

## Audit Committee

Date: **Thursday 25 September 2014**  
Time: **2pm**  
Venue: **Colman Room, County Hall, Norwich**

### SUPPLEMENTARY AGENDA

- 5 Norfolk County Council and Norfolk Pension Fund Audit Results Reports – Audit Committee Summary for the year ended 31 March 2014**

(Page **A2**)

Please replace previously published pages 14 to 26 with the attached.

**Chris Walton**  
**Head of Democratic Services**  
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Date Agenda Published: 25 September 2014



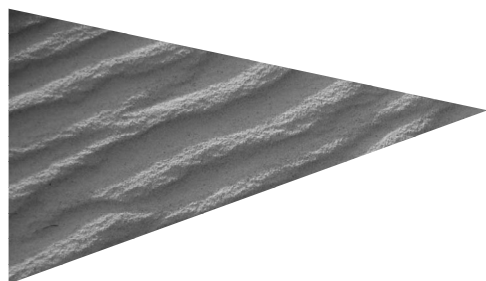
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# Norfolk County Council

## Audit Committee Summary

For the year ended 31 March 2014

Audit Results Report – ISA (UK & Ireland) 260  
(Revised copy dated 23 September 2014)



Building a better  
working world

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# Executive summary – Audit 2013/14

## *Key findings*

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### Audit results and other key matters

The Audit Commission'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 2013/14 audit which is substantially complete. It includes the messages arising from our audit of your financial statements and the results of the work we have undertaken to assess your arrangements to secure value for money in your use of resources.

#### **Financial statements**

- ▶ As at 23 September 2014, we expect to issue an unqualified opinion on the financial statements . Our audit results demonstrate, through the small number of issues that we have to communicate, that arrangements for the production of the financial statements remain strong. There are some areas of our work that are still in progress as at the date of drafting this report, as highlighted on page 8. We expect these to be complete by the date of the Audit Committee.

#### **Value for money**

- ▶ Our review of your arrangements to secure economy, efficiency and effectiveness in your use of resources is substantially complete. Our work in this area has focused on the decision to terminate the Willows Waste Project and the potential financial consequences of that decision. Based on the work undertaken to date we expect to issue an unqualified value for money conclusion along with our audit opinion; and we will update Members at the Audit Committee.

#### **Whole of Government Accounts**

- ▶ We are currently undertaking our work on the Whole of Government Accounts return following the completion of our work on the Authority's financial statements. We will update Members of the Audit Committee on the progress with this work at the Audit Committee.

#### **Audit certificate**


- ▶ The audit certificate is issued to demonstrate that the full requirements of the Audit Commission's Code of Audit Practice have been discharged for the relevant audit year. We expect to issue the audit certificate at the same time as the audit opinion.
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# Extent and purpose of our work

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## The Authority's responsibilities

 The Authority is responsible for preparing and publishing its Statement of Accounts accompanied by the Annual Governance Statement. In the Annual Governance Statement, the Authority 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 Authority 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 2013/14 financial statements
-  Report on any exception on the governance statement or other information included in the foreword
-  Consider and report any matters that prevent us being satisfied that the Authority had put in place proper arrangements for securing economy, efficiency and effectiveness in the use of resources (the Value for Money conclusion)

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

As a component auditor, we also follow the group instructions and send to the National Audit Office our group assurance certificate, audit results report and auditor's report on the consolidation schedule.

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

# Addressing audit risks

## *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. Here, we set out how we have gained audit assurance over those issues.

Audit risk identified within our Audit Plan	Audit procedures performed	Issues arising
<b>Significant audit risks (including fraud risks)</b>		
<p><u><b>Group accounts</b></u></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; specifically that it has a non-coterminous year end. Production of statements and disclosure notes for the group accounts and the closedown and consolidation process for Norse Group Ltd therefore presents a significant financial statement risk.</p> <p>One specific risk identified as part of last year's audit was the weak audit trail that supported the reanalysis of the Norse Group Profit and Loss Account into the analysis required for the Norfolk County Group Comprehensive Income &amp; Expenditure Statement (CIES).</p>	<ul style="list-style-type: none"> <li>Assessed the group accounting instructions and consolidation schedules issued to Norse Group Ltd by Norfolk County Council.</li> <li>Liaised with Grant Thornton LLP, the external auditors of the Norse Group, having issued them with instructions that detail the required audit procedures they are to undertake on the consolidation schedules prepared by Norse. These instructions specifically referred to the Norfolk County CIES analysis audit trail issue.</li> <li>Ensured that appropriate consolidation procedures are applied when consolidating Norse Group Ltd into the Norfolk County group accounts.</li> </ul>	<p>Our planned procedures in relation to this risk are complete.</p> <p>The issue regarding the weak audit trail that supported the reanalysis of the Norse Group Profit and Loss Account into the analysis required for the Norfolk County Group CIES arose again in the current year. As in the previous year we had to undertake additional procedures to ensure that this issue had not lead to a material misstatement within the Norfolk Group CIES.</p> <p>The Norse Group Ltd will move to a 31 March year end from the 2015/2016 financial year. From that point a separate audit of the consolidation schedules will no longer be required.</p> <p>There are no other issues to report to the Committee.</p>

# Addressing audit risks

## *Significant audit risks (continued)*

Audit risk identified within our Audit Plan	Audit procedures performed	Assurance gained and issues arising
<b>Significant audit risks (including fraud risks)</b>		
<p><b>Pension valuations and disclosures</b></p> <p>The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding the Local Government Pension Scheme (LGPS) in which it is an admitted body.</p> <p>The Council's current pension fund deficit is a highly material and sensitive item and the Code requires that this liability be disclosed on the Council's Balance Sheet. The information disclosed is based on the IAS19 report issued to the Council by the actuaries to the administering body.</p> <p>During the year under audit, the IAS 19 liability relating to those employees who work for Norse Companies providing services to Norfolk County Council was transferred back to the County Council. This will therefore increase the IAS 19 liability disclosed on the County Council Balance Sheet.</p>	<ul style="list-style-type: none"> <li>• Liaised with the auditors of the administering authority, to obtain assurances over the information supplied to the actuary in relation to Norfolk County Council.</li> <li>• Assessed the conclusions drawn on the work of the actuary by the Consulting Actuary to the Audit Commission, PwC.</li> <li>• Reviewed and tested the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.</li> <li>• Reviewed and tested the accounting entries and disclosures made within the Council's financial statements in relation to the Norse IAS 19 liability transfer.</li> </ul>	<p>Our planned procedures in relation to this risk are complete. There are no issues to report to the Committee.</p>

# Addressing audit risks

## *Significant audit risks (continued)*

Audit risk identified within our Audit Plan	Audit procedures performed	Assurance gained and issues arising
<b>Significant audit risks (including fraud risks)</b>		
<p><b><u>Localisation of business rates</u></b></p> <p>There have been significant changes in the arrangements for business rates from April 2013. The detailed application of these new accounting arrangements present a risk in terms of the financial statements.</p> <p>One of the main changes is that individual councils now need to provide for rating appeals. This includes not only claims from 1 April 2013 but claims that relate to earlier periods. As appeals are made to the Valuation Office, councils may not be aware of the level of claims. Councils may also find it difficult to obtain sufficient information to establish a reliable estimate.</p>	<ul style="list-style-type: none"> <li>Reviewed the detailed accounting transactions for business rates to ensure the Authority's accounts are materially accurate and compliant with the CIPFA Code of practice.</li> <li>Reviewed the Authority's provision for business rate appeals and ensured that it has been calculated on a reasonable basis. As part of this we ensured the provision is supported by appropriate evidence by reviewing the information provided by the borough and district councils as Norfolk's provision comprises a share of the provision made by each borough and district council.</li> </ul>	<p>Our planned procedures in relation to this risk are complete. There are no issues to report to the Committee</p>
<p><b><u>Fraud and management override risk</u></b></p> <p>As identified in ISA (UK &amp; Ireland) 240, management is in a unique position to perpetrate fraud because of their ability to directly or indirectly manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</p>	<ul style="list-style-type: none"> <li>Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements;</li> <li>Reviewed accounting estimates for evidence of management bias; and</li> <li>Evaluated the business rationale for any significant unusual transactions.</li> </ul>	<p>Our planned procedures in relation to this risk are complete. There are no issues to report to the Committee</p>



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# Financial statements audit

## *Issues and misstatements arising from the audit*

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### **Progress of our audit**

- ▶ The following areas of our work programme remain to be completed. These include:
  - ▶ Completion of the assurance work on the Whole of Government Accounts (WGA) return
  - ▶ Final audit closing and review procedures
  - ▶ Receipt of a letter of representation and signed accounts
  - ▶ Final Director review of the financial statements
- ▶ We will provide Members with an update of progress at the Audit Committee meeting.
- ▶ Subject to the completion of our work on the above items, we propose to issue an unqualified audit report on the financial statements.

### **Uncorrected misstatements**

- ▶ On the basis of the work completed to date, we have identified one misstatement within the draft financial statements which management has chosen not to adjust.
- The draft financial statements included a provision for redundancy payments of £5.164m. Changes to definitions within the Code in 2013/14 mean that redundancy provisions should only be recognised in circumstances where an authority can no longer withdraw an offer of termination benefits. Only £1.236m of the disclosed provision meets this updated definition. Although management have decided not to amend the current year statements for this error, they have agreed to ensure that future redundancy provisions meet the updated definition.

### **Corrected misstatements**

- ▶ Our audit identified a small number of numerical and disclosure misstatements which we have highlighted to management for amendment. All of these have been corrected during the course of our work.

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# Financial statements audit (continued)

## *Other matters & internal control,*

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### **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 Authority'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; and,
- Any significant difficulties encountered during the audit; and
- Other audit matters of governance interest,

We have no matters that we wish to report.

### **Internal control**

It is the responsibility of the Authority 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 Authority 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 Authority in those areas where we are seeking to rely on them for audit assurance purposes. However, this does not cover all areas of the Authority's internal control framework and therefore we are not expressing an opinion on the overall effectiveness of internal control.

We have reviewed the Annual Governance Statement and can confirm that:

- It complies with the requirements of CIPFA/SOLACE Delivering Good Governance in Local Government Framework; and
- It is consistent with other information that we are aware of from our audit of the financial statements.

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.

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# Financial statements audit (continued)

## *Written Representations & Whole of Government Accounts*

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### **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.

### **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 undertaking our work on the Whole of Government Accounts return following the completion of our work on the Authority's financial statements. We will update Members of the Audit Committee on the progress with this work at the Audit Committee.

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# Arrangements to secure economy, efficiency and effectiveness

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*The Code of Audit Practice (2010) sets out our responsibility to satisfy ourselves that Norfolk County Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. In examining the Authority's corporate performance management and financial management arrangements, we have regard to the following criteria and focus specified by the Audit Commission.*

## Criteria 1 - Arrangements for securing financial resilience

► *"Whether the Authority has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future"*

Our review of your arrangements to secure financial resilience is substantially complete. Our work in this area has focused on the decision to terminate the Willows Waste Project and the potential financial consequences of that decision. We provide further details of the conclusions drawn from the work overleaf. Based on the work undertaken to date we have no matters to report in our VFM Conclusion.

## Criteria 2 - Arrangements for securing economy, efficiency and effectiveness

► *"Whether the Authority is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity."*

Our review of your arrangements for securing economy, efficiency and effectiveness is substantially complete. Our work in this area has also focused on the decision to terminate the Willows Waste Project and the potential financial consequences of that decision. We provide further details of the conclusions drawn from the work overleaf. Based on the work undertaken to date we have no matters to report in our VFM Conclusion.

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# Arrangements to secure economy, efficiency and effectiveness: The willows waste project

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## **Accounting treatment**

- On 7 April 2014 the Council resolved to allow the Willows Waste Project contract to terminate on the grounds of planning failure. The contract was formally terminated on 16 May 2014 incurring estimated contractual termination costs of £33.7m.
- The decision to terminate the contract was therefore taken after the end of the financial year, 31 March 2014. Management concluded that under the requirements of accounting standards this decision met the definition of a non-adjusting post balance sheet event, and we agree with that conclusion. This means that the Council is not required to account for the cost of termination in the current year financial statements, although the circumstances are required to be fully disclosed in the financial statements. Disclosures regarding the termination of the contract have been made in Note 6 to the financial statements. Our audit procedures have concluded that the numerical aspects of the disclosure are materially correct and that sufficient detail regarding this issue have been disclosed.

## **Securing financial resilience**

- We have considered the decision to terminate the Willows Waste Project contract and its potential financial consequences. The Council had identified and established an earmarked reserve of £19m at 31 March 2014 as disclosed in the 2013/14 financial statements. The Council has now identified a further £14.7m of savings and budget contributions to fund an estimated termination cost of £33.7m. Current indications are that the Council is on track to deliver these savings, and thereby maintain general fund reserves to an appropriate level.

## **Arrangements for securing economy, efficiency and effectiveness**

- We assessed the overall arrangements for the management of the Willows Waste Project as part of the prior year audit. We have updated this assessment taking into account the findings from the various independent reviews of the project undertaken. We have no issues to report to Members as a result of this work.

# Independence and audit fees

## Independence

► We confirm there are no changes in our assessment of independence since our confirmation in our Audit Plan dated 24 April 2014.

► We complied with the Auditing Practices Board's Ethical Standards for Auditors and the requirements of the Audit Commission's Code of Audit Practice and Standing Guidance. 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 25 September 2014.

► We confirm that we have met the reporting requirements to the Audit Committee, as 'those charged with governance' under International Standards on Auditing (UK&I) 260. Our communication plan to meet these requirements were set out in our Audit Plan of 24 April 2014.

## Audit fees

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

	Proposed final fee 2013- 14	Scale fee 2013-14	Variation comments
	£s	£s	
Total audit fee – Code work	170,360	170,360	None

- As noted in our Audit Plan; we have raised an additional audit fee of £14,300 for instructing; liaising with; and reviewing the work of the auditors of Norse Group Ltd. The additional fee is included in the scale and proposed final fees above.
- Our actual fee is currently in line with the rebased scale fee at this point in time, subject to the satisfactory clearance of the outstanding audit work.
- We confirm that we have not undertaken any non-audit work outside of the Audit Commission's Audit Code requirements.

## Ernst & Young LLP

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In March 2010 the Audit Commission issued a revised version of the 'Statement of responsibilities of auditors and audited bodies' (Statement of responsibilities). It is available from the Chief Executive of each audited body and via the [Audit Commission's website](#).

The Statement of responsibilities serves as the formal terms of engagement between the Audit Commission's 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 Standing Guidance serves as our terms of appointment as auditors appointed by the Audit Commission. The Standing Guidance sets out additional requirements that auditors must comply with, over and above those set out in the Code of Audit Practice 2010 (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. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

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

