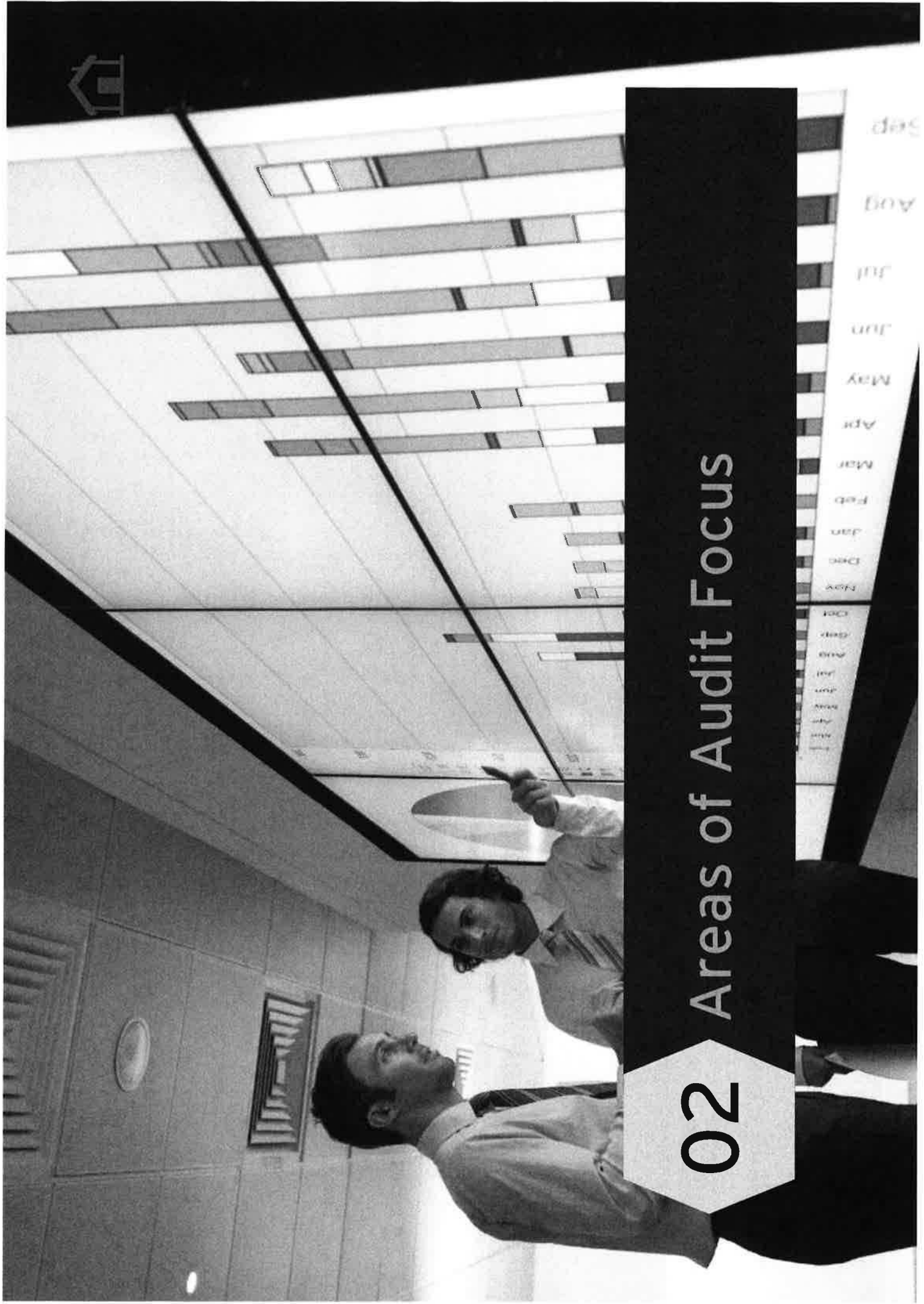
Details of the weakness are set out in section 7. We undertook additional procedures to mitigate the impact of the weakness on our audit strategy.

During the completion of our audit 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 and which is unknown to you.

Independence

Please refer to Appendix B for our update on Independence. We have no independence issues to bring to your attention.





02

Areas of Audit Focus

Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec



Areas of Audit Focus

Audit issues and approach: Significant risks (including fraud risks)

Risk of fraud in revenue recognition

What is the risk?

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.

Significant Risk

What are our conclusions?

We have not identified any material weaknesses in the recognition of revenue.

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

What did we do?

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

- ▶ Reviewed and tested revenue and expenditure recognition policies;
- ▶ Challenged management on the accounting estimates for depreciation, provisions, PPE valuations and accruals;
- ▶ Tested material revenue and expenditure streams;
- ▶ Reviewed and tested revenue cut-off at the period end date; and
- ▶ Tested a sample of the additions to the Property, Plant and Equipment balance to ensure that they are properly classified as capital in nature.



Areas of Audit Focus

Audit issues and approach: Significant risks (including fraud risks)

Management override

What is the risk?

Risk of management override

As identified in ISA 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and to prepare fraudulent financial statements by overriding controls that otherwise seem to be operating effectively.

What are our conclusions?

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

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

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

We identify and respond to this fraud risk on every audit engagement.

Significant Risk

What did we do?

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

- ▶ Testing the appropriateness of journal entries recorded in the general ledger (using our data analytics tool) and other adjustments made in preparing the financial statements;
- ▶ Reviewing significant accounting estimates (e.g. valuations of property, plant and equipment and pensions) for evidence of management bias including a review of the methodology used to calculate the estimates at the year-end; and
- ▶ Evaluating the business rationale for significant unusual transactions.



Areas of Audit Focus

Audit issues and approach: Management Override of Controls



Management Override - Further details on procedures / work performed

In undertaking our work on management override of controls we have considered the balances included in the Council's financial statements that are the most susceptible to judgement or estimation techniques. Due to their significance on the financial statements we have included these estimates as higher inherent risk in our audit strategy and include a separate section to report on this below. The key estimates are considered to be:

- ▶ The valuation of property, plant and equipment.
- ▶ Valuation of pension liabilities.

Specifically in relation to other liabilities we consider that accruals are low risk as the majority are based on known values/invoices. As such we have focused our work on provisions.

The provisions balance in the financial statements is £25.673 million at 31 March 2017 (£27.391 million at 31 March 2016). The majority of this balance is:

- ▶ **Insurance Provision** (£10.665 million) which is required to meet the uncovered element of insurance claims (for example policy excesses or claims below a threshold which are wholly funded by the Council). We have reviewed and considered the reasonableness of the calculation for the provision. We have reviewed the work of management's expert and carried out procedures to place reliance on the expert.
- ▶ **Landfill Provision** (£11.073 million) which represents the discounted cost of making adequate provision for the monitoring and maintenance of closed landfill sites in accordance with guidance issued by the Environment Agency. We have reviewed and considered the reasonableness of the calculation of the provision. We have performed a high level review of the calculation with no issues noted. Management assumptions are considered to be reasonable.

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



Areas of Audit Focus

Other audit issues and approach



Academies

As set out in our audit plan, a number of schools have continued to convert to academy status since 2015/16. This has implications for the treatment of the schools' property, plant and equipment (PPE), debtors, creditors, cash, balances and income (including dedicated schools grant) and expenditure within the Council's accounts. Due to the size of the Authority's PPE balance we have focussed our work on this area. There is a risk that these schools' transactions and balances may be either incorrectly included or omitted.

In completing our audit procedures we have reviewed the arrangements for agreeing Schools assets, liabilities and balances for transfer and reviewed how they have been accounted for. This has also included reconciling the Schools that have converted to academies during the year to the various systems including those that have been disposed of in the Fixed Asset Register during the year. The remainder of the areas (Debtors, creditors, cash, income and expenditure) are lower risk and have been considered in our movement analysis on the financial statement balances. We have not identified any exceptions in the completion of our audit work.



Pension Assets and Liabilities – IAS19

The Council operates a defined benefits pension scheme. Accounting for this scheme involves significant estimation and judgement. 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. The Council's current pension fund deficit is a material and sensitive item and the Code requires that this net liability be disclosed on the Council's balance sheet. At 31 March 2017 this totalled £861.326 million (£585.246 million at 31 March 2016).

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

Our approach has focused on:

- Liaising with the audit engagement team for Norfolk Pension Fund, to obtain assurances over the information supplied to the actuary in relation to Norfolk County Council;
- Assessing the conclusions drawn on the work and assumptions used by Hymans (the Pension Fund actuary) by using and reviewing the work of the Consulting Actuary commissioned by Public Sector Auditor Appointments for all Local Government sector auditors, PwC; and
- Reviewing and testing the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.

We have assessed and are satisfied with the competency and objectivity of the Council's actuary Hymans Robertson LLP. EY Pensions team and PwC (Consulting Actuary to the NAO) have reviewed the work of the actuaries. Assumptions used by the actuary and adopted by the Council are considered to be generally acceptable.

The sensitivities surrounding these assumptions have been correctly disclosed in Note 6 and 39 to the financial statements.

No issues have been identified in completing our work.



Areas of Audit Focus

Other audit issues arising and approach (continued)



Minimum revenue provision

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

Our approach has focused on:

- ▶ Assessing the conclusions drawn on the work and assumptions used by Capita (the Council's treasury management advisor); and
- ▶ Reviewing and testing the accounting entries and disclosures made within the Council's financial statements in relation to MRP.

We have gained sufficient assurance for the release of the over provision used in 2016/17. We continue to work with officers on the ongoing assessment of MRP and the impact this has over the MTFS. We will conclude this work with officers in 2017/18.



Areas of Audit Focus

Other audit issues arising and approach (continued)



Property, plant and equipment - valuation

Property, plant and equipment (PPE) represent a significant balance in the Council's accounts and this is an area which involves judgemental inputs and estimates.

The Council engages an external expert valuer who applies a number of complex assumptions. Annually, assets are assessed to identify whether there is any indication of impairment. As the Council's asset base is significant, and the outputs from the valuer are subject to estimation, there is a risk fixed assets may be under/overstated or the associated accounting entries incorrectly posted. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

This risk relates to assets that are revalued, being 'Other land and Buildings' and 'Surplus assets'. Vehicles, plant and equipment, infrastructure assets and community assets are held at cost.

Our approach has focused on:

- ▶ Consideration of the work performed by the Council's valuer, Norfolk Property Services (NPS), including the adequacy of the scope of the work performed, professional capabilities and the results of their work;
- ▶ Review and sample testing over the key asset information used by NPS in performing their valuation (e.g. floor plans to support valuations based on price per square meter);
- ▶ Consideration of the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code. We have also considered if there are any specific changes to assets that have occurred and that these have been communicated to the valuer;
- ▶ Review of the desktop review performed by management over assets not subject to valuation in 2016/17 to confirm that the remaining asset base is not materially misstated;
- ▶ Consideration of external evidence of assets values via reference to the specific Local Government Gerald Eve report commissioned by the NAO for auditor use. Specifically we have considered if this indicates any material variances to the asset valuations performed by NPS and the desktop review by management;
- ▶ Considered changes to useful economic lives as a result of the most recent valuation;
- ▶ Considered whether asset categories held at cost have been assessed for impairment and are materially correct; and
- ▶ Testing that the accounting entries have been correctly processed in the financial statements, including the treatment of impairments.

We have not identified any material issues in the valuations based on our work.



Areas of Audit Focus

Other audit issues arising and approach (continued)



Valuation of the Northern Distributor Route Compensation Provision

In our Audit Plan we reported that the Council was reviewing compensation arrangements in relation to the construction of the Northern Distributor Route. We attached a higher audit risk to these transactions as they represented a new material liability to the Council. The full liability was calculated as £20.6 million, £6.4 million was paid in year and an accrual of £14.2 million raised for the remainder.

Our approach has focused on:

- ▶ Consideration of the work performed by the Council's valuer, Norfolk Property Services (NPS), to calculate the compensation due under compulsory purchase orders;
- ▶ Review and testing of the key asset information used by NPS in performing their valuation (e.g. land areas to support valuations based on price per square acre);
- ▶ Consideration of the arrangements to identify all land subject to a compulsory purchase order; and
- ▶ Testing that the accounting entries have been correctly processed in the financial statements.

We have not identified any material issues in the work performed.



Financial statements presentation – Expenditure and funding analysis and Comprehensive Income and expenditure statement

Amendments have been made to the Code this year changing the way the financial statements are presented. The new reporting requirements impact the Comprehensive Income and Expenditure Statement (CIES) and the Movement in Reserves Statement (MIRS), and include the introduction of the new 'Expenditure and Funding Analysis' (EFA) note as a result of the 'Telling the Story' review of the presentation of local authority financial statements.

The Code no longer requires statements or notes to be prepared in accordance with SeRCOP. Instead the Code requires that the service analysis is based on the organisational structure under which the authority operates and reflects the Council's internal financial reporting structure. This change in the Code has required a new structure for the primary statements, new notes and a full retrospective restatement of impacted primary statements. The restatement of the 2015/16 comparatives has required audit review which was performed in April 2017.

Our audit approach has focused on:

- ▶ Reviewing the expenditure and funding analysis, CIES and new notes for the single entity and group accounts to ensure disclosures are in line with the Code;
- ▶ Reviewing the analysis of how these figures are derived, how the ledger system has been re-mapped to reflect the Council's organisational structure and how overheads are apportioned across the service areas reported; and
- ▶ Agreement of restated comparative figures back to the Council's segmental analysis and supporting working papers.

We have not identified any material issues in the work performed.



03 Audit Report



Audit Report

Draft audit report

Our opinion on the financial statements

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

Opinion on the Authority's financial statements

We have audited the financial statements and the firefighters' pension fund financial statements of Norfolk County Council for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014. The financial statements comprise the Authority and Group Comprehensive Income and Expenditure Statement, Authority and Group Movement in Reserves Statement, Authority and Group Balance Sheet, Authority and Group Cash Flow Statement, the related notes 1 to 44 to the Authority Accounts including the Authority Expenditure and Funding Analysis and, and notes G1 to G13 to the Group Accounts, and include the firefighters' pension fund financial statements comprising the Fund Account, the Net Assets Statement and the related notes 1 to 3.

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

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

Respective responsibilities of the Executive Director of Finance and Commercial Services and auditor

As explained more fully in the *Statement of Responsibilities* set out on page 13, the Executive Director of Finance and Commercial Services is responsible for the preparation of the Statement of Accounts, which includes the 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 2016/17, 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 Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Executive Director of Finance and Commercial Services; and the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the *Statement of Accounts 2016-17* 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.



Audit Report

Draft audit report (continued)

Our opinion on the financial statements

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of Norfolk County Council as at 31 March 2017 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

Opinion on other matters

In our opinion, the information given in the *Statement of Accounts 2016-17* for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we report by exception

We report to you if:

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

We have nothing to report in these respects.

Conclusion on Norfolk County Council's arrangements for securing economy, efficiency and effectiveness in the use of resources

Authority's responsibilities

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.



Audit Report

Draft audit report (continued)

Our opinion on the financial statements

Auditor's responsibilities

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our conclusion relating to proper arrangements.

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

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General (C&AG) in November 2016, as to whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

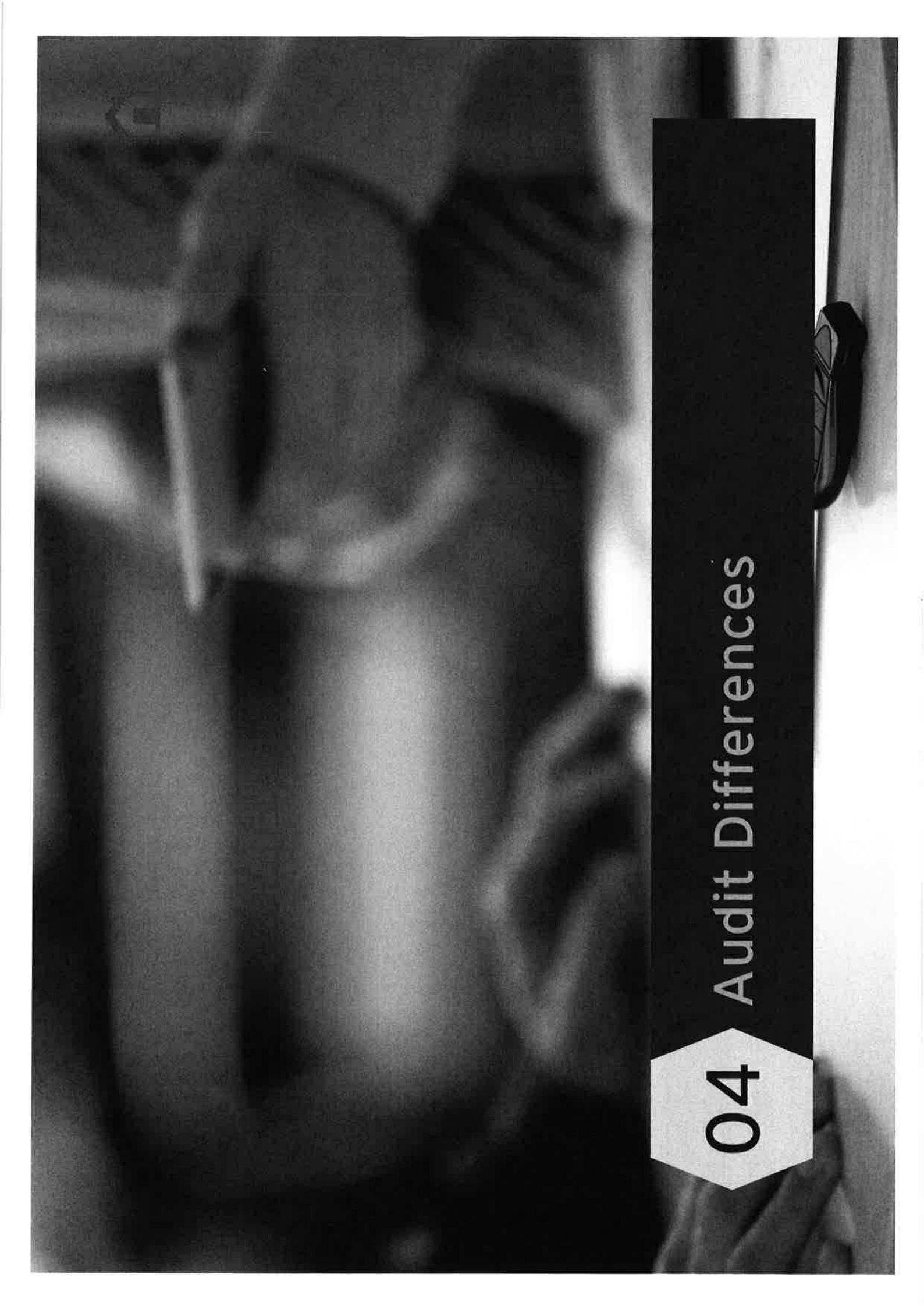
We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness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

Conclusion

On the basis of our work, having regard to the guidance issued by the C&AG in November 2016, we are satisfied that, in all significant respects, Norfolk County Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

Certificate

We certify that we have completed the audit of the accounts of Norfolk County Council 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.



04

Audit Differences



Audit Differences

Audit differences

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

Summary of adjusted differences

We have included all known amounts greater than £0.726 million relating to Norfolk County Council in our summary of misstatements table below.

We highlight the following misstatements in the financial statements identified during the audit. These have been corrected by management:

- ▶ £38.4 million error in the Comprehensive Income and Expenditure Statement (CIES) concerning recharges. The adjustment required both expenditure and income to increase by £38.4 million.
- ▶ £1.8 million classification error in the Comprehensive Income and Expenditure Statement (CIES) concerning a decrease in the fair value of investment properties. The adjustment required expenditure of £1.8 million to be moved from the 'Cost of services' to the 'Financing and investment income and expenditure' lines within the CIES.
- ▶ £1 million overstatement of both Creditors and Property plant and equipment additions due to an accruals over-statement.
- ▶ During further analysis following the approval of the draft accounts, officers noted that capital grants totalling £3.7million had been incorrectly classified as unconditional instead of conditional. This required amendment to the CIES - 'Taxation and Non-specific grant income' line, with a corresponding adjustment to 'Capital Grants Receipts in Advance' in the Balance Sheet.
- ▶ The Norse group issued a revised group reporting pack following the issuing of the Council's draft financial statements. Officers amended the draft financial statements and audit work focussed on the amended entries. There were a number of amendments, the overall impact being a £3.5 million reduction in net reserves.

Amendments were also made to the corresponding disclosure notes and where appropriate, the Movement in Reserves and Cash Flow statement.

Disclosure Adjustments

We highlight the following misstatement in the disclosure notes identified during the audit. This has been corrected by management:

- ▶ Classification error in Note 18 - Debtors. Debtors of £7.3 million were incorrectly included in 'Other entities and individuals', when they should have been included in the 'Central government bodies' line.

We have also identified a number of other minor text and disclosure adjustments during the audit that have been updated by management in the financial statements. This includes changes to disclosure notes covering financial instruments, officers' remuneration, PFI and joint arrangements. We do not deem any of these to be so significant that they require reporting to you in detail.

At the time of writing this report there are no uncorrected misstatements.

05

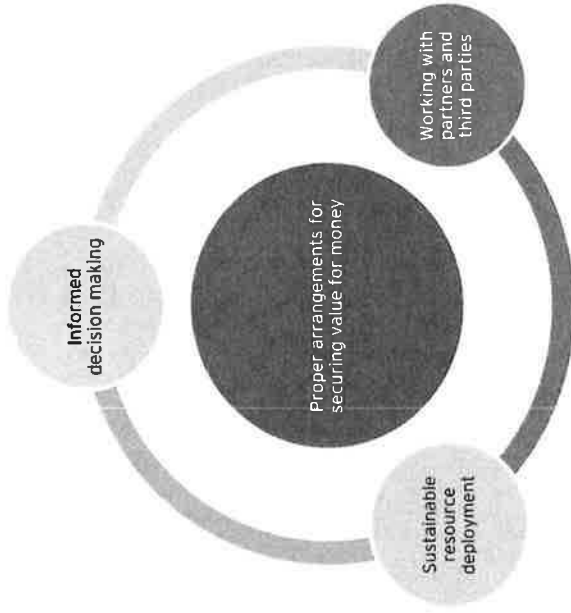
Value for Money





Value for Money

Value for Money



Economy, efficiency and effectiveness

We must consider whether you have 'proper arrangements' to secure economy, efficiency and effectiveness in your 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.

In considering your proper arrangements, we use the CIPFA/SOLACE framework for local government to ensure that our assessment is made against an already existing mandatory framework which you use in documents such as your Annual Governance Statement.

Overall conclusion

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

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

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

We identified one significant risk around these arrangements. The table below presents our findings in response to the risk in our Audit Plan and any other significant weaknesses or issues we want to bring to your attention.

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



Value for Money

VFM risks

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

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

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

The table below presents the findings of our work in response to the risks areas in our Audit Plan.

What is the significant VFM risk?

What arrangements did this affect?

What are our findings?

Sustainable resource deployment:

Achievement of savings needed over the medium term

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

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

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

Deploying resources in a sustainable manner

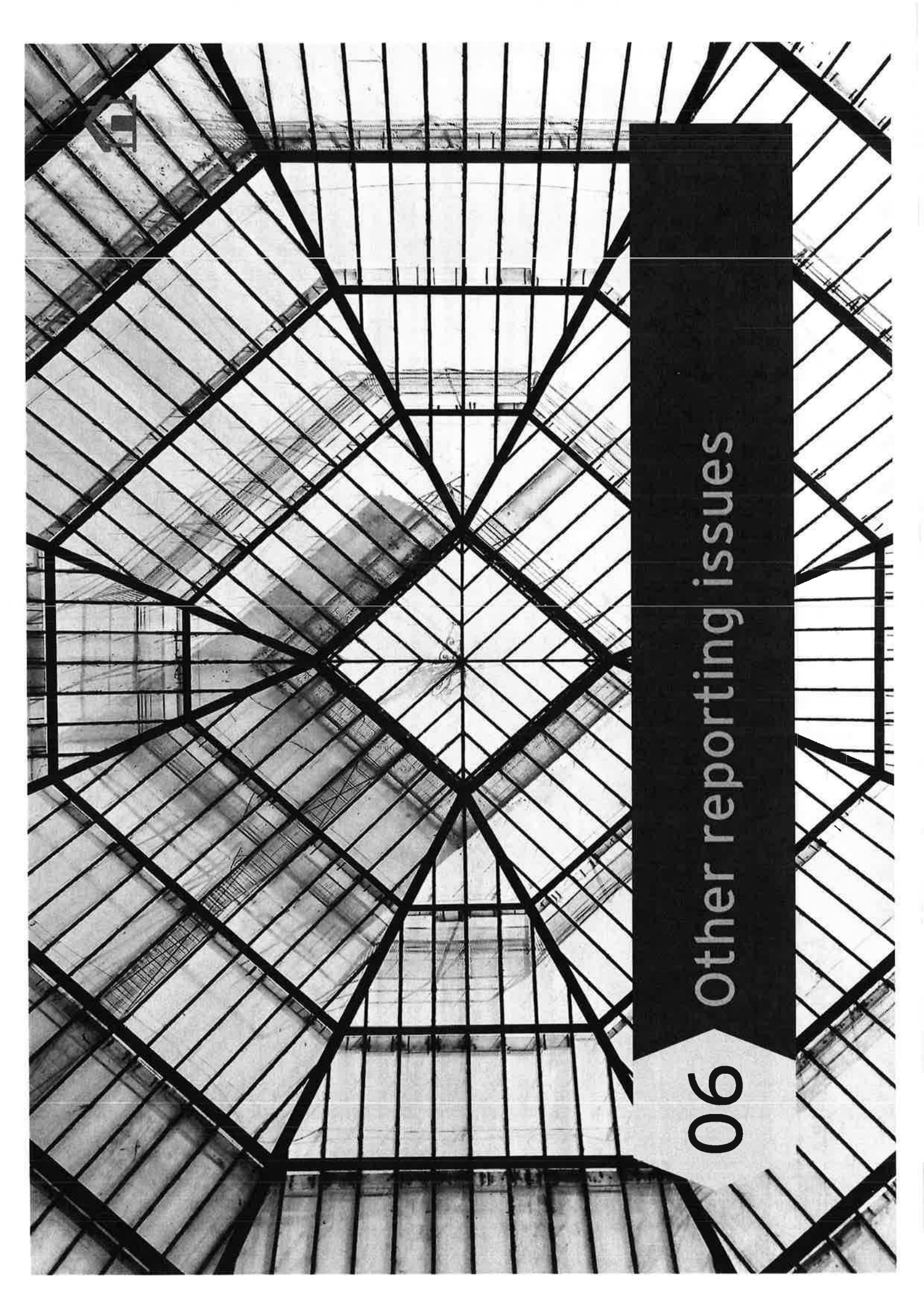
We have undertaken the procedures as set out in our audit strategy which has focused on:

- ▶ The adequacy of the Council's budget monitoring process, comparing budget to outturn;
- ▶ The robustness of any assumptions used in medium term planning;
- ▶ The Council's approach to prioritising resources whilst maintaining services; and
- ▶ The savings plans in place, and assessing the likelihood of whether these plans can provide the Council with the required savings/efficiencies over the medium term.

The Council has a savings target of £47.774 million in 2017/18 and the medium term financial strategy sets a further net savings requirement of £43.481 for 2018/19. The scale of savings and service transformation to be delivered by the Council over the medium term remain significant. However, at the end of Period two (May 17) the Council was forecasting to deliver savings of £46.592 million, and during the 2017/18 budget setting process the Council had already identified savings for 2018/19 amounting to £27.772 million.

In addition, the Council's level of un-earmarked general fund reserves (£19,301 million at 31 March 2017) are being maintained at the minimum levels range set by the Council's s151 officer. These provide the Council with the flexibility to manage its financial position over the short-to-medium term, and reduce the risk that an unexpected overspend, or unexpected one-off item of expenditure, has a detrimental impact on the Council's financial standing. The Council also has in place general fund earmarked reserves (£75.187 million at 31 March 2017). These have been established for a number of purposes, including the financial consequences of matters that have not yet arisen or to fund specific service areas/projects. The existence of these reserves provides further evidence of the Council's prudent approach to financial management.

Our review of the budget setting process, assumptions used in financial planning, in year financial monitoring, and the Council's history of delivery has not identified any significant matters that we wish to report to you.



06 Other reporting issues



Other reporting issues

Other reporting issues

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

We must give an opinion on the consistency of the financial and non-financial information in the Statement of Accounts 2016/17 with the audited financial statements.

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

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

Whole of Government Accounts

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

The Authority is above the threshold and requires a full review. We are yet to complete our work on the Whole of Government Accounts (WGA) return. We are currently scheduled to complete this work prior to 30 September 2017. Once completed we will report any matters arising to the Audit Committee, if required.

Other powers and duties

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

We also have a duty to make written recommendations to the Authority, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014.

We did not identify any issues.



Other reporting issues

Other reporting issues

Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of the Council's financial reporting process. They include the following:

- ▶ Significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures;
- ▶ Any significant difficulties encountered during the audit;
- ▶ Any significant matters arising from the audit that were discussed with management;
- ▶ Written representations we have requested;
- ▶ Expected modifications to the audit report;
- ▶ Any other matters significant to overseeing the financial reporting process;
- ▶ Related parties;
- ▶ External confirmations;
- ▶ Going concern; and
- ▶ Consideration of laws and regulations.

We have requested a management representation letter to gain management's confirmation in relation to a number of matters. We have only requested standard representations. Appendix D sets out our request for these representations.

We have no matters to report.



07

Assessment of Control Environment



Assessment of Control Environment

Assessment of control environment

Financial controls

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.

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

In accordance with our Audit Plan we have tested the key financial controls within the accounts receivable, accounts payable, payroll and LMS financial systems.

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

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

We have no other matters that we wish to report.

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

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



08 Appendices



Appendix A

Required communications with the Audit Committee

There are certain communications that we must provide to the Audit Committees of UK clients. We have done this by:

Required communications		What is reported?	Our Reporting to you	When and where
Terms of engagement		Confirmation by the Audit Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.		The statement of responsibilities serves as the formal terms of engagement between the PSA's appointed auditors and audited bodies.
Planning and audit approach		Communication of the planned scope and timing of the audit, including any limitations.		June 2017 Audit Plan
Significant findings from the audit		▶ Our view of the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ Any significant difficulties encountered during the audit ▶ Any significant matters arising from the audit that were discussed with management ▶ Written representations we have requested ▶ Expected modifications to the audit report ▶ Any other matters significant to overseeing the financial reporting process		September 2017 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: ▶ Whether the events or conditions constitute a material uncertainty ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The adequacy of related disclosures in the financial statements		No conditions or events were identified, either individually or together to raise any doubt about Norfolk County Council's ability to continue for the 12 months from the date of our report.
Misstatements		▶ Uncorrected misstatements and their effect on our audit opinion ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ Significant corrected misstatements, in writing		September 2017 Audit Results Report



Appendix A

Required communications		What is reported?	Our Reporting to you	When and where
Fraud		▶ Asking the Audit Committee whether they have knowledge of any actual, suspected or alleged fraud affecting the Authority ▶ Unless all those charged with governance are involved in managing the entity, any fraud identified or information obtained indicating that a fraud may exist involving: (a) management; (b) employees with significant roles in internal control; or (c) others where the fraud results in a material misstatement in the financial statements. ▶ A discussion of any other matters related to fraud, relevant to Audit Committee responsibility.	We have asked management and those charged with governance about arrangements to prevent or detect fraud. 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 Authority's related parties including, where applicable: ▶ Non-disclosure by management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures ▶ Non-compliance with laws and/or regulations ▶ Difficulty in identifying the party that ultimately controls the entity	We have no matters to report.	
Subsequent events		▶ Where appropriate, asking the Audit Committee whether any subsequent events have occurred that might affect the financial statements.	We have asked management and those charged with governance. We have no matters to report.	
Other information		▶ Where material inconsistencies are identified in other information included in the document containing the financial statements, but management refuses to make the revision.	September 2017 Audit Results Report	
External confirmations		▶ Management's refusal for us to request confirmations ▶ We were unable to obtain relevant and reliable audit evidence from other procedures.	We have no matters to report.	
Consideration of laws and/or regulations		▶ Audit findings of non-compliance where it is material and believed to be intentional. This communication is subject to compliance with legislation on "tipping off" ▶ Asking the Audit Committee about possible instances of non-compliance with laws and/or regulations that may have a material effect on the financial statements, and known to the Audit Committee.	We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations.	



Appendix A

Required communications		What is reported?	Our Reporting to you
			When and where
Significant deficiencies in internal controls identified during the audit		▶ Significant deficiencies in internal controls identified during the audit.	August 2017 Audit Results Report
Independence		Communication of all significant facts and matters that have a bearing on EY's objectivity and independence. Communicating key elements of the audit engagement partner's consideration of independence and objectivity such as: ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information on the firm's general policies and processes for maintaining objectivity and independence Communications whenever significant judgments are made about threats to objectivity or independence and the appropriateness of safeguards,	June 2017 - Audit Plan September 2017 - Audit Results Report
Fee Reporting		Breakdown of fee information when the audit plan is agreed Breakdown of fee information at the completion of the audit Any non-audit work	June 2017 - Audit Plan September 2017 - Audit Results Report



Appendix B

Independence



We confirm that there are no changes in our assessment of independence since our confirmation in our audit plan presented June 2017.

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

We consider that our independence in this context is a matter which you should review, as well as us. It is important that you and your Audit Committee consider the facts known to you and come to a view. If you would like to discuss any matters concerning our independence, we will be pleased to do this at the meeting of the Audit Committee on 21 September 2017.

As part of our reporting on our independence, we set out below a summary of the fees paid for the year ended 31 March 2017.

We confirm that we have undertaken non-audit work outside the PSAA Code requirements. We have adopted the necessary safeguards in completing this work and complied with Auditor Guidance Note 1 issued by the NAO in December 2016.

Description	Expected Final fee 2016/17 £'s	Planned Fee 2016/17 £'s	Scale Fee 2016/17 £'s	Final Fee 2015/16 £'s
Total Audit Fee - Code work	131,084 Note 1	127,742	127,742	134,081
Total audit fee - Non code work	TBC Note 2	TBC	N/a	14,900

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

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

We will confirm our final fees following the completion of our audit and non-audit work and report this within our Annual Audit Letter.



Appendix C

Accounting and regulatory update

Accounting update

Since the date of our last report to the Audit Committee, new accounting standards and interpretations have been issued. The following table provides a high level summary of those that have the potential to have the most significant impact on you:

Name	Summary of key measures	Impact on Norfolk County Council
<i>IFRS 9 Financial Instruments</i>	Applicable for local authority accounts from the 2018/19 financial year and will change: ▶ How financial assets are classified and measured; ▶ How the impairment of financial assets are calculated; ▶ Financial hedge accounting; and ▶ The disclosure requirements for financial assets. Transitional arrangements are included within the accounting standard, however as the 2018/19 Accounting Code of Practice for Local Authorities has yet to be issued it is unclear what the impact on local authority accounting will be and whether any accounting statutory overrides will be introduced to mitigate any impact.	Although some initial thoughts on the approach to adopting IFRS 9 have been issued by CIPFA, until the Code is issued and any statutory overrides are confirmed there remains some uncertainty. However, what is clear is that the Council will have to: ▶ Reclassify existing financial instrument assets; ▶ Remeasure and recalculate potential impairments of those assets; and ▶ Prepare additional disclosure notes for material items.
<i>IFRS 15 Revenue from Contracts with Customers</i>	Applicable for local authority accounts from the 2018/19 financial year. This new standard deals with accounting for all contracts with customers except: ▶ Leases; ▶ Financial instruments; ▶ Insurance contracts; and ▶ Council Tax and NDR income. The key requirements of the standard cover the identification of performance obligations under customer contracts and the linking of income to the meeting of those performance obligations. There are transitional arrangements within the standard; however as the 2018/19 Accounting Code of Practice for Local Authorities has yet to be issued it is unclear what the impact on local authority accounting will be.	As with IFRS 9, some initial thoughts on the approach to adopting IFRS 15 have been issued by CIPFA. However, until the Code is issued there remains some uncertainty. However, what is clear is that for all material income sources from customers the Council will have to: ▶ Disaggregate revenue into appropriate categories; ▶ Identify relevant performance obligations and allocate income to each; and ▶ Summarise significant judgements.



Appendix C

Name	Summary of key measures	Impact on Norfolk County Council
IFRS 16 Leases	IFRS 16 will be applicable for local authority accounts from the 2019/20 financial year. Whilst the definition of a lease remains similar to the current leasing standard; IAS 17, for local authorities who lease in a large number of assets the new standard will have a significant impact, with nearly all current leases being included on the balance sheet. There are transitional arrangements within the standard, although as the 2019/20 Accounting Code of Practice for Local Authorities has yet to be issued it is unclear what the impact on local authority accounting will be or whether any statutory overrides will be introduced.	Until the 2019/20 Accounting Code is issued and any statutory overrides are confirmed there remains some uncertainty in this area. However, what is clear is that the Council will need to undertake a detailed exercise to classify all of its leases and therefore must ensure that all lease arrangements are fully documented.



Appendix C

Progress report on implementation of new standards and regulations

In previous reports to the Audit Committee, we highlighted the issue of new accounting standards and regulatory developments. The following table summarises progress on implementation:

Name	Summary of key measures	Impact on Norfolk County Council	
<i>Earlier deadline for production and audit of the financial statements from 2017/18</i>	The Accounts and Audit Regulations 2015 introduced a significant change in statutory deadlines from the 2017/18 financial year. From that year the timetable for the preparation and approval of accounts will be brought forward with draft accounts needing to be prepared by 31 May and the publication of the audited accounts by 31 July.	These changes provide challenges for both the preparers and the auditors of the financial statements. To prepare for this change the Council has reviewed and amended the closedown process to achieve draft accounts production by early June for 2016/17.	
		We will work with the Council to engage early, following the completion of the 2016/17 audit, to facilitate early substantive testing for 2017/18 and also to consider steps the Council can take, for example: ▶ Streamlining the Statement of Accounts removing all non-material disclosure notes; ▶ Bringing forward the commissioning and production of key externally provided information such as IAS 19 pension information, asset valuations; ▶ Providing training to departmental finance staff regarding the requirements and implications of earlier closedown; ▶ Re-ordering tasks from year-end to monthly/quarterly timing, reducing year-end pressure; ▶ Establishing and agreeing working materiality amounts with the auditors.	



Appendix D - Request for a Management representation letter



Ernst & Young LLP
One Cambridge Business Park, Foxglove
Cambridge
CB4 0WZ
Tel: +44 (0)20 3944000
Fax: +44 (0)20 3944001
ey.com



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

12 September 2017

Ref:
Your ref:
Direct line: 01223 394547
Email: MHodgson@uk.ey.com

Dear Simon,

Norfolk County Council – 2016/17 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 representation on the completeness of information provided;
- auditors may wish to obtain written representation on issues other than those directly related to the Statement of Accounts;
- the letter is dated on the date on which the auditor signs the opinion and certificate;
- the letter is signed by the person or persons with specific responsibility for the financial statements; and
- the letter is formally acknowledged as having been discussed and approved by the Audit Committee, as those charged with governance of the Council.



Appendix D - Request for a Management representation letter

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 financial statements of Norfolk County Council ("the Council") for the year ended 31 March 2017.

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 Council financial position of Norfolk County Council as of 31 March 2017 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 2016/17.

You understand that the purpose of our audit of your 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 financial statements in accordance with, for the Council the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.
2. That you acknowledge as members of management of the Council, your responsibility for the fair presentation of the council's financial statements. We believe the council financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and are free of material misstatements, including omissions. We have approved the 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 financial statements are appropriately described in the financial statements.



Appendix D - Request for a Management representation letter

5. As members of management of the Council, we believe that the 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 2016/17, that are free from material misstatement, whether due to fraud or error.

6. That you believe that the effects of any unadjusted audit differences, summarised in the Audit Results Report, 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.

You have not corrected these differences identified by and brought to your attention by the auditor because - specify reasons for not correcting misstatement.

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 Council's 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 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 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 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.



Appendix D - Request for a Management representation letter

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: 21 September 2017.
4. That you confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the 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 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 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 relevant note to the Council's 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.



Appendix D - Request for a Management representation letter

- 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. Group audits

1. That there are no significant restrictions on your ability to distribute the retained profits of the Group because of statutory, contractual, exchange control or other restrictions other than those indicated in the Group financial statements.
2. That the necessary adjustments have been made to eliminate all material intra-group unrealised profits on transactions amongst council, subsidiary undertakings and associated undertakings.
3. You confirm that entities excluded from the consolidated financial statements are immaterial on a quantitative and qualitative basis.

I. Expenditure Funding Analysis

1. That you have reviewed the new requirements (as set out in the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17), in relation to the preparation of the Expenditure Funding Analysis to replace the previous segmental reporting analysis, and confirm that all required amendments to the Comprehensive Income and Expenditure Statement and Movement in Reserves Statement, as well as the requirements to prepare the Expenditure Funding Analysis and related notes have been correctly reflected in the financial statements, including retrospectively reflecting this in the financial statements.
2. You confirm that the financial statements reflect the operating segments reported internally to the Council.

J. 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.

K. Ownership of Assets

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

L. Reserves

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



Appendix D - Request for a Management representation letter

M. Valuation of Property, Plant and Equipment Assets

1. You believe that the measurement processes, including related assumptions and models, used to determine the accounting estimate(s) have been consistently applied and are appropriate in the context of the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.
2. You confirm that the significant assumptions used in making the valuation of assets appropriately reflect your intent and ability to carry out specific courses of action on behalf of the entity.
3. You confirm that the disclosures made in the consolidated and council financial statements with respect to the accounting estimate(s) are complete and made in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.
4. You confirm that no adjustments are required to the accounting estimate(s) and disclosures in the consolidated and council financial statements due to subsequent events.
5. You confirm that you have performed a desktop review of all assets not subject to revaluation as part of the 5 year rolling programme for valuations and that each asset category is not materially misstated.
6. You confirm that for assets carried at historic cost, that no impairment is required.

N. 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. All significant retirement benefits and all settlements and curtailments have been identified and properly accounted for.

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

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

P. Valuation of Pension Liabilities

1. You believe that the measurement processes, including related assumptions and models, used to determine the accounting estimate(s) have been consistently applied and are appropriate in the context of the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.
2. You confirm that the significant assumptions used in making the valuation of the pension liability appropriately reflect your intent and ability to carry out specific courses of action on behalf of the entity.
3. You confirm that the disclosures made in the consolidated and council financial statements with respect to the accounting estimate(s) are complete and made in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.



Appendix D - Request for a Management representation letter

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

Q. Other information

1. You acknowledge your responsibility for the preparation of the other information. The other information comprises the Narrative Report included in the Statement of Accounts 2016-2017.

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

R. 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 (currently 22 September 2017) on formal headed paper.

Yours sincerely

Mark Hodgson
Executive Director
Ernst & Young LLP
United Kingdom

About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit ey.com.

© 2017 EYGM Limited.
All Rights Reserved.

ED None

This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax, or other professional advice. Please refer to your advisors for specific advice.

ey.com