Norfolk County Council

Annual Audit Letter for the year ended 31 March 2019

9 September 2019

Contents

Public Sector Audit Appointments Ltd (PSAA) have issued a ‘Statement of responsibilities of auditors and audited bodies’. It is available from the Chief Executive of each audited body and via the PSAA website (www.psaa.co.uk).

This 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 April 2018)’ issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Annual Audit 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.

01 Executive Summary

Executive Summary

We are required to issue an annual audit letter to Norfolk County Council following completion of our audit procedures for the year ended 31 March 2019.
Below are the results and conclusions on the significant areas of the audit process.

Area of Work	Conclusion
Opinion on the Council's and Pension Fund's: ► Financial statements	Unqualified – the financial statements give a true and fair view of the financial position of the Council and Pension Fund as at 31 March 2019 and of its expenditure and income for the year then ended. Our Audit opinion was issued on 31 July 2019 for Norfolk County Council (group) and on 31 July 2019 for Norfolk Pension Fund.
► Consistency of other information published with the financial statements	Other information published with the Statement of Accounts was consistent with the Annual Accounts.
Concluding on the Council's arrangements for securing economy, efficiency and effectiveness	We concluded that you have put in place proper arrangements to secure value for money in your use of resources

Area of Work	Conclusion
Reports by exception:	
► Consistency of Governance Statement	The Governance Statement was consistent with our understanding of the Council.
► Public interest report	We had no matters to report in the public interest.
► Written recommendations to the Council, which should be copied to the Secretary of State	We had no matters to report.
► Other actions taken in relation to our responsibilities under the Local Audit and Accountability Act 2014	We had no matters to report.

Area of Work	Conclusion
Reporting to the National Audit Office (NAO) on our review of the Council's Whole of Government Accounts return (WGA).	We had no matters to report.

Executive Summary (cont'd)

As a result of the above we have also:

Area of Work	Conclusion
Issued a report to those charged with governance of the Council communicating significant findings resulting from our audit.	Our Audit Results Report was issued on 24 July 2019 for Norfolk County Council and on 19 July 2019 for Norfolk Pension Fund.
Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2015 Code of Audit Practice.	Our certificate was issued on 9 September 2019.

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

Mark Hodgson

Associate Partner

For and on behalf of Ernst & Young LLP

02 Purpose and Responsibilities

Purpose and Responsibilities

The Purpose of this Letter

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

We have already reported the detailed findings from our audit work in our 2018/19 Audit Results Report to the 29 July 2019 Audit Committee, representing those charged with governance. We do not repeat those detailed findings in this letter. The matters reported here are the most significant for the Council.

Responsibilities of the Appointed Auditor

Our 2018/19 audit work has been undertaken in accordance with the Audit Plan that we presented to the 31 January 2019 Audit Committee and is conducted in accordance with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office.

As auditors we are responsible for:

- Expressing an opinion:
  - On the 2018/19 financial statements, including the pension fund; and
  - On the consistency of other information published with the financial statements.
- Forming a conclusion on the arrangements the Council has to secure economy, efficiency and effectiveness in its use of resources.
- Reporting by exception:
  - If the annual governance statement is misleading or not consistent with our understanding of the Council;
  - Any significant matters that are in the public interest;
  - Any written recommendations to the Council, which should be copied to the Secretary of State; and
  - If we have discharged our duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

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

Responsibilities of the Council

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 putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

03 Financial Statement Audit

Financial Statement Audit – Norfolk County Council

The Council's Statement of Accounts is an important tool for the Council to show how it 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 National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office and issued an unqualified audit report on 31 July 2019.

Our detailed findings were reported to the 29 July 2019 Audit Committee.

Misstatement due to fraud or error

What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

As identified in ISA (UK) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.

What did we do?

We carried out the following procedures:

- Identified fraud risks during the planning stages.
- Made inquiries of management about risks of fraud and the controls put in place to address those risks.
- Obtained an understanding of the oversight given by those charged with governance of management's processes over fraud.
- Considered of the effectiveness of management's controls designed to address the risk of fraud.
- Determined an appropriate strategy to address those identified risks of fraud.
- Performed mandatory procedures regardless of specifically identified fraud risks, including testing of journal entries and other adjustments in the preparation of the financial statements.

What are our conclusions?

As reported in our Audit Plan, our work to identify fraud risks during the planning stages identified those areas of the accounts that involve management estimates and judgements as the key areas at risk of manipulation.

The results of our work on these specific risks are set out on the following pages.

We have not identified any new areas at risk of manipulation.

Significant Risk

Significant risk

Misstatements due to fraud or error – the incorrect capitalisation of revenue expenditure

What is the risk?

The Council is under financial pressure to achieve budget and maintain reserve balances above the minimum approved levels. Manipulating expenditure is a key way to achieve these targets.

We consider the risk applies to capitalisation of revenue expenditure. Management could manipulate revenue expenditure by incorrectly capitalising expenditure which is revenue in nature and should be charge to the comprehensive income and expenditure account.

What did we do and what judgements did we focus on?

In considering this risk we have focussed on management's judgement in capitalising expenditure as PPE. The Authority has a number of large capital programmes and therefore judgement can be exercised in the allocation of costs between revenue expenditure and capital expenditure.

We have performed the following procedures to address the risk:

- Capital additions testing - We selected a sample of capital additions based on our established testing threshold and tested these to confirm that all amounts could be agreed to appropriate audit evidence (e.g. invoice, valuation certificate etc.) and that the item being capitalised was capital in nature.
- Data analytics journal entry testing - As part of our testing of journals we included specific tests to search for unusual activity that:
    - Moves expenditure from the CIES to PPE on the balance sheet.
    - Reduces expenditure and creditors.

What are our conclusions?

- Our sample testing of additions to property, plant and equipment found that they had been correctly classified as capital and included at the correct value;
- Our sample testing of additions to property, plant and equipment did not identify any revenue items that were incorrectly classified; and
- Our data analytical procedures did not identify any journal entries that incorrectly moved expenditure into capital codes.

Significant Risk

Significant risk

Misstatements due to fraud or error – accounting adjustments made in the 'Movement in Reserves Statement'.

What is the risk?

The Council is under financial pressure to achieve its revenue budget and maintain reserve balances above the minimum approved levels. Manipulating expenditure is a key way of achieving these targets.

We consider the risk applies to accounting adjustments made in the movement in reserves statement.

The adjustments between accounting basis and funding basis under Regulation changes the amounts charged to General Fund balances. Regulations are varied and complex, resulting in a risk that management misstatement accounting adjustments to manipulate the General Fund balance. We have identified the risk to be highest for adjustments concerning:

- Revenue Expenditure Funded from Capital Under Statute (REFCUS)
- Capital Grants
- Depreciation, impairments and revaluation losses
- Minimum revenue provision

What did we do and what judgements did we focus on?

The adjustments between accounting basis and funding basis under regulation in the financial statements materially changes the charges to the General Fund balance. This line is shown in the Movement in Reserves Statement. As the Regulations are varied and complex there is an inherent risk that management use this line to manipulate the General Fund balance. We identified the following areas as having a higher risk of management override:

- Revenue items incorrectly identified as Revenue Expenditure Funded from Capital Under Statute,(REFCUS) thus funded from capital.
- Removal of capital grants from the General Fund through the MiRS. These are material amounts and could be incorrectly applied to fund revenue items.
- Depreciation, impairment and revaluation losses. Charged to the surplus or deficit on the provision of services and then adjusted through the MiRS to unusable reserves.

To address this risk we:

- Sample tested REFCUS to ensure the expenditure met the definition of allowable expenditure, or was incurred under direction from the secretary of state;
- Reconciled entries for consistency to other audited accounts within the financial statements, for example our work on property, plant and equipment to support adjustments made for depreciation, impairments, revaluation losses, and application of capital grants; and
- Reviewed the Authority's policy and application of the 'Minimum Revenue Provision'.

What are our conclusions?

- Our sample testing of REFCUS transactions found that they had been correctly classified and the expenditure met the definition of allowable expenditure, or was incurred under direction from the secretary of state;
- Entries in the Movement in Reserves Statement were reconciled to other balances within the financial statements; and
- No issues were identified with the Authority's application of the minimum revenue provision policy.

Significant Risk

Financial Statement Audit(Cont'd) - Norfolk County Council

Area of Audit Focus

Conversion of schools to Academies

As set out in our Audit Plan, a number of schools have continued to convert to academy status during 2018/19. This has implications for the treatment of the schools' balances in the financial statements, with the most significant relating to property, plant and equipment.

There is a risk that these schools' transactions and balances may be either incorrectly included or omitted.

Other balances relating to debtors, creditors, cash balances and income (including dedicated schools grant) and expenditure within the Authority's accounts are considered to be lower risk due to their size and nature.

To address this risk we:

- Reviewed the arrangements for identifying the school assets, liabilities and balances for transfers; and
- Reviewed how the transfers have been accounted for, including 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.

Our conclusions are:

- Our review of the arrangements for agreeing school assets, liabilities and balances for transfers did not identify any omissions; and
- Our testing confirmed that transfers had been accounted for correctly. The reconciliation of schools that have converted to academies during the year agreed to the relevant accounting systems including the Fixed Asset Register and Department for Education records.

Financial Statement Audit(Cont'd) - Norfolk County Council

Area of Audit Focus

Accounting for Property, Plant & Equipment

Property, Plant and Equipment represent a significant balance in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the Balance Sheet for land and buildings in particular.

The Council engage an external expert valuer who will apply a number of complex assumptions to these assets. 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 Property, Plant and Equipment may be under/overstated. 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.

To address this risk we:

- Considered the work performed by the Authority's valuer, including the adequacy of scoping the work, their professional capabilities and the results of their work;
- Sample tested key asset information used by the valuer in performing their valuation (e.g. floor plans to support valuations based on price per square metre);
- Considered the annual cycle of valuations to ensure that assets have been valued within the appropriate time frame and any changes communicated to the valuer;
- Reviewed assets not subject to valuation in 2018/19 to confirm that the remaining asset base was not materially misstated;
- Considered changes to useful economic lives as a result of the most recent valuation; and
- Tested accounting entries had been correctly processed in the financial statements.

Our conclusions are:

- We did not identify any issues with the Authority's valuer, their scoping of work, professional capabilities or results of their valuation procedures;
- Our testing confirmed that assets had been valued within the appropriate timeframe and those valued in the year had been performed correctly;
- Our testing of assets not subject to valuation in 2018/19 confirmed that the remaining asset base was not materially misstated at 31 March 2019; and
- No issues were identified with the useful economic lives of assets or the accounting entries disclosed in the financial statements and supporting notes.

Financial Statement Audit(Cont'd) - Norfolk County Council

Area of Audit Focus

Pensions valuations and disclosures

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 liability be disclosed on the Council's Balance Sheet. The information disclosed is based on the IAS19 report issued to the Council by the actuary to the pension fund. Accounting for this scheme involves significant estimation and judgement.

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.

To address this risk we:

- Liaised with the auditors of Norfolk Pension Fund to obtain assurances over the information supplied to the actuary in relation to Norfolk County Council;
- Assessed the work of the Pension Fund actuary (Hymans) including the assumptions they used by relying on the work of PwC – Consulting Actuaries commissioned by National Audit Office (NAO) for all Local Government sector auditors, and considering the corresponding reviews performed by the EY actuarial team; and
- Reviewed and tested the accounting entries and disclosures made within the Authority's financial statements in relation to IAS19.

Our conclusions are:

We have reviewed the assessment of the pension fund actuary by PWC and EY pensions and have undertaken the work required.

A national issue resulted in a relatively late change to the pension fund accounts and IAS 19 fund liability disclosure. It relates to legal rulings concerning age discrimination arising from public sector pension scheme transitional arrangements, commonly described as the McCloud ruling, and the Lloyds Bank High Court case, where the judge has ruled that all schemes must equalise Guaranteed Minimum Pensions ('GMP') between males and females.

This resulted in increase to the pension fund liability of £24.5 million (Local Government Pension Scheme - £10.2 million, Firefighters Pension Scheme £14.3 million), with further associated disclosure added to recognise this as a source of estimation uncertainty and an adjusted Post Balance sheet event.

A further £11.4 million adjustment was made to the net pension liability as the actual Norfolk Pension Fund asset valuation at the 31 March 2019 was lower than the Actuary's estimate. This adjustment is a result of a timing difference between an estimate made by the Actuary, and information that has become available since the time of their initial report. The Authority correctly used the information provided within the original IAS 19 report within its draft financial statements. The adjustment represents the Authority's share on the decrease in pension assets.

Financial Statement Audit(Cont'd) - Norfolk County Council

Other Areas of Audit Focus – New accounting standards

The Code requires the Authority to comply with the requirements of two new accounting standards for 2018/19 and make preparations for another new standard for 2020/21. These standards are:

- IFRS 9 – Financial instruments;
- IFRS 15 – Revenue from contracts; and
- IFRS 16 – Leases.

There is an inherent risk in relation to implementing new accounting standards and carrying out a sufficient assessment and evaluation.

Standard	Audit Findings
IFRS 9 – Financial Instruments	Our audit procedures identified some disclosure adjustments. We have not identified any other audit issues.
IFRS 15 – Revenue from Contracts	Our audit procedures for revenue from contracts did not identify any audit issues.
IFRS 16 – Leases	IFRS 16 replaces IAS 17 Leases and its related interpretations. It will now apply to the 2020/21 financial statements. The changes introduced by the standard will have substantial practical implications for local authorities that currently have material operating leases, and are also likely to have an effect on the capital financing arrangements of the authority. We have considered the Authority's implementation plan and preparedness for IFRS 16. The Authority have already considered their completeness of leases and identifying those that may require reclassifying. We therefore believe the Authority is well placed to address the implications of IFRS 16. IFRS16 will apply to the Norse Group in 2019/20, a year ahead of the application date for Local Government. The Council will therefore need to consider the consolidation adjustments required for the Council's 2019/20 financial statements.

In addition, changes have been made to the CIPFA/LAASAC Code for 2019/20, as noted below:

- The revised IASB Conceptual Framework for Financial Reporting (Conceptual Framework), the main elements being (2019/20 Code Cpt 2.1 refers);
  - new definitions of assets, liabilities, income and expenses
  - updates for the inclusion of the recognition process and criteria and new provisions on de-recognition
  - enhanced guidance on measurement bases
- Guidance in the treatment of the Apprenticeship Levy (2019/20 Code Cpt 2.11 refers)
- Updated guidance on IFRS 9 Financial Instruments: Prepayment Features with Negative Compensation & LOBOs (2019/20 Code Cpt 2.11 refers)
- Clarifications for the disclosure requirements with respect to interests in entities within the scope of IFRS 5 Non-current Assets Held for Sale and Discontinued Operations (2019/20 Code Cpt 9 refers).

Significant risk

Misstatements due to fraud or error

What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

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

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

What did we do?

As set out in our Audit Plan we confirm that we have performed the following procedures:

- We inquired of management about risks of fraud and the controls put in place to address those risks;
- We obtained an understanding the oversight given by those charged with governance of management's processes over fraud;
- We considered the effectiveness of management's controls designed to address the risk of fraud;
- We performed mandatory procedures regardless of specifically identified fraud risks, including;
    - testing of journal entries and other adjustments in the preparation of the financial statements;
    - reviewing accounting estimates for evidence of management bias; and
    - evaluating the business rationale for significant unusual transactions.
- We utilised our data analytics capabilities to assist with our work, including journal entry testing; and
- We assessed journal entries for evidence of management bias and evaluate for business rationale.

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 Fund's normal course of business

Significant risk

Investment income and asset valuations - Investment Journals*

What is the risk?

We have considered the key areas where management has the opportunity and incentive to override controls that could affect the Fund Account and the Net Asset Statement.

We have identified the main area being;

- Investment income and asset valuations being taken from the Custodian reports and incorrectly posted to the general ledger in the year, specifically through journal postings.

What did we do?

As set out in our Audit Plan we confirm that we have performed the following procedures:

- Tested journals at year-end to ensure there are no unexpected or unusual postings;
- Undertook a review of reconciliations to the fund manager and custodian reports and investigated any reconciling differences;
- Re-performed the detailed investment note using the reports we acquired directly from the custodian or fund managers;
- Checked the reconciliation of holdings included in the Net Assets Statement back to the source reports; and
- For quoted investment income we will agreed the reconciliation between fund managers and custodians back to the source reports.

What are our conclusions?

Our testing has not identified any material misstatements from investment income or year end investment assets.

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.

Other area of audit focus

Valuation of Complex Investments

What is the risk?

The Fund's investments include unquoted pooled investment vehicles such as private equity, and property investments. Judgements are taken by the Investment Managers to value those investments whose prices are not publicly available. The material nature of Investments means that any error in judgement could result in a material valuation error.

Current market volatility means such judgments can quickly become outdated, especially when there is a significant time period between the latest available audited information and the fund year end. Such variations could have a material impact on the financial statements.

The total fund investment assets at 31 March 2019 are £3.84 billion, of which Private Equity Investments (Unquoted) is £232 million (6.0% of total investments).

Although the proportion of the fund comprising these investment types is relatively low, these investments are more complex to value. We have identified the Fund's investments in private equity and pooled property investments as a higher risk, as even a small movement in these assumptions could have an impact on the financial statements.

What did we do and what management judgements did we focus on?

Our audit approach has included the following procedures:

- Assessing the competence of management experts;
- Reviewing the basis of valuation for property investments and other unquoted investments and assessing the appropriateness of the valuation methods used;
- Comparing the investment value included in the financial statements to direct confirmations from the Fund Managers.
- Where available, reviewing the latest audited accounts for the relevant fund managers and ensuring there are no matters arising that highlight weaknesses in the funds valuation;
- Obtain copies of the ISAE3402 reports over internal control for any control exceptions raised in relation to the valuation of investments; and
- Performing analytical procedures and checking the valuation output for reasonableness against our own expectations.

What are our conclusions?

As the Custodian provides the estimated value of the unquoted investments based on information at December 2018 for pooled investment vehicles there will always be a possibility that the fund manager will provide a different valuation as at 31 March 2019.

The Fund Manager has now provided (mid July 2019) the 31 March 2019 investment valuations for this fund. The fund value has increased by £10.2 million.

This amount is not material and officers are proposing not to adjust the financial statements in relation to it. They are proposing to update the Post Balance Sheet Note to provide disclosure information.

Financial Statement Audit (cont'd)

Our application of materiality

When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole.

Item	Thresholds applied
Planning materiality:	
Norfolk County Council	We determined planning materiality to be £25.7 million (for the group this was £30.2 million), which is 1.8% of gross expenditure on net cost of services plus financing and investment expenditure as reported in the accounts.
Norfolk Pension Fund	We determined planning materiality to be £38.3 million which is 1% of Net Assets.
Reporting threshold:	
Norfolk County Council	We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £1.1 million.
Norfolk Pension Fund	The threshold for reporting audit differences is £1.9 million.

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

- Remuneration disclosures - reduced materiality level of £5,000 applied in line with bandings disclosed.
- Related party transactions, members' allowances and exit packages - reduced materiality level applied equal to the reporting threshold.
- Fire Pension Scheme - We have adopted a smaller materiality of 1.8% of benefits payable to reflect the differing nature of the Pension Scheme.
- 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.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations.

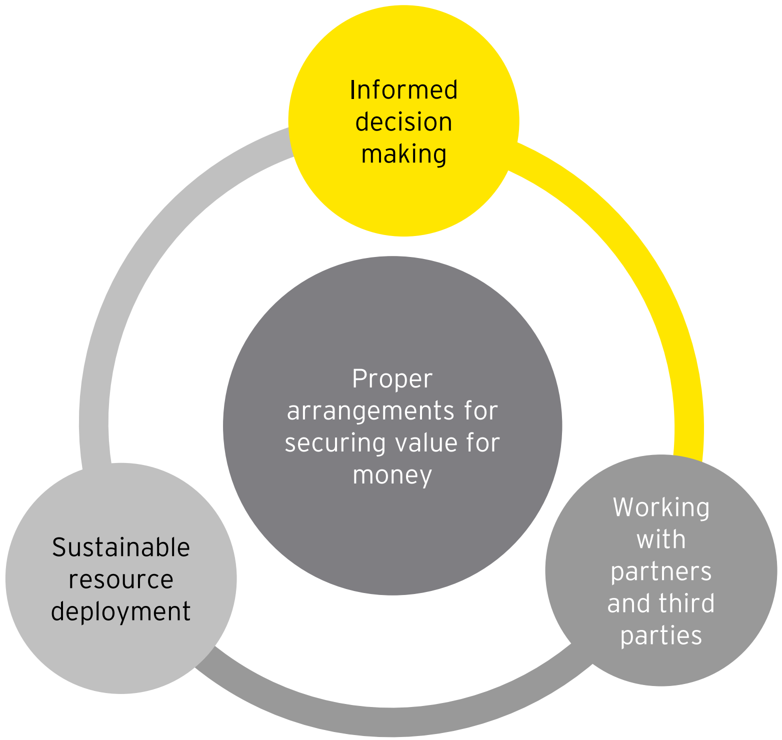
04 Value for Money

Value for Money

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness in its use of resources. This is known as our value for money conclusion.

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- Take informed decisions;
- Deploy resources in a sustainable manner; and
- Work with partners and other third parties.



We identified one significant risk around these arrangements. This risk is set out on the next page along with our findings. The procedures we have performed were outlined in our audit plan.

We did not identify any significant weaknesses in the Council's arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

Value for Money (cont'd)

Significant Risk	Conclusion
To date the Council has responded well to the financial pressure resulting from the continuing economic downturn. However, substantial savings are required over the period 2018 to 2022 to balance the budget: ▸ 2018/19 = £29.999 million (identified savings) ▸ 2019/20 = £50.322 million (identified savings + budget gap) ▸ 2020/21 = £82.503 million (identified savings + budget gap) ▸ 2021/22 = £10.400 million (identified savings + budget gap) (Source: Norfolk County Council Budget Book 2018-22) The most recent financial forecast (Period 6 figures) for the year ended 31 March 2019 projects an overspend of £4.496 million. (Source: Norfolk County Council P&R agenda and reports 28th November 2018) It is clear that the Council is facing a number of financial pressures which may impact on its ability to develop and deliver sustainable financial and service plans for current and future years. Therefore a risk remains that further savings or increased income will not be identified to close the funding shortfalls. (VFM arrangements affected : Taking informed decisions and Deploying resources in a sustainable manner)	The scale of savings and service transformation to be delivered by the Authority over the medium term are significant. The Authority reported a small surplus in 2018/19 and is maintaining its current level of un-earmarked general fund reserves, £19.6 million, above the prudential minimum of £19.3 million set and approved by Full Council. These provide the Authority 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 Authority's financial standing. The Authority plans to increase the level of un-earmarked general fund reserves to £26.5 million by 31 March 2022. The Authority also has in place substantial levels of earmarked reserves (£73.3 million at 31 March 2019, excluding school reserves). These have been established for a number of purposes but the existence of these reserves provides further evidence of the Authority's prudent approach to financial management. The Authority achieved c85% of required savings in 2018/19 and to date the Authority has identified the savings required for 2019/20 of £21.3 million. However, the Authority faces significant pressure and uncertainly concerning legislative and policy changes, increasing demand for services, Business Rates Localisation, and uncertainty concerning future funding levels. This is particularly prevalent in two areas: ▸ Children's services, where the Authority continue to experience high and increasing levels of need across numerous service areas including children with special educational needs and children at risk of harm. This resulted in a £13.2 million overspend in 2018/19. The Council are responding by considering management arrangements, the service strategy, and recognising the need for further funding and a re-profiling of savings. ▸ Dedicated Schools Grant, where funded services were £2.8 million overspent in 2018/19, the cumulative year-on-year overspend is now £10.8 million. There continues to be significant pressure on the High Needs Block due to ongoing increases in demand and challenges of sufficiency. The Authority have a transformation plan to reduce annual overspends prior to returning the cumulative position to a balanced position. However, this is expected to take many years and will be dependent upon future decisions by central government regarding Dedicated Schools Grant funding. Whilst the Authority has continued financial pressures, our review of the budget setting process, assumptions used in financial planning, in year financial monitoring, and the Authority's history of delivering savings plans has not identified any significant matters that we wish to report to you.

05 Other Reporting Issues

Other Reporting Issues

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, is specified by the National Audit Office.

We have performed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission. We have completed this work ahead of the 13 September 2019 deadline and have no matters to report.

Annual Governance Statement

We are required to consider the completeness of disclosures in the Council's annual governance statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it is misleading. 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 completed this work and did not identify any areas of concern.

Report in the Public Interest

We have a duty under the Local Audit and Accountability Act 2014 to consider whether, in the public interest, to report on any matter that comes to our attention in the course of the audit in order for it to be considered by the Council or brought to the attention of the public.

We did not identify any issues which required us to issue a report in the public interest.

Written Recommendations

We have a duty under the Local Audit and Accountability Act 2014 to designate any audit recommendation as one that requires the Council to consider it at a public meeting and to decide what action to take in response.

We did not identify any issues which required us to issue a written recommendation.

Other Reporting Issues (cont'd)

Objections Received

We have received correspondence from three members of the public. We treated the correspondence as information provided to the auditor as part of the audit and have no matters to report as a result.

We did not receive any objections to the 2018/19 financial statements from members of the public.

Other Powers and Duties

We identified no issues during our audit that required us to use our additional powers under the Local Audit and Accountability Act 2014.

Independence

We communicated our assessment of independence in our Audit Results Report to the Audit Committee on 29 July 2019. 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 regulatory and professional requirements.

Control Themes and Observations

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.

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.

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.

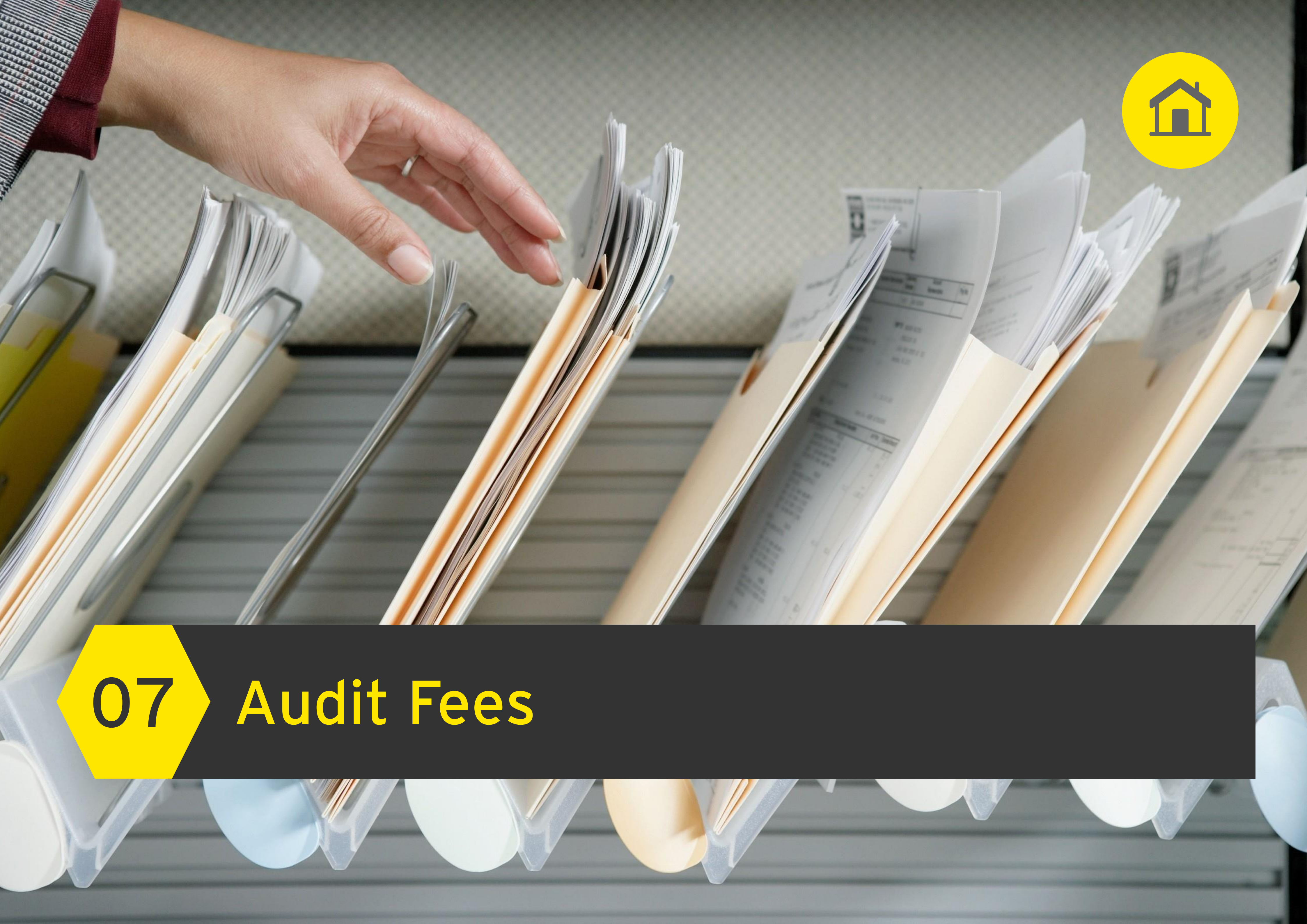
We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware.

06 Focused on your future

Focused on your future

The Code of Practice on Local Authority Accounting in the United Kingdom introduces the application of new accounting standards in future years. The impact on the Council is summarised in the table below.

Standard	Issue	Impact
IFRS 16 Leases	It is currently proposed that IFRS 16 will be applicable for local authority accounts from the 2020/21 financial year. Whilst the definition of a lease remains similar to the current leasing standard; IAS 17, for local authorities who lease 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 and although the 2020/21 Accounting Code of Practice for Local Authorities has yet to be issued, CIPFA have issued some limited provisional information which begins to clarify what the impact on local authority accounting will be. Whether any accounting statutory overrides will be introduced to mitigate any impact remains an outstanding issue.	Until the 2020/21 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 identify all of its leases and capture the relevant information for them. The Council must therefore ensure that all lease arrangements are fully documented. We have reported the Council's progress and the need to consider group reporting implications on page 14.
IASB Conceptual Framework	The revised IASB Conceptual Framework for Financial Reporting (Conceptual Framework) will be applicable for local authority accounts from the 2019/20 financial year. This introduces; – new definitions of assets, liabilities, income and expenses – updates for the inclusion of the recognition process and criteria and new provisions on derecognition – enhanced guidance on accounting measurement bases - enhanced objectives for financial reporting and the qualitative aspects of financial information. The conceptual frameworks is not in itself an accounting standard and as such it cannot be used to override or disapply the requirements of any applicable accounting standards. However, an understanding of concepts and principles can be helpful to preparers of local authority financial statements when considering the treatment of transactions or events where standards do not provide specific guidance, or where a choice of accounting policies is available.	It is not anticipated that this change to the Code will have a material impact on Local Authority financial statements. However, Authorities will need to undertake a review to determine whether current classifications and accounting remains valid under the revised definitions.



07 Audit Fees

Audit Fees

As part of our reporting on our independence, we set out below a summary of the fees paid for the year ended 31 March 2019.

We confirm that we have undertaken agreed upon procedures in relation to Teachers' Pension Return return for 2017/18. We have adopted the necessary safeguards in completing this work and complied with Auditor Guidance Note 1 issued by the NAO.

Description	Final Fee 2018/19 £'s	Planned Fee 2018/19 £'s	Scale Fee 2018/19 £'s	Final Fee 2017/18 £'s
Norfolk County Council Total Audit Fee – Code work	102,100 (Note1)	98,361	98,361	134,347
Norfolk County Council Total Audit Fee – Certification of claims and returns (Teachers Pensions)		(Note 3)		8,500
Norfolk Pension Fund Total Audit Fee – Code work	26,366 (Note 2)	23,166	20,866	29,399

Note 1 – As set out in our Audit Plan (31 January 2019), the scope of our work has increased in 2018/19 to include:

- audit work on the implementation of two new accounting standards (IFRS9 and IFRS15) - £805
- additional work to review the Authority's revised Minimum Revenue Provision policy - £2,322

In addition, increased audit procedures were required to address the additional audit findings concerning IAS19 as reported on page 12 of this letter - £612

Note 2 - As reported in our Audit Plan dated 21 January 2019 and our Audit Results Report dated 19 July 2019, we plan to charge an additional fee in 2018/19 to take into account the additional work required to respond to IAS19 assurance requests from scheduled bodies. In our Audit Plan we estimated this additional fee to be £2,300, the final fee for this additional work is £5,500.

All scale fee variations will be subject to agreement with the Public Sector Audit Appointments Ltd.

Note 3 - As set out above, we undertook agreed upon procedures for the Teachers' Pension Return for 2017/18. We have not yet been engaged to undertake this work for 2018/19 but will provide an update on this as required.

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ED None

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