Norfolk County Council

Year ending 31 March 2014

Annual Audit Letter

27 October 2014

Building a better working world

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INVESTOR IN PEOPLE

The Members
Norfolk County Council
County Hall
Martineau Lane
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27 October 2014

Dear Members,

Annual Audit Letter

The purpose of this Annual Audit Letter is to communicate to the Members of Norfolk County Council and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to their attention.

We have already reported the detailed findings from our audit work to those charged with governance of Norfolk County Council in the following reports:

2013/14 Audit Results Report for Norfolk County Council	Issued 23 September 2014
2013/14 Audit Results Report for the Norfolk Pension Fund	Issued 1 September 2014

The matters reported here are the most significant for the Authority.

I would like to take this opportunity to thank the officers of Norfolk County Council for their assistance during the course of our work.

Yours faithfully

Rob Murray

Rob Murray
Director
For and behalf of 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 Annual Letter is prepared in the context of the Statement of responsibilities. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

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

1. Executive summary

Our 2013/14 audit work has been undertaken in accordance with the Audit Plan we issued on 24 April 2014 and is conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

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 an annual basis on the extent to which they comply with their own code of governance, including how they have monitored and evaluated the effectiveness of their 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.

As auditors we are responsible for:

- forming an opinion on the financial statements;
- reviewing the Annual Governance Statement;
- forming a conclusion on the arrangements that the Authority has in place to secure economy, efficiency and effectiveness in its use of resources; and
- undertaking any other work specified by the Audit Commission.

Summarised below are the conclusions from all elements of our work:

Audit the financial statements of Norfolk County Council and Norfolk Pension Fund for the financial year ended 31 March 2014 in accordance with International Standards on Auditing (UK & Ireland)	On 30 September 2014 we issued unqualified audit opinions: in respect of the Authority's financial statements; in respect of the Pension Fund's financial statements; and in respect of the Pension Fund Annual Report.
Form a conclusion on the arrangements the Authority has made for securing economy, efficiency and effectiveness in its use of resources.	On 30 September 2014 we issued an unqualified value for money conclusion.
Issue a report to those charged with governance of the Authority (the Audit Committee) communicating significant findings resulting from our audit.	On 23 September 2014 we issued our report in respect of the Authority. On 1 September 2014 we issued our report in respect of the Pension Fund.
Report to the National Audit Office on the accuracy of the consolidation pack the Authority is required to prepare for the Whole of Government Accounts.	We reported our findings to the National Audit Office on 30 September 2014.
Consider the completeness of disclosures in the Authority's Annual Governance Statement, identify any inconsistencies with the other information of which we are aware from our work and consider whether it complies with CIPFA / SOLACE guidance.	No issues to report.

Consider whether, in the public interest, we should make a report on any matter coming to our notice in the course of the audit.	No issues to report
Determine whether any other action should be taken in relation to our responsibilities under the Audit Commission Act.	No issues to report
Issue a certificate that we have completed the audit in accordance with the requirements of the Audit Commission Act 1998 and the Code of Practice issued by the Audit Commission.	Certificate issued on 30 September 2014.

2. Key findings

2.1 Financial statement audit

We audited the Authority's Statement of Accounts, including the Pension Fund Accounts, in line with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission. We issued unqualified audit reports on 30 September 2014.

In our view, the quality of the process for producing the accounts, including the supporting working papers remains good. Our audit identified a small number of disclosure misstatements which we highlighted to management and all of these were corrected during the course of our work. In addition, we identified one misstatement within the draft financial statements which management chose not to adjust. This related to an overstatement of the provision for redundancy payments of £5.164m disclosed in the financial statements. The main issues identified as part of our audit were:

Significant risk 1: Consideration of the risk of fraud

ISA (UK&I) 240 requires that we plan our audit work to consider the risk of fraud. This includes consideration of the risk that management may override controls in order to manipulate the financial statements.

Our audit procedures and testing did not identify any instances of misstatement due to fraud and error.

Significant risk 2: Localisation of business rates

There have been significant changes in the arrangements for business rates from April 2013. The detailed accounting requirements for the new arrangements were not clear at the time the Authority was preparing its accounts, and this therefore presented a risk in terms of the financial statements. One of the main changes is that individual local authorities now need to provide for rating appeals. This includes not only claims from 1 April 2013 but claims that relate to earlier periods.

Our audit work confirmed that the accounting treatment adopted by the Authority for business rates was appropriate and complied with the CIPFA Code of Practice. In addition, our audit work reviewed the Authority's provision for business rate appeals and ensured that it had been calculated on a reasonable basis in line with the requirements of relevant international accounting standards (IAS 37). As part of this we ensured that the provision was 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. No issues arose from our work in this area.

Significant risk 3: Pension valuations and disclosures

The Local Authority Accounting Code of Practice and IAS19 require the Authority to make extensive disclosures within its financial statements regarding the Local Government Pension Scheme (LGPS) in which it is an admitted body. The Authority's current pension fund deficit is a material and sensitive item and the Code requires that this liability be disclosed on the Authority's Balance Sheet. 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 therefore increased the IAS 19 liability disclosed on the County Council Balance Sheet.

Our audit work reviewed and tested the accounting entries and disclosures made within the Authority's financial statements in relation to both IAS19 generally and in relation to the Norse IAS 19 liability transfer.

Our audit procedures and testing did not identify any issues in this area.

Significant risk 4: Group Accounts
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. 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 & Expenditure Statement (CIES). This issue arose again in the current year, and as in the previous year we undertook additional procedures to ensure that this issue had not lead to a material misstatement within the Norfolk Group CIES. These procedures did highlight a material error in the analysis of Norse Group expenditure in the Norfolk Group Consolidated CIES. Authority management corrected the identified analysis error in final version statement of accounts. Our audit procedures and testing did not identify any other issues in this area.

2.2 Value for money conclusion

We are required to carry out sufficient work to conclude on whether the Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

In accordance with guidance issued by the Audit Commission, in 2013/14 our conclusion was based on two criteria:

- The organisation has proper arrangements in place for securing financial resilience; and
- The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

We issued an unqualified value for money conclusion on 30 September 2014. Our audit did not identify any significant matters.

Alongside our general procedures in this area, we also focused on the decision to terminate the Willows Waste Project and the potential financial consequences of that decision. In summary, 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 findings from this element of our value for money work are noted below:

- Securing financial resilience: We 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 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.

2.3 Whole of government accounts

We reported to the National Audit Office on 30 September 2014 the results of our work performed in relation the accuracy of the consolidation pack the Authority is required to prepare for the whole of government accounts. We did not identify any areas of concern.

2.4 Annual governance statement

We are required to consider the completeness of disclosures in the Authority's Annual Governance Statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it complies with CIPFA / SOLACE guidance. We completed this work and did not identify any areas of concern.

3. Control themes and observations

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. Although our audit was not designed to express an opinion on the effectiveness of internal of internal control we communicated to those charged with governance at the Authority, as required, significant deficiencies in internal control.

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

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