Norfolk County Council

Annual Audit Letter for the year ended 31 March 2015

19 October 2015

Ernst & Young LLP

Ernst & Young LLP
One Cambridge Business Park
Cambridge
CB4 0WZ

Tel: 01223 394400
Fax: 01223 394401
www.ey.com/uk

Members
Norfolk County Council
County Hall
Martineau Lane
Norwich
Norfolk
NR1 2DH

19 October 2015

Dear Members

Annual Audit Letter 2014/15

The purpose of this annual audit letter is to communicate the key issues arising from our work to the Members and external stakeholders, including members of the public.

We have already reported the detailed findings from our audit work in our 2014/15 Annual Results Report presented to the Audit Committee on 24 September 2015, representing those charged with governance. We do not repeat those findings here.

The matters reported here are those we consider most significant for Norfolk County Council.

We would like to take this opportunity to thank officers for their assistance during the course of our work.

Yours faithfully

Rob Murray
Director
For and on behalf of Ernst & Young LLP
Enc.

Contents

1. Executive summary

Our 2014-15 audit work was undertaken in accordance with our Audit Plan issued on 23 April 2015 and was 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 Council is responsible for preparing and publishing its Statement of Accounts, accompanied by an Annual Governance Statement (AGS). In the AGS, the Council reports publicly each year on how far it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in year, and any changes planned in the coming period.

The Council is also responsible for having 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, and on the consistency of other information published with them
- reviewing and reporting by exception on the Council's AGS
- forming a conclusion on the arrangements the Council has to secure economy, efficiency and effectiveness in its use of resources
- undertaking any other work specified by the Audit Commission and the Code of Audit Practice.

Summarised below are the results of our work across all these areas:

Area of work	Result
Audit of the financial statement of Norfolk County Council for the financial year ended 31 March 2015 in accordance with International Standards on Auditing (UK & Ireland)	On 30 September 2015 we issued an unqualified audit opinion on the Council's financial statements
Form a conclusion on the arrangements the Council has made for securing economy, efficiency and effectiveness in its use of resources	On 30 September 2015 we issued an unqualified value for money conclusion
Report to the National Audit Office on the accuracy of the consolidation pack the Council needs to prepare for the Whole of Government Accounts	We reported the findings of our work on the accuracy of the consolidation pack to the National Audit Office on 30 September 2015
Consider the completeness of disclosures on the Council's AGS, identify any inconsistencies with other information which we know about from our work and consider whether it complies with CIPFA/ SOLACE guidance	No issues to report
Consider whether we should make a report in the public interest on any matter coming to our notice in the course of the audit	No issues to report
Determine whether we need to take any other action in relation to our responsibilities under the Audit Commission Act	No issues to report

As a result of the above we have also:	
Issued a report to those charged with governance of the Council communicating the significant findings from our audit.	Our Audit Results Report was presented to the Audit Committee on 24 September 2015.
Issued 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.	We issued our certificate on 30 September 2015.

2. Key findings

2.1 Financial statement audit

The Council's Statement of Accounts is an important tool to show both how the Council has used public money and how it can demonstrate its financial management and financial health.

We audited the Council's Statement of 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 and issued an unqualified audit report on 30 September 2015.

Our detailed findings were reported the Audit Committee on 24 September 2015.

In our view, the quality of the process for producing the accounts, including the supporting working papers remains strong. Our audit identified a limited number of misstatements and presentational improvements which our team highlighted to management for amendment. All of these were corrected during the course of our work.

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 of journals and estimates did not identify any material misstatements, evidence of management bias or significant unusual transactions.

Significant risk 2: Accounting for schools

Accounting for schools has been a key issue over previous years. This has focused on the accounting treatment of assets held by locally maintained schools and whether these assets are controlled by the local authority and therefore on the Balance Sheet. This control assessment has focused on the five main categories of schools, community, voluntary controlled (VC), voluntary aided (VA), foundations and academies. During 2014/15, guidance has been issued in this area, specifically an update to the Code and LAAP Bulletin 101; Accounting for Non-Current Assets Used by Local Authority Maintained Schools. The updated guidance considers further the impact of ownership on the control assessment; specifically the fact that VC, VA and a number of foundation schools may be owned by religious bodies.

The Council considered in detail the new guidance contained in the Code and LAAP Bulletin 101; Accounting for Non-Current Assets Used by Local Authority Maintained Schools , and concluded that the accounting treatment of schools within the Council's accounts remains unchanged from previous periods. We concurred with this judgement.

Significant risk 3: Pension Valuations and disclosures

The Local Authority Accounting Code of Practice and International Accounting Standard (IAS) 19 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 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.

Our audit procedures and testing of IAS 19 accounting entries and estimates did not identify any issues that required reporting.

Significant risk 4: Norse Group Ltd

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. As in previous years, we liaised with Grant Thornton LLP, the external auditors of the Norse Group, issuing them with instructions that detailed the required audit procedures that we required them to undertake on the consolidation schedules prepared by Norse.

Audit procedures concluded that the consolidation schedule preparation procedures implemented by Norse had been strengthened during the year and there were no issues to report.

Other financial statement risk 1: Assessment of the Norfolk County Council group boundary

IFRS 10: Consolidated Financial Statements and IFRS 11: Joint Arrangements were adopted into the Local Authority Accounting Code of Practice for the first time in 2014/15. These new accounting standards introduced a number of changes to the classification and accounting requirements for potential group entities. The Council were therefore required to revisit its assessment of the group boundary in the light of these new standards, specifically focusing on arrangements it has entered with other entities regarding service delivery.

The Council concluded that following an assessment under IFRS 10 and 11, those entities within the Norfolk County Council group boundary remain unchanged from previous periods. We concurred with this judgement.

Other financial statement risk 2: Valuation of property, plant and equipment

Property, plant and equipment represent a significant balance in the Council's accounts and this is an area which involves judgemental inputs and estimates. The most significant accounting judgement and estimate that the Council forms in this area relates to the valuation of property, plant and equipment. In order to address this accounting risk the Council employs a valuation expert; Norfolk Property Services.

Our audit procedures considered the revaluations made in year; the basis of valuation of significant assets; any significant changes in use of assets to ensure the valuation basis remained appropriate; and the valuation expertise used by the Council. Our audit procedures did not identify any issues that required reporting.

Other financial statement risk 3: Academies

Schools have continued to convert to academy status during 2014/15. This has implications for the treatment of the schools' property, plant and equipment, debtors, creditors, cash, balances and income (including dedicated schools grant) and expenditure within the Council's accounts. The conversion to academy status presents a risk that these schools' transactions and balances may be either incorrectly included or omitted.

Our audit procedures did not identify any issues that required reporting.

2.2 Value for money conclusion

As part of our work we must also conclude whether the Council has proper arrangements to secure economy, efficiency and effectiveness in the use of resources. This is known as our value for money conclusion.

In accordance with guidance issued by the Audit Commission, our 2014/15 value for money conclusion was based on two criteria. We consider whether the Council had proper arrangements in place for:

- securing financial resilience, and
- challenging how it secures economy, efficiency and effectiveness.

During our audit planning procedures we identified one significant risk in relation to the financial resilience criteria. The Council has continued to respond to the financial challenges it is facing. The complexity and scale of that challenge is increasing over the next three to four years due to declining Central Government funding and continued pressures from inflation, demographics and the impact of new legislation. As a result of these pressures the Council currently had unfunded budget gaps in its medium term financial strategy (MTFS) of £42m in 2016/17 and £43.7m in 2017/18.

The Council has continued to take proactive steps to identify savings and income generating opportunities and senior managers are confident that they are making good progress towards identifying ways in which the gap in 2016/17 can be met. The Council continues to develop its plans to deal with these pressures.

The Council has a strong track record of delivering its budget and planned savings in recent years enabling it to freeze Council Tax for the last 5 years. As an example, the 2014/15 budget included around £69 million of savings and efficiencies, which were successfully delivered. This resulted in a reported spend on services which was £1.8 million less than budget.

We issued an unqualified value for money conclusion on 30 September 2015.

2.3 Whole of Government Accounts

We performed the procedures required by the National Audit Office and reported the findings of our work on the accuracy of the consolidation pack to the National Audit Office on 30 September 2015. There were no issues to report.

2.4 Annual Governance Statement

We are required to consider the completeness of disclosures in the Council's AGS, identify any inconsistencies with the other information which we know about from our work, and consider whether it complies with relevant guidance.

We completed this work and did not identify any areas of concern.

2.5 Objections received

We did not receive any objections to the 2014/15 financial statements from members of the public.

2.6 Other powers and duties

We did not identify any issues during our audit that required us to use powers under the Audit Commission Ac 1998, including reporting in the public interest.

2.7 Independence

We communicated our assessment of independence to the Audit Committee on 24 September 2015. In our professional judgement the firm is independent and the objectivity of the audit engagement lead and audit staff has not been compromised within the meaning of regulatory and professional requirements

3. Control themes and observations

As part of our work, we obtained enough understanding of internal control to plan our audit and determine the nature, timing and extent of testing performed. We have tested the controls of the Council only to the extent necessary for us to complete our audit.

Although our audit was not designed to express an opinion on the effectiveness of internal control, we are required to tell the Council about any significant deficiencies in internal control we find during our audit.

We did not identify any significant deficiencies in the design of an internal control that might result in a material misstatement in the Council's financial statements.

4. Looking Ahead

There are a number of changes in accounting and auditing requirements that could have a significant impact on the Council's arrangements for the production of its financial statements. We have outlined what we think are three of the main challenges below.

Description	Impact
Highways Network Asset (formerly Transport Infrastructure Assets):	
The Invitation to Comment on the Code of Accounting Practice for 2016/17 (ITC) sets out the requirements to account for Highways Network Asset under Depreciated Replacement Cost from the existing Depreciated Historic Cost. This is to be effective from 1 April 2016. This will be a material change of accounting policy for the Council. It will also require changes to existing asset management systems and valuation procedures. Nationally, latest estimates are that this will add £1,100 billion to the net worth of authorities.	CIPFA have produced *LAAP bulletin 100*, which provides a suggested timetable for actions to prepare for this change. This has been supplemented by the issue of the *Code of Practice on Transport Infrastructure Guidance Notes (May 2015)* and *ITC (July 2015)*. The Council will need to consider: • How it can demonstrate completeness of base information, through working closely with highways and other relevant departments; and • How it can ensure that valuation information is appropriate to the Council, and that national valuation indicators are not used without consideration of their appropriateness locally.
Better Care Fund	
The Better Care Fund (BCF) is a major policy initiative between local authorities, clinical commissioning groups (CCGs) and NHS providers with a primary aim of driving closer integration and improving outcomes for patients, service users and carers. From the 1 April 2015 BCF has been set up as pooled budget between local government and NHS partners using powers available under pre-existing legislation. The partners use the pooled fund to jointly commission or deliver health and social care services at a local level. Although local authorities, CCGs and NHS providers have experience of pooled budgets and established joint commissioning arrangements, pooled arrangements under BCF are likely to be on a much larger scale. Nationally the fund is comprised of a number of existing funding streams and will involve a minimum NHS spend of £3.8 billion together with other grant funding streams historically administered by local authorities. The detailed form of local pooled arrangements is not prescribed and has needed to be agreed between the partners.	Local BCF arrangements may be complex and varied, involving a number of different commissioning, governance and accounting arrangements that raise risks of misunderstanding, inconsistencies and confusion between the partners. There are also structural, cultural and regulatory differences between local government and the NHS, and it is important that these are understood and considered by all of the partners in the operation of the pool. In October 2014 HFMA/CIPFA produced "Pooled Budgets and the Better Care Fund" which provides more detailed guidance on the governance and finance issues underpinning the operation of a pooled budget and the associated risks and challenges faced by local government and NHS partners. The Council will need to ensure that robust governance and accounting arrangements have been implemented regarding BCF.

Description	Impact
Earlier deadline for production and audit of the financial statements from 2017/18 The Accounts and Audit Regulations Accounts and Audit Regulations 2015 were laid before Parliament in February 2015. A key change in the regulations is that from the 2017/18 financial year the timetable for the preparation and approval of accounts will be brought forward. As a result, the Council will need to produce draft accounts by 31 May and these accounts will need to be audited by 31 July.	These changes provide challenges for both the preparers and the auditors of the financial statements. The Council is aware of this challenge and the need to start planning for the impact of these changes. This will necessarily include review of the processes for the production and audit of the accounts, including areas such as the production of estimates, particularly in relation to pensions and the valuation of assets, and the year-end closure processes.

EY | Assurance | Tax | Transactions | Advisory

Ernst & Young LLP

The UK firm Ernst & Young LLP is a limited liability partnership registered in England and Wales with registered number OC300001 and is a member firm of Ernst & Young Global Limited.

Ernst & Young LLP, 1 More London Place, London, SE1 2AF.

ey.com