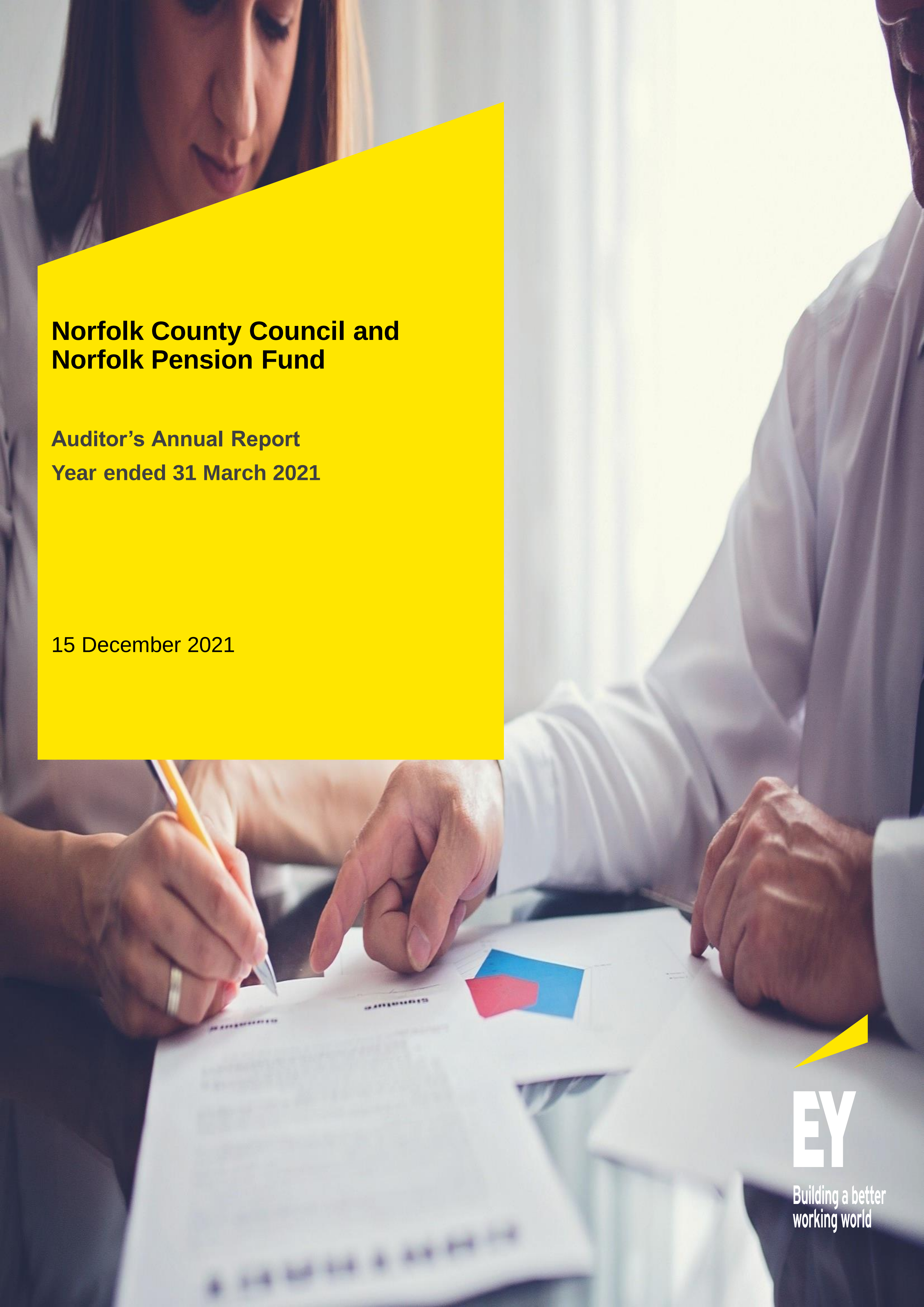

Norfolk County Council and Norfolk Pension Fund

Auditor’s Annual Report

Year ended 31 March 2021

15 December 2021

Contents

Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (https://www.psaa.co.uk/audit-quality/statement-of-responsibilities/)).The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The "Terms of Appointment and further guidance (updated April 2018)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to the Audit Committee and management of Norfolk County Council and Norfolk Pension Fund in accordance with our engagement letter. Our work has been undertaken so that we might state to the Audit Committee and management of Norfolk County Council and Norfolk Pension Fund those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit Committee and management of the Council and Pension Fund for this report or for the opinions we have formed.

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 Hywel Ball, 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.

Section 1

Executive Summary

Executive Summary: Key conclusions from our 2020/21 audit of Norfolk County Council

Area of work	Conclusion
Opinion on the Council's:	
Financial statements	**Unqualified** – the financial statements give a true and fair view of the financial position of the Council as at 31 March 2021 and of its expenditure and income for the year then ended. The financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21. We issued our Audit Report on the 13 December 2021.
Going concern	We have concluded that the Executive Director of Finance and Commercial Services' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.
Consistency of the other information published with the financial statements	Financial information in the other information published with the financial statements was consistent with the audited accounts.

Area of work	Conclusion
Reports by exception:	
Value for money (VFM)	We had no matters to report by exception on the Council's VFM arrangements. We have included our VFM commentary in Section 05.
Consistency of the Annual Governance Statement	We were satisfied that the Annual Governance Statement was consistent with our understanding of the Council.
Public interest report and other auditor powers	We had no reason to use our auditor powers.

Executive Summary: Key conclusions from our 2020/21 audit of Norfolk Pension Fund

Area of work	Conclusion
Opinion on the Pension Fund's:	
Financial statements	**Unqualified –** the financial statements give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2021 and the amount and disposition of the fund's assets and liabilities as at 31 March 2021. The financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21. We issued our Auditor Report on the 13 December 2021.
Going concern	We have concluded that the Executive Director of Finance and Commercial Services' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.
Consistency of the other information published with the financial statements	Financial information in the other information published with the financial statements was consistent with the audited accounts.
Consistency of the Pension Fund Annual Report and other information published with the financial statements	Financial information in the Pension Fund Annual report and published with the financial statements was consistent with the audited accounts.

Area of work	Conclusion
Reports by exception:	
Public interest report and other auditor powers	We had no reason to use our auditor powers.

Executive Summary: Key conclusions from our 2020/21 audits

As a result of the work we carried out we have also:

Outcomes	Conclusion
Issued a report to those charged with governance of the Council communicating significant findings resulting from our audit.	**Norfolk County Council** - We issued our Audit Results Report on the 8 October 2021 and our Audit Results Report Addendum Update on the 10 December 2021.
	Norfolk Pension Fund - We issued our Audit Results Report on the 6 October 2021.
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 2020 Code of Audit Practice.	We have not yet performed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission, as at the date of this report the NAO have not issued their guidance to auditors. We will complete this work in line with the instructions issued by the NAO when it is appropriate to do so. We will issue our Audit Certificate on completion of this work.

Fees

We carried out our audit of the Council's and Pension Fund's financial statements in line with the "Terms of Appointment and further guidance (updated April 2018)" issued by the PSAA. As outlined in the respective Audit Results Report we were required to carry out additional audit procedures. As a result, we will agree an associated additional fee with the Chief Finance Officer. We include details of the audit fees in Appendix A.

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

Mark Hodgson
Associate Partner
For and on behalf of Ernst & Young LLP

Section 2

Purpose and responsibilities

Purpose and responsibilities

This report summarises our audit work on the 2020/21 financial statements.

Purpose

The purpose of the Auditor's Annual Report is to bring together all of the auditor's work over the year. A core element of the report is the commentary on VFM arrangements for the Council audit, which aims to draw to the attention of the Council or the wider public relevant issues, recommendations arising from the audit and follow-up of recommendations issued previously, along with the auditor's view as to whether they have been implemented satisfactorily.

Responsibilities of the appointed auditor

Council audit - We have undertaken our 2020/21 audit work in accordance with the Audit Plan that we issued on the 30 March 2021 and the Audit Plan Addendum issued on the 6 October 2021.

Pension Fund audit - We have undertaken our 2020/21 audit work in accordance with the Audit Plan that we issued on the 30 March 2021.

We have complied with the NAO's 2020 Code of Audit Practice, International Standards on Auditing (UK), and other guidance issued by the NAO.

As auditors we are responsible for:

Expressing an opinion on:

- The 2020/21 financial statements;
- Conclusions relating to going concern; and
- The consistency of other information published with the financial statements, including the annual report (Pension Fund).

Reporting by exception:

- If the governance statement does not comply with relevant guidance or is not consistent with our understanding of the Council;
- If we identify a significant weakness in the Council's arrangements in place to secure economy, efficiency and effectiveness in its use of resources; and
- Any significant matters that are in the public interest.

Responsibilities of the Council

The Council is responsible for preparing and publishing its financial statements, and governance statement and the Pension Funds Annual Report and financial statements.

It is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Section 3

Financial Statement Audit – Norfolk County Council

Financial Statement Audit – Norfolk County Council

We have issued an unqualified audit opinion on the Council's 2020/21 financial statements.

Key issues

The 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.

On 13 December 2021, we issued an unqualified opinion on the financial statements. We reported our detailed findings to the Audit Committee on the 14 October 2021 and issued an Audit Results Report Addendum Update on the 10 December 2021. We outline below the key issues identified as part of our audit, reported against the significant risks and other areas of audit focus we included in our Audit Plan.

Significant risk	Conclusion
Misstatements due to fraud or error - management override of controls An ever present risk that management is in a unique position to commit 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 did not identify any: • material weaknesses in controls or evidence of material management override; • instances of inappropriate judgements being applied; or • other transactions during our audit which appeared unusual or outside the Council's normal course of business.
Inappropriate capitalisation of expenditure Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition. We identified an opportunity and incentive to capitalise expenditure under the accounting framework, to remove it from the general fund.	• 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.

Continued over.

Financial Statement Audit – Norfolk County Council (cont'd)

Significant Risk	Conclusion
Misstatements due to fraud or error – accounting adjustments made in the 'Movement in Reserves Statement' 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.	• 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; • No issues were identified with the Council's application of the minimum revenue provision policy; and • Our data analytics work did not identify any inappropriate journal adjustments made in the movement in reserve statement.
Accounting for Covid-19 related Government grants The Council received government funding in relation to Covid-19. Whilst there is no change in the CIPFA Code or accounting standard (IFRS 15) in respect of accounting for grant funding, the emergency nature of some of the grants received and in some cases the lack of clarity on any associated restrictions and conditions, means that the Council will need to apply a greater degree of assessment and judgement to determine the appropriate accounting treatment in 2020/21.	• Our sample testing of Covid-19 grant funding did not identify any grants that were incorrectly classified as specific or non-specific in nature, or any grants where the incorrect accounting treatment was applied. • Following appropriate audit challenge, our work also did not identify any grants where Norfolk County Council's assessment of their role as 'agent' or 'principal' was inconsistent with other Councils.
Land and Buildings valuation – Depreciated Replacement Cost The Council values £409 million of assets using the depreciated replacement cost (DRC) valuation. This uses economic useful life as an input to the model to calculate the value. The Council revised the method of how the economic useful life was calculated. Given the material nature of the assets valued using this method and the potential significant change to the values of these properties we have identified this as a significant risk.	• Our valuation specialist's (EYRE) review of the revised methodology for useful economic lives, concluded that the management's specialist's (NPS) methodologies in developing the estimates were consistent with valuation practice given the characteristics of the type of assets subject to valuation. • Testing was undertaken by our specialist that concluded the assets fair value was supportable and within an expected range. • We undertook further testing and did not identify any issues with the application of the new methodology. • We agreed with management that enhanced disclosures should be included within the statement of accounts under IAS 8 Accounting policies, changes in estimates and errors.

Continued over.

Financial Statement Audit – Norfolk County Council (cont'd)

In addition to the significant risks above, we also concluded on the following areas of audit focus.

Other area of audit focus	Conclusion
Accounting for Academy School Transfers Schools have continued to convert to academy status since 2015/16. 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.	• 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.
Valuation of Property, Plant & Equipment Land and buildings is the most significant balance in the Council's balance sheet. The valuation of land and buildings is complex and is subject to a number of assumptions and judgements. A small movement in these assumptions can have a material impact on the financial statements.	• We did not identify any issues with the Council's valuer, their scoping of work, professional capabilities or results of their valuation procedures; • Our sample testing of key asset information used in the valuations did not identify any issues; • Our testing of assets not subject to valuation in 2020/21 did not identify any material differences; • Our testing confirmed that assets had been valued within the appropriate timeframe and those valued in the year had been performed correctly; and • No issues were identified with the useful economic lives of assets or the accounting entries disclosed in the financial statements and supporting notes.
Pensions valuations and disclosures The Pension liability is a material balance in the Balance Sheet. Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.	• We were informed by the Pension Fund auditor that Investment Valuations within the Pension Fund were understated. On receipt of an updated actuarial (IAS 19) report from the Actuary, we determined that the Council's Pension Fund Liability was overstated by £21.3 million. Management adjusted for this audit difference within the approved financial statements.

Continued over.

Financial Statement Audit – Norfolk County Council (cont’d)

Other area of audit focus	Conclusion
Group Consolidation On 1 April 2019, Norse Group Ltd adopted IFRS 16, in accordance with recognised accounting standards required for larger companies. This has resulted in £10.350 million of operating lease liabilities being reclassified as finance leases from that date, increasing the value of both lease liabilities and Property Plant and Equipment in the Group balance sheet. In order to apply the CIPFA Code to the Group accounts, the impact of the adoption of IFRS 16 by the Norse Group should have been reversed out of the group accounts. In 2019/20 the Council did not adjust as the overall impact was considered immaterial. The risk is that the finance leases have increased and are material.	We identified that the Council have not made the consolidation adjustments for IFRS 16 which is consistent with the approach taken in 2019/20. We have reviewed the consolidation pack provided by Norse and can confirm that finance leases have reduced in year. Therefore we consider to this to be immaterial. The component auditor reported two audit differences at the Norse level, which Management chose not to adjust within the Group accounts on the grounds of materiality.
Going concern disclosures The Council is required to carry out an assessment of its ability to continue as a going concern for the foreseeable future, being at least 12 months after the date of the approved financial statements. There is a risk that the Council’s financial statements do not adequately disclose the assessment made, the assumptions used and the relevant risks and challenges that have impacted the going concern period.	We did not identify any events or conditions in the course of our audit that may cast significant doubt on the entity’s ability to continue as going concern. Management have used the basis of their assessment to produce the disclosures included within the draft financial statements. We are satisfied that the revised disclosure note appropriately sets out the circumstances surrounding the financial implications prevalent at the date of authorisation of the financial statements.

Continued over.

Financial Statement Audit – Norfolk County Council (cont’d)

Audit differences

Adjusted Audit Differences

There was on adjusted audit difference of note.

Decrease in the Council’s ‘Pension Liability’ - £21.3 million.

This was as a result of the Actuary’s updating the IAS19 report, as a result of an increase in the ‘return on the Pension Fund’s assets’ identified through the audit of Norfolk Pension Fund. The increase in investment valuation was £43.817 million. This is a due to a timing difference of available actual valuations for certain asset classes within the Pension Fund.

Unadjusted Audit Differences

There were three uncorrected misstatements identified as part of our audit that was greater than our reporting threshold.

Group Accounts – Balance Sheet – Leases - IFRS 16 impact through consolidation

In 2020/21 the CIPFA code has not adopted IFRS 16 and the Council have not made the necessary adjustments to the Group accounts consistent with the prior year. We have not been provided with a breakdown of the impacted leases in 2020/21. However, the movement on Finance Leases in the Norse accounts is a reduction of £4 million and therefore we can conclude that not making this consolidation adjustment is still immaterial. Norse Management have chosen not to adjust for this amount and therefore it would not be recorded within the Group Balance Sheet.

Group Accounts – Balance Sheet - Recoverability of Receivables

The component auditor reported that there was a significant outstanding year end balance within the Norse accounts with Norwich City Council. Norse Management’s view is that there is no material exposure from the outstanding balances and have provided an amount in respect of recoverability of that receivable. The component auditor has recognised an unadjusted difference, as they consider the full debt should have been provided for and a provision recognised against that receivable. Norse Management have chosen not to adjust for this amount and therefore it would not be recorded within the Group Balance Sheet.

Group Accounts – Balance Sheet – Pension Liability

The component auditor has identified an unadjusted misstatement in relation to an updated Pension Liability following the final valuations for illiquid private market assets as at 31 March 2021. This amounted to an understatement of the Pension Liability by £1.572 million. Norse Management have chosen not to adjust for this amount and therefore it would not be recorded within the Group Balance Sheet.

Disclosure Differences

We identified a small number of misstatements in disclosures which management corrected.

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Financial Statement Audit – Norfolk County Council (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	We determined planning materiality to be £28.0 million as 1.8% of gross revenue expenditure reported in the accounts. We consider gross revenue expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Council.
Reporting threshold	We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £1.4 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 including Member allowances: we will agree all disclosures back to source data, and Member allowances to the agreed and approved amounts; and
- Related party transactions we will test the completeness of related party disclosures and the accuracy of all disclosures by checking back to supporting evidence.

Section 4

Financial Statement Audit – Norfolk Pension Fund

Financial Statement Audit – Norfolk Pension Fund

We have issued an unqualified audit opinion on the Pension Fund's 2020/21 financial statements.

Key issues

The Annual Report and Accounts is an important tool for the Pension Fund to show how it has used public money and how it can demonstrate its financial management and financial health.

On 13 December 2021, we issued an unqualified opinion on the financial statements. We reported our detailed findings to the Audit Committee on the 14 October 2021. We outline below the key issues identified as part of our audit, reported against the significant risks and other areas of audit focus we included in our Audit Plan.

Significant risk	Conclusion
Misstatements due to fraud or error - management override of controls An ever present risk that management is in a unique position to commit 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 did not identified any: • material weaknesses in controls or evidence of material management override; • instances of inappropriate judgements being applied; or • other transactions during our audit which appeared unusual or outside the Fund's normal course of business.
Investment income and asset valuations – Investment Journals We have considered the key areas where management has the opportunity and incentive to specifically 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.	• Our testing did not identify any material misstatements within Investment Income or year end Investment Asset valuations. • We did not identify any material weaknesses in controls or evidence of material management override. • We did not identify any instances of inappropriate judgements being applied.

Continued over.

Financial Statement Audit – Norfolk Pension Fund (cont'd)

In addition to the significant risks above, we also concluded on the following areas of audit focus.

Other area of audit focus	Conclusion
Valuation of Complex Investments (Unquoted Investments) 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. 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.	• We did not identify any material issues in the completion of our work. • We did identify one investment fund where the audited accounts had been qualified due to an issue which could have an impact on the value of the fund. The qualification was based on insufficient information being made available to the auditor due to an ongoing legal case. The value of the Pension Fund's investment is £39.2 million and we concluded that it was unlikely this would have a material impact on the Pension Fund. We agreed with management to include an enhanced disclosure within Note 5 – 'Assumptions Made About the Future' and 'Other Major Sources of Estimation Uncertainty'.
IAS 26 disclosure – Actuarial Present Value of Promised Retirement Benefits The Fund's IAS 26 calculation shows that the present value of promised retirement benefits amount to £4,728 million as at 31 March 2021. The figure is material and subject to complex estimation techniques and judgements by the Actuary, Hymans Robertson. The estimate is based on a roll-forward of data from the previous triennial valuation in 2019/20, updated where necessary, and has regard to local factors such as mortality rates and expected pay rises along with other assumptions around inflation and investment yields when calculating the liability. There is a risk that the valuation uses inappropriate assumptions to value the liability as at the 31 March 2021.	• We did not identify any issues with the competence of the actuary, Hymans Robertson. • There were no significant changes in the IAS 26 approach or methodology and the assumptions used in calculating the IAS 26 figure was considered reasonable and compliant. • The disclosure of IAS 26 was in line with the relevant standards and the valuation provided by the Actuary.

Continued over.

Financial Statement Audit – Norfolk Pension Fund (cont’d)

Other area of audit focus	Conclusion
Going concern disclosures The Pension Fund is required to carry out an assessment of its ability to continue as a going concern for the foreseeable future, being at least 12 months after the date of the approved financial statements. There is a risk that the Pension Fund’s financial statements do not adequately disclose the assessment made, the assumptions used and the relevant risks and challenges that have impacted the going concern period.	We did not identify any events or conditions in the course of our audit that may cast significant doubt on the entity’s ability to continue as going concern. Management have used the basis of their assessment to produce the disclosures included within the draft financial statements. We are satisfied that the revised disclosure note appropriately sets out the circumstances surrounding the financial implications prevalent at the date of authorisation of the financial statements.

Continued over.

Financial Statement Audit – Norfolk Pension Fund (cont'd)

Audit differences – Corrected and Uncorrected

There were no corrected or uncorrected misstatements to primary statements identified as part of our audit greater than our reporting threshold.

Disclosure misstatements

Our audit identified a limited number of minor misstatements which our team have highlighted to management for amendment..

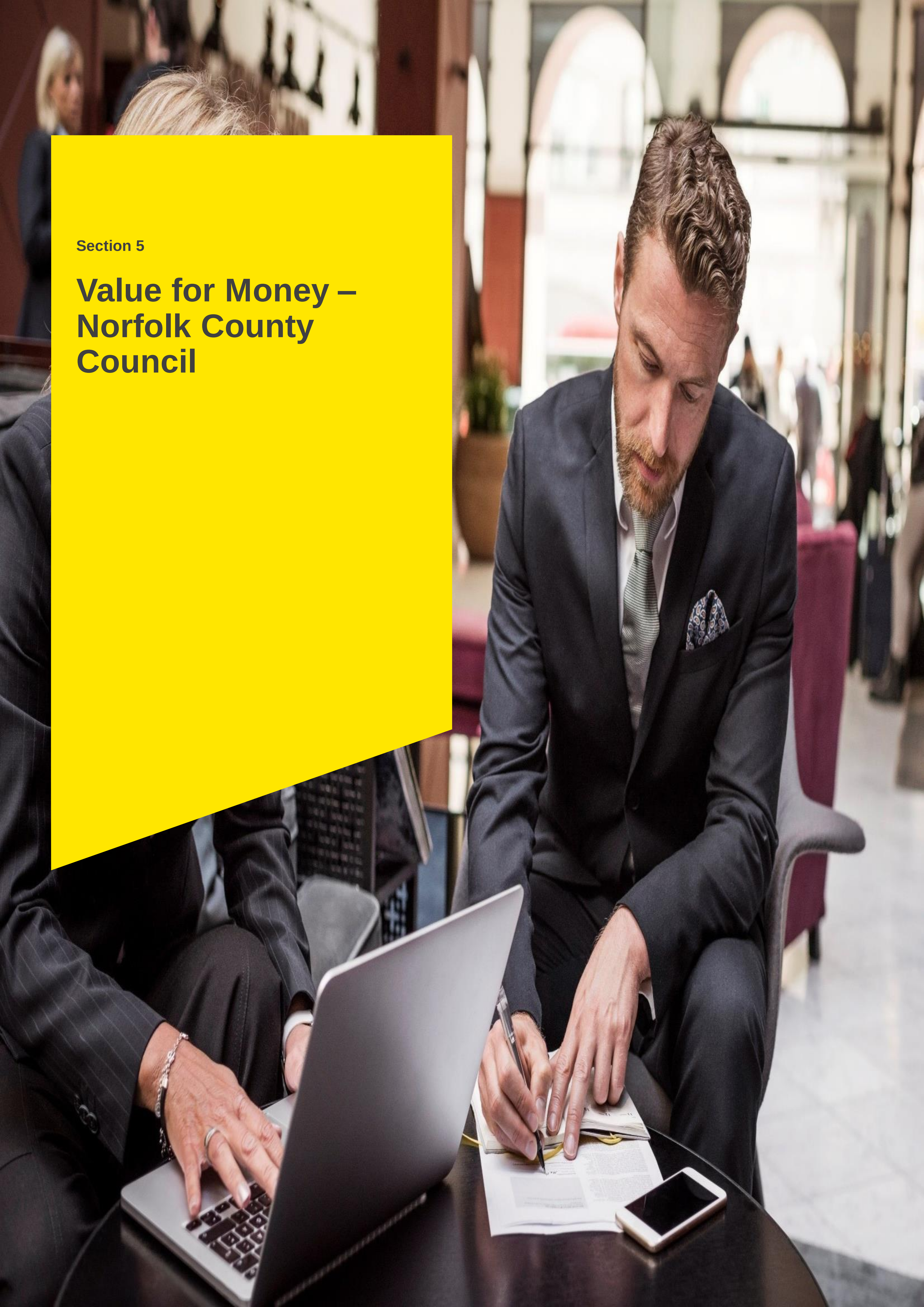
Our application of materiality

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	We determined planning materiality to be £44.8 million as 1.8% of net assets of the scheme reported in the accounts. We consider net assets of the scheme to be one of the principal considerations for stakeholders in assessing the financial performance of the Pension Fund.
Reporting threshold	We agreed with the Audit Committee that we would report all audit differences in excess of £2.2 million.

Section 5

Value for Money – Norfolk County Council



Value for Money

We did not identify any risks of significant weaknesses in the Council's VFM arrangements for 2020/21.

Scope and risks

We have complied with the NAO's 2020 Code and the NAO's Auditor Guidance Notes in respect of VFM. We presented our VFM risk assessment to the Audit Committee meeting on the 14 October 2021, which was based on a combination of our cumulative audit knowledge and experience, our review of Council and committee reports, meetings with the senior officers and evaluation of associated documentation through our regular engagement with Council management and the finance team. We reported that we had not identified any risks of significant weaknesses in the Council's VFM arrangements for 2020/21.

Reporting

We completed our planned VFM arrangements work in September to October 2021 and did not identify any significant weaknesses in the Council's VFM arrangements. As a result, we had no matters to report by exception in the audit report on the financial statements.

We had no matters to report by exception in the audit report.

VFM Commentary

In accordance with the NAO's 2020 Code, we are required to report a commentary against three specified reporting criteria:

- Financial sustainability
  How the Council plans and manages its resources to ensure it can continue to deliver its services;
- Governance
  How the Council ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness:
  How the Council uses information about its costs and performance to improve the way it manages and delivers its services.

Our VFM commentary highlights relevant issues for the Council and the wider public.

VFM Commentary

The Council has had the arrangements we would expect to see to enable it to plan and manage its resources to ensure that it can continue to deliver its services.

Introduction and context

The 2020 Code confirms that the focus of our work should be on the arrangements that the audited body is expected to have in place, based on the relevant governance framework for the type of public sector body being audited, together with any other relevant guidance or requirements. Audited bodies are required to maintain a system of internal control that secures value for money from the funds available to them whilst supporting the achievement of their policies, aims and objectives. They are required to comment on the operation of their governance framework during the reporting period, including arrangements for securing value for money from their use of resources, in a governance statement.

We have previously reported the VFM work we have undertaken during the year including our risk assessment. The commentary below aims to provide a clear narrative that explains our judgements in relation to our findings and any associated local context.

For 2020/21, the significant impact that the Covid-19 pandemic has had on the Council has shaped decisions made, how services have been delivered and how financial plans have had to be reconsidered and revised.

We have reflected these national and local contexts in our VFM commentary.

Financial sustainability

1. ***How the body ensures that it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them***

The Council has an established approach to budget setting with regular reports provided to Cabinet at key points in the process, before taking the Medium Term Financial Plan to Full Council. The Council analyses all major Government funding announcements (Spending Review 2020 and provisional Settlement 2021/22) to understand their implications and incorporate any pressures arising into financial planning. The budget process includes taking account of the in-year monitoring position to identify recurrent pressures which need to be provided for in the following year in consultation with Finance Business Partners, Responsible Budget Officers (RBO) and other senior managers.

The RBOs are responsible for identifying budget risks. Any risks which have long term implications are escalated to the Finance Projects team and incorporated into the budget process for risk mitigation activities to be coordinated with the service areas.

The Council has had the arrangements we would expect to see to enable it to plan and manage its resources to ensure that it can continue to deliver its services.

Financial sustainability (continued)

2. How the body plans to bridge its funding gaps and identifies achievable savings

The Council has a four year Medium Term Financial Plan. The Council reviews the forecast Medium Term Financial Plan position in February each year and subsequently Cabinet allocates savings targets to Service Departments based on the identified gap position. Service Departments then develop savings proposals which are tested internally via a "budget challenge" process involving both officers and Members through the Summer. Once validated as being robust, proposals are considered by Cabinet prior to public consultation. In the event that additional savings are required, the Council undertakes further rounds of budget challenge in November / December. The Section 151 officer provides his view of the robustness of the overall Budget, including saving proposals, as part of the Budget report to Cabinet / Full Council in January/February each year. In the Medium Term Financial Plan dated 22 February 2021, a council tax increase along with identified saving proposals meant there was no budget shortfall identified for the 2021/22 financial year.

3. How the body plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities

Strategic and Financial Planning reports presented to Cabinet through the budget setting process provide an overview of how the budget is aligned to organisational strategy and priorities. Budgets are set in line with Service Departmental priorities and savings proposals are developed in the context of statutory requirements. Budget setting considers both the medium term (four year) position and longer term outlook. The Council prepares the budget in the context of the CIPFA Financial Management Code and the Annual Budget report sets out an assessment of how compliance with the CIPFA Financial Management Code is achieved.

Financial sustainability (continued)

4. How the body ensures that its financial plan is consistent with other plans such as workforce, capital, investment, and other operational planning which may include working with other local public bodies as part of a wider system

Strategic and Financial Planning reports presented to Cabinet through the budget setting process provide an overview of how the budget is aligned to organisational strategy and priorities. The Budget process includes a check of the workforce establishment against budgetary provision for salaries.

Capital budgets are set in the 'Capital Strategy and Programme' in February each year. This also sets out how these programmes are to be funded. This is a mix of grants and contributions provided by Central Government, use of prudential borrowing and capital receipts. All prudential borrowing is taken on with regard to the Council's Treasury Management policy.

The Council has had the arrangements we would expect to see to enable it to plan and manage its resources to ensure that it can continue to deliver its services.

The Revenue budget, Reserves Strategy, Capital Strategy and Programme and Treasury Management plans are all developed in conjunction with one another to ensure that any financial implications are consistently incorporated and reflected. This can be seen in the reporting of these areas as they are combined into one overall report for approval by Full Council.

5. How the body identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans.

Risks to financial resilience are kept under review and are identified through various mechanisms including regular financial monitoring and risk management processes. Financial regulations set out that Executive Directors are responsible for managing their Service Departments within the budget available for the year, and any variances, including non-delivery of planned savings (and mitigating actions) are reported to Cabinet monthly, as part of financial monitoring. As part of budget setting, the Council undertakes a risk-based approach to assessing the required General Fund balance. In preparing the Annual budget, the Council also has regard to CIPFA's financial resilience index and the Financial Management Code. The Budget report to Council includes an assessment of the robustness of budget estimates and broad sensitivity analysis.

The Council has had the arrangements we would expect to see to enable to make informed decisions and properly manage its risks.

Governance

1. ***How the body monitors and assesses risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud***

The Council maintains corporate, departmental and service risk registers. Regular Risk Management reports are taken to the Audit Committee to consider, challenge and agree. Internal audit produce a 3 year strategic plan which is risk focused. Conversations are undertaken with Executive/Assistant Directors and key senior managers to incorporate discussions on where current risks are within the Service departments along with a review of the associated risk registers. These feed into the Annual Plan of audits undertaken by Internal Audit. Quarterly Internal Audit progress reports are taken to the Audit Committee for consideration along with an Annual Report by the Head of Internal Audit. Internal audits are how the Council gains assurance over the effective operation of the internal control environment, which cover arrangements to prevent and detect fraud. These feed into the Annual Governance Statement which is prepared annually and published alongside the Statement of Accounts.

2. How the body approaches and carries out its annual budget setting process

The Council produce the Revenue and Capital Budget and Medium Term Financial Strategy along with the Cabinet Report in February prior to the start of the financial year. A budget setting timetable is agreed by Cabinet each year which follows the below process:

- Cabinet report setting out budget process and timetable, agreeing allocation of savings required and framework for service planning;
- Budget challenge undertaken by the Corporate Board and portfolio leads;
- Medium Term Financial Plan taken to Cabinet to review assumptions and proposed areas for savings;
- Select Committees consider proposed areas for savings;
- Review by Scrutiny Committee;
- Public consultation;
- Further budget challenge as a result of public consultation responses;
- Final settlement and then the Budget is taken to Cabinet in February to recommend to Council;
- Scrutiny Committee to consider budget proposals, consultation and impact assessments; and
- Budget taken to Full Council for approval.

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Governance (continued)

The budget process includes taking account of the in-year monitoring position to identify recurrent pressures which need to be provided for in the following year in consultation with Finance Business Partners, Responsible Budget Officers and senior managers.

3. How the body ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information where appropriate); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed

A Budget Manager system is in place to capture the monthly review by RBOs and this is supported by Finance. The review flags up any over/underspends, which then feature on the monthly monitoring report accompanied by commentary from the service areas on risks and mitigations being undertaken to address service and financial risks. Financial Regulations set out overarching controls, including that Executive Directors are responsible for managing their services within the budget available for the year. There is a programme of reports, updates and reviews undertaken by the various Member-led internal committees and panels within the Council to review performance and scrutinise processes, policies and decision making throughout the year. The key findings, decisions and recommendations of these committees are reported to Cabinet for oversight and approval. Any material key decisions (as set out in the Council's constitution) are then referred to Full Council for review and approval.

The Council has had the arrangements we would expect to see to enable to make informed decisions and properly manage its risks.

4. How the body ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from those charged with governance/audit committee

Decision making is undertaken in accordance with the approach set out within the Council’s Constitution and financial decisions taken in accordance with Financial Regulations. The Scrutiny Committee has the opportunity to consider Cabinet decisions. Individual Members can also raise questions to Cabinet on any reports presented, thus providing a further layer of challenge and review.

All decision making reports to Cabinet include details of financial and other implications. In presenting key decisions to the Cabinet and Council for approval, the officers must complete equality and data protection impact assessments as well as provide confirmations that the legal and statutory requirements of each service/area continue to be met.

The Council has had the arrangements we would expect to see to enable to make informed decisions and properly manage its risks.

Governance (continued)

5. How the body monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer or member behaviour (such as gifts and hospitality or declarations/conflicts of interests).

The Constitution, Member/Officer protocol and financial regulations set out the appropriate standards of Officer and Member behaviour. This is monitored by Democratic Services who maintain the online guidance for Officers and Members on best practice for declaration of interests, gifts and hospitality. Registers of all declarations are kept and monitored.

The Council has had the arrangements we would expect to see to enable it to use information about its costs and performance to improve the way it manages and delivers services.

Improving economy, efficiency and effectiveness

1. How financial and performance information has been used to assess performance to identify areas for improvement;

Quarterly "vital signs" are reported to Cabinet in the ‘Corporately Significant Vital Signs’ report, to highlight the Key Performance Indicators (KPIs) for each service area and provides updates on actions taken by each service area to address any shortfall in performance. Each service area leadership team also receive monthly reports on performance from Finance Business Partners and Service Managers.

The Council assesses and reports on the performance of the Council through the Annual Governance Statement and Narrative Report which informs planning going forward.

2. How the body evaluates the services it provides to assess performance and identify areas for improvement

The Council have prepared and agreed a Norfolk County Council Plan 2019-2025. The "Together for Norfolk" aims are growing economy, thriving people and strong communities. The plan provides a whole-Council view of significant activities and supports and is aligned with the Medium Term Financial Plan.

Quarterly "vital signs" reports to Cabinet capture the respective service’s performance against this plan and is used by Cabinet to evaluate overall performance and identify the next steps for improvement, efficiencies and mitigations. There is a core transformation team in place which assist Service Departments in leveraging change projects and initiatives to achieve the improvements aimed for in Service plans.

3. How the body ensures it delivers its role within significant partnerships, engages with stakeholders it has identified, monitors performance against expectations, and ensures action is taken where necessary to improve

The Council has a number of significant partnerships which are covered by the Financial Regulations. Separate governance arrangements exist for external boards / partnerships / joint ventures and decisions taken by Council Members at these boards which impact the Council will be subject to the Council’s Constitution. Members on these boards will feedback to the appropriate committee where performance can be monitored and action taken where necessary.

To deliver its role within the New Anglia Local Enterprise Partnership it launched the ‘Norfolk Delivery Plan 6' to help rebuild the local economy, while attracting investment and putting infrastructure in place. For some specific partnerships for example the ‘Business Rates Pool’, particular governance agreements will be in place and details of the Pool are reported to Cabinet annually, as Norfolk County Council is lead authority.

Improving economy, efficiency and effectiveness (continued)

Stakeholder engagement is undertaken in many different ways. The Council consults on changes to services and other key decisions, such as the Annual Budget. The Council uses the "We Asked, You Said, We Did" approach to consultation by publishing key findings from consultations and feeds back how these contributed to Council decisions.

4. Where the body commissions or procures services, how the body ensures that this is done in accordance with relevant legislation, professional standards and internal policies, and how the body assesses whether it is realising the expected benefits

The Council has had the arrangements we would expect to see to enable it to use information about its costs and performance to improve the way it manages and delivers services.

Procurement activities are supported by Corporate procurement team which utilises the relevant framework agreements in place to achieve the best value for money outcome available when tendering for outsourced service contracts or key supply of goods to the Council. The Local Government and Crown Commercial Services frameworks include criteria for service delivery and product specification which complies with the relevant legislation and professional standards. The Procurement team also ensure that Council's priorities and internal policies are adhered to when assessing tenders and supporting service areas in awarding contracts.

The pipeline of contracts are reviewed on a quarterly basis by the Departmental Management Team to ensure oversight of new procurements and that these contracts support and deliver the Council's service priorities. Any savings targets or performance benefits expected from the procurement of services is monitored and measured via agreed KPIs with the suppliers and reported to the relevant service Departmental Management Team as part of regular performance reporting. Internal Audit undertake periodic reviews of Procurement and this is reported to the Audit Committee.

The Council faces further challenge and change beyond 2021 which will form part of our 2021/22 VFM arrangements work.

Forward look

Looking forward to 2021 and beyond

Although we did not identify any significant weaknesses in the Council's value for money arrangements there is one item in relation to financial sustainability that we wish to bring to your attention.

The Council have forecast significant budget gaps going forward. The 2021/22 Medium Term Financial Strategy identified a cumulative budget gap of £158.6 million up to 2024/25. The Chief Financial Officer has been open and transparent about the pressures faced by the Council and is working to reduce the forecast budget gaps. The Council have been prudent in their budget setting, especially in relation to future funding and taxation income. The Council has managed to deliver an underspend in their 2020/21 outturn and have prepared a balanced budget for 2021/22. The Council are proactively working on the 2022/23 budget and have already halved the originally identified planned budget gap since the 2021/22 budget was prepared. The Council currently hold a significant level of unallocated reserves, £72.5 million as at 31 March 2021, which will assist in dealing with spending pressures over the short-term.

We will continue to monitor this key issue in future financial years.

Section 6

Other Reporting Issues

Other Reporting Issues

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 complies with relevant guidance.

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

Whole of Government Accounts

We have not yet performed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts consolidation pack submission. The guidance for 2020/21 is yet to be issued. We will liaise with the Council to complete this work as required.

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.

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.

Consistency of other information published with the financial statements

We must give an opinion on the consistency of the financial and non-financial information in the Norfolk Pension Fund Annual Report with the audited financial statements. We reviewed the Pension Fund Annual Report and were satisfied that it was consistent with the financial statements.

We also reviewed the Narrative Report within the financial statements to ensure any financial information disclosed was consistent with the financial statements. We had no matters to report.

Control Themes and Observations

As part of our work, 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 control, we are required to communicate to you significant deficiencies in internal control identified during our audit.

We adopted a fully substantive approach and have therefore not tested the operation of controls.

Appendix A

Audit Fees

Audit Fees – Norfolk County Council

Our fee for 2020/21 is in line with the audit fee reported in our Annual Results Report presented to the Audit Committee on the 14 October 2021.

Description	Final Fee 2020/21 £'s	Scale Fee 2020/21 £'s	Final Fee 2019/20 £'s
Initial Scale Fee – Code work	98,361	98,361	98,361
Fee Variation	TBC (Note 2)	-	38,853 (Note 1)
Revised Scale Fee	**TBC**	**98,361**	**137,214**

Note 1 – PSAA Ltd determined the Fee Variation on 22 October 2021.

Note 2 – For 2020/21, we have re-assessed the scale fee again to take into account the same recurring risk factors as in 2019/20, which includes procedures performed to address the risk profile of the Council and additional work to address increase in Regulatory standards and the financial reporting impact of Covid-19, as we set out in our Audit Results Report.

In addition, for 2020/21, we have had to perform additional audit procedures to respond to the financial reporting an associated audit risks pertaining to the new NAO Code for Value For Money and the enhanced considerations and procedures required in respect of estimates under ISA540, as well as new risks outlined within our Audit Plan and Audit Results Report. The additional fee for 2020/21 is yet to be fully discussed with management and thus remains subject to determination by PSAA Ltd.

We will report the respective final fees formally, once they have been determined by PSAA Ltd.

We confirm we have not undertaken any non-audit work.

Audit Fees – Norfolk Pension Fund

Our fee for 2020/21 is in line with the audit fee reported in our Annual Results Report presented to the Audit Committee on the 29 September 2021.

Description	Final Fee 2020/21 £'s	Scale Fee 2020/21 £'s	Final Fee 2019/20 £'s
Initial Scale Fee – Code work	20,866	20,866	20,866
Fee Variation	TBC (Note 2)	-	12,800 (Note 1)
Revised Scale Fee	**TBC**	**20,866**	**33,666**
Fee in relation to IAS 19 procedures on behalf of Admitted bodies in respective financial year	8,000	-	11,500

Note 1 – PSAA Ltd determined the Fee Variation on 22 October 2021.

Note 2 – For 2020/21, we have re-assessed the scale fee again to take into account the same recurring risk factors as in 2019/20, which includes procedures performed to address the risk profile of the Pension Fund and additional work to address increase in Regulatory standards and the financial reporting impact of Covid-19, as we set out in our Audit Results Report.

In addition, for 2020/21, we have had to perform additional audit procedures to respond to the financial reporting an associated audit risks pertaining to the enhanced considerations and procedures required in respect of estimates under ISA540, as well as new risks outlined within our Audit Plan and Audit Results Report. The additional fee for 2020/21 is yet to be fully discussed with management and thus remains subject to determination by PSAA Ltd.

We will report the respective final fees formally, once they have been determined by PSAA Ltd.

We confirm we have not undertaken any non-audit work.

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