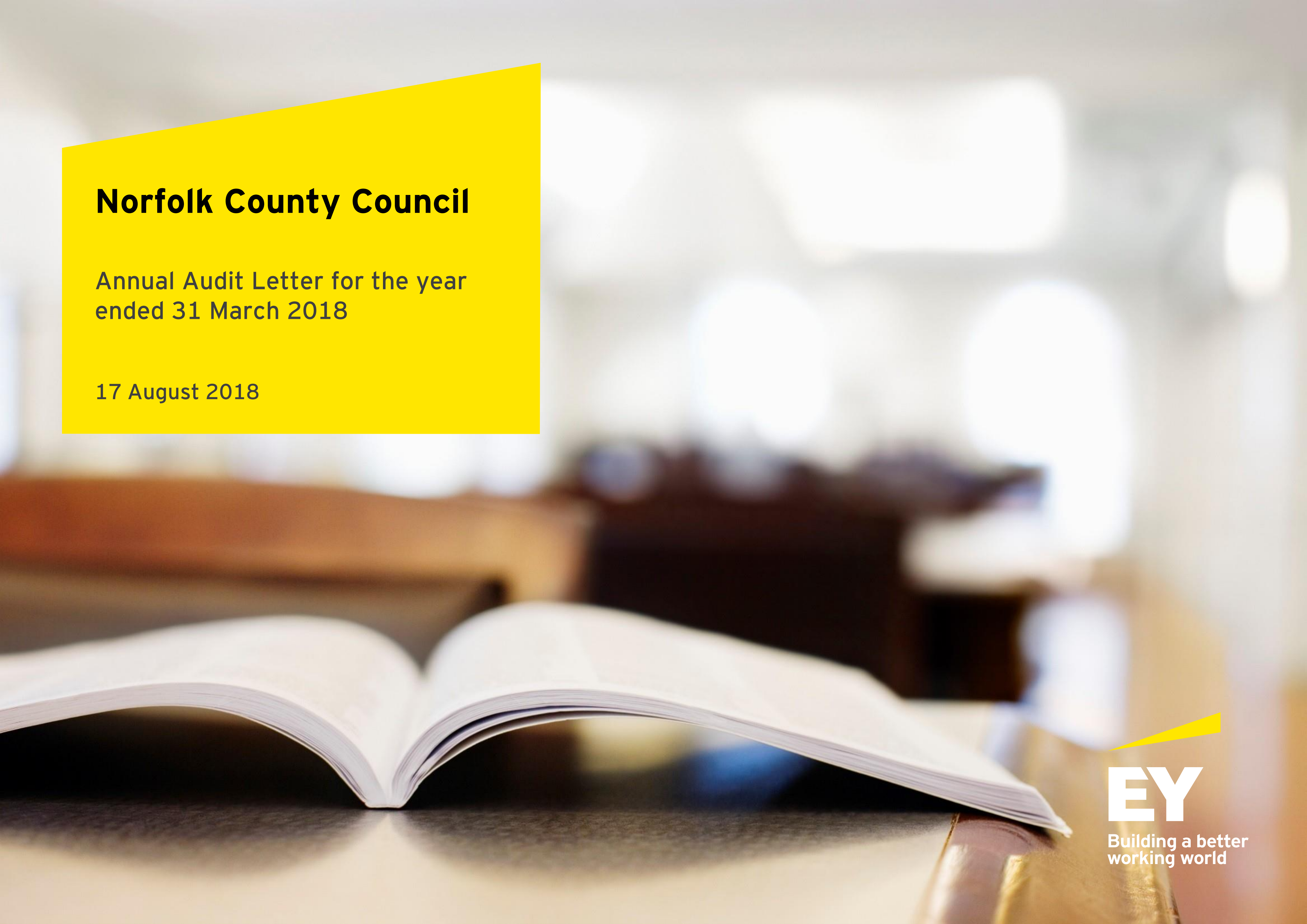
Norfolk County Council

Annual Audit Letter for the year ended 31 March 2018

17 August 2018



EY

Building a better working world

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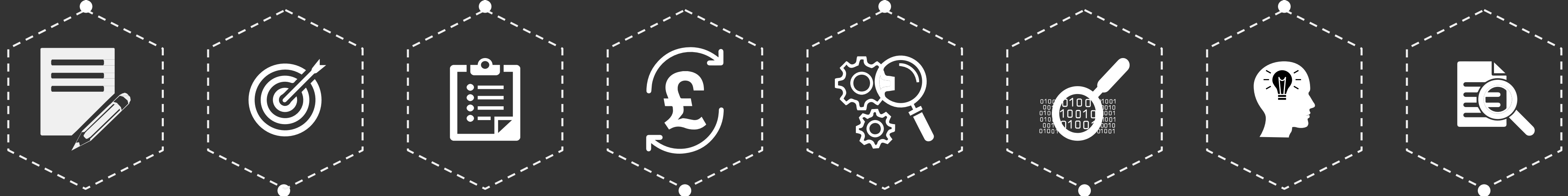


Public Sector Audit Appointments Ltd (PSAA) have issued a 'Statement of responsibilities of auditors and audited bodies'. It is available from the Chief Executive of each audited body and via the PSAA website (www.psaa.co.uk)

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 (updated 23 February 2017)' 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 2018.
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 2018 and of its expenditure and income for the year then ended
► Consistency of other information published with the financial statements	Other information published with the financial statements 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 19 July 2018 for Norfolk County Council and on 20 June 2018 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 17 August 2018.

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

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 2017/18 Audit Results Report to the 31 July 2018 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 2017/18 audit work has been undertaken in accordance with the Audit Plan that we issued on 23 February 2018 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 2017/18 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 thy 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 you 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

Key Issues

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 and Pension Fund'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 2018.

Our detailed findings were reported to the 31 July 2018 Audit Committee.

The key issues identified as part of our audit were as follows:

Norfolk County Council and Group Accounts

Significant Risk	Conclusion
Risk of fraud in expenditure recognition through 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. The Authority has a net underspend against its budget of £0.235 million in 2017/18 (£0.048 million in 2016/17) and has ambitious savings targets to achieve financial balance over the next 3-5 years. As the Authority is more focussed on its financial position over the medium term we have considered the Authority's revenue and expenditure streams and consider the risk to be more prevalent in the inappropriate capitalisation of revenue expenditure on Property, Plant and Equipment (PPE) given the extent of the Authority's capital programme. We have also considered the completeness of liabilities for any management bias in achieving financial balance in the current financial year. 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. This judgement impacts the valuation/measurement of the expenditure and also the existence of the asset on the balance sheet and completeness of expenditure included within the Comprehensive Income and Expenditure Statement (CIES). We have also considered the completeness of liabilities at the year end with a focus on any judgements management have made in relation to the expenditure which spans the financial year end.	Our testing has not identified any material misstatements from the inappropriate capitalisation of expenditure and completeness of liabilities. Overall our audit work did not identify any material issues or unusual transactions to indicate any misreporting of the Authority's financial position.

Financial Statement Audit(Cont'd)

The key issues identified as part of our audit were as follows (cont'd)

Significant Risk	Conclusion
Misstatements due to fraud or error The risk is 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. We have assessed journal amendments, accounting estimates, adjustments between accounting basis and funding basis under regulations and unusual transactions as the area's most open to manipulation. Linking to the presumed risk of fraud in revenue and expenditure recognition we have identified the inappropriate capitalisation of expenditure on Property, Plant and Equipment as a risk. This has been identified as a specific risk as set out on the previous page, and therefore we have not repeated that information here. In undertaking our work on management override of controls we have considered the balances included in the Authority's financial statements that are the most susceptible to judgement or estimation techniques. The key areas are considered to be: • The valuation of Property, Plant and Equipment (including the correct completion status and accrual of expenditure on the Northern Distributor Road); • Valuation of pension liabilities; and • Adjustments between accounting basis and funding basis under regulations. We tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in preparing the financial statements; We reviewed accounting estimates for evidence of management bias; and We tested the adjustments between accounting basis and funding basis under regulations.	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 Authority's normal course of business. As set out in our other area of audit focus for pension liabilities we identified a misstatement in the calculation of the net liability. This was not indicative of management bias.

Financial Statement Audit (cont'd)

Other issues	Conclusion
Accounting for Property, Plant & Equipment Property, Plant and Equipment represent a significant balance in the Authority'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 Authority engages an external expert valuer who applies a number of complex assumptions and therefore we are concerned with the reasonableness of the underlying assumptions used. Annually, assets are also assessed to identify whether there is any indication of impairment. As the Authority's asset base is significant, and the outputs from the valuer are subject to estimation, there is a risk fixed assets may be under/overstated or the associated accounting entries incorrectly posted. This risk relates to assets that are revalued, being 'Other land and Buildings' and 'Surplus assets'. Vehicles, plant and equipment, infrastructure assets and community assets are held at cost. 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 have not identified any instances of inappropriate judgements being applied. We did not identify any significant issues in the assumptions used by the Authority in estimating the value of property, plant and equipment.
Pension Valuations and Disclosures The Local Council Accounting Code of Practice and IAS19 require the Authority to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme (LGPS) which is also administered by the Authority. The Authority's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Authority's balance sheet. At 31 March 2018 this totalled £833.446 million (£861.326 million at 31 March 2017). Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. The information disclosed is based on the IAS 19 report issued to the Authority by the actuary to the administering body. 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.	In calculating the scheme assets as at 31 March 2018 the actuary performs a roll forward technique based on asset data submitted to them by the Pension Fund at 31 December 2017. The reporting from the Pension Fund auditors highlighted that the market value of the pension fund assets at 31 March 2018 was £3,579.9 million. When compared to the actuaries estimate of the fund assets at 31 March 2018 of £3,529.2 million this creates a difference of £50.7 million. The Authority's share of the assets equates to approximately 50% of the fund. The Authority's share of the difference was therefore approximately £25.35 million. Management has obtained a revised IAS19 report from the actuary and has amended the accounts for the updated asset figures, reducing the net liability by £16.546 million. This is detailed in Section 4. No other significant matters were reported by the Pension Fund auditors. No other issues have been identified in completing our work. Assumptions used by the actuary and adopted by the Authority are considered to be generally acceptable. The sensitivities surrounding these assumptions have been correctly disclosed in the notes to the financial statements.

Financial Statement Audit (cont'd)

Other issues identified as part of our audit were as follows: (cont'd)

Other issues	Conclusion
Conversion of schools to Academies As set out in our audit plan, a number of schools have continued to convert to academy status during 2017/18. 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.	In completing our audit procedures we have reviewed the arrangements for agreeing Schools assets, liabilities and balances for transfer and reviewed how they have been accounted for. This has also included 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. We identified one school that had been maintained on the Authority's balance sheet as the lease agreement had not been signed due to ongoing building works. As the majority of the school was operational and managed by the Academy we agreed with management that this element should be included in the Authority's disposals. The value of the amendment was £11.815 million. We have not identified any other exceptions in the completion of our audit work.
Minimum Revenue Provision (MRP) The Authority are required to charge the minimum revenue provision (MRP) to the Authority's revenue account each year in order to meet the costs of repaying amounts borrowed. This ensures that the Authority makes a satisfactory annual provision for loan repayments. The Authority reviewed their MRP policy in 2016/17 and identified that MRP of £66m had been over-provided, based on a retrospective application of the Authority's new MRP policy. The Authority plan to release this amount over the period of the Medium Term Financial Plan. This provided a finance general saving of £10 million in 2016/17 and planned release of £12 million in 2017/18.	We have assessed the conclusions drawn on the work and assumptions used by Capita (the Authority's treasury management advisor); and tested the accounting entries and disclosures made within the Authority's financial statements in relation to MRP. We have raised a number of questions concerning the calculation, but have obtained sufficient assurance for the release of the over provision used in 2017/18. We will conclude this work with officers in 2018/19.

Financial Statement Audit (cont'd)

The key issues identified as part of our audit were as follows:

Norfolk Pension Fund

Significant Risk	Conclusion
Risk of management override 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.	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. We did not identify any other transactions during our audit which appeared unusual or outside the Fund's normal course of business.

Other issue	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 publically 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 2018 are £3.58 billion, of which Private Equity Investments (Unquoted) is £195 million (5.4% 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.	As the Custodian provides the estimated value of the unquoted investments based on information at December 2017 for pooled investment vehicles there will always be a possibility that the fund manager will provide a different valuation as at 31 March 2018. We identified these investment assets were understated by £5.808 million. The valuation of private equity held by HarbourVest Partners being estimated at £145.880 million, the actual year end valuation (received in July 2018) being £151.687 million. The financial statements were not adjusted as it was not deemed to have material overall impact. We have not identified any other issues in the completion of our work.

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 £27.8 million (for the group this was £32.2million), which is 2% 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 £54.1 million which is 2% 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 £1.4 million.
Norfolk Pension Fund	The threshold for reporting audit differences is £3.6 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 2% 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.

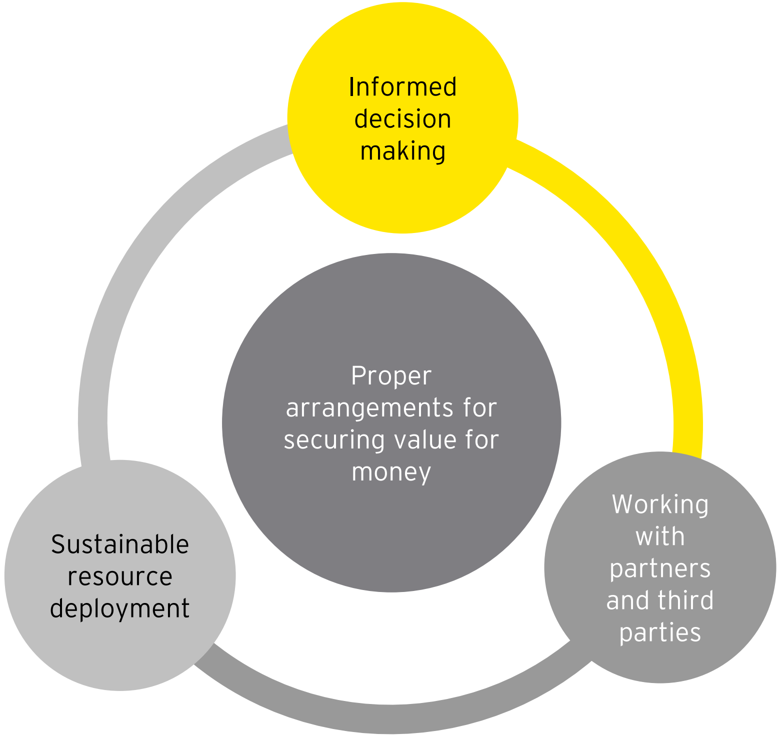
04 Value for Money

Value for Money

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on 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
Substantial savings are required over the period 2017 to 2020 to balance the budget: • 2017/18 = £47.8 million (identified savings) • 2018/19 = £29.8 million (identified savings + budget gap) • 2019/20 = £30.2 million (identified savings + budget gap) (Source: Norfolk County Council Budget Book 2017-20) The Authority approved a 2017/18 net revenue budget of £358.812 million. The Authority reported a net underspend of £0.235 million for the year ended 31 March 2018. However it is clear that the Authority 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.	The Authority is maintaining its current level of un-earmarked general fund reserves above the prudential minimum of £19.536 million set and approved by 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 General Fund reserves to £23.6 million by 31 March 2021. The Authority also has in place substantial levels of earmarked reserves (£70.282 million at 31 March 2018, excluding LMS reserves). These have been established for a number of purposes, including the financial consequences of matters that have not yet arisen or to fund specific service areas/projects. The existence of these reserves provides further evidence of the Authority's prudent approach to financial management. The Authority achieved c89% of required savings in 2017/18 and to date the Authority has identified the savings required for 2018/19 of £29.9 million. However, the Authority faces significant pressure and uncertainly concerning legislative and policy changes, and the increasing demand for services. Business Rates Localisation, and implementing the Fair Funding Review adds further uncertainty to the Authority's future funding levels. The Authority's Section 151 officer has reported the importance of delivering planned savings and the identification of further savings to close the remaining budget gaps. 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. We therefore have no matters to report about the Council's arrangements to secure economy, efficiency and effectiveness in their use of resources.

05 Other Reporting Issues

Other Reporting Issues

Whole of Government Accounts

We performed the procedures required by the National Audit Office on the accuracy of the consolidation pack prepared by the Council for Whole of Government Accounts purposes. We have no issues 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 did not receive any objections to the 2017/18 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 19 July 2018. 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 Data Analytics

Use of Data Analytics in the Audit

Analytics Driven Audit

Data analytics

We used our data analysers to enable us to capture entire populations of your financial data. These analysers:

- Help identify specific exceptions and anomalies which can then be the focus of our substantive audit tests; and
- Give greater likelihood of identifying errors than traditional, random sampling techniques.

In 2017/18, our use of these analysers in the Trust's audit included testing journal entries and employee expenses, to identify and focus our testing on those entries we deem to have the highest inherent risk to the audit.

We capture the data through our formal data requests and the data transfer takes place on a secured EY website. These are in line with our EY data protection policies which are designed to protect the confidentiality, integrity and availability of business and personal information.

Journal Entry Analysis

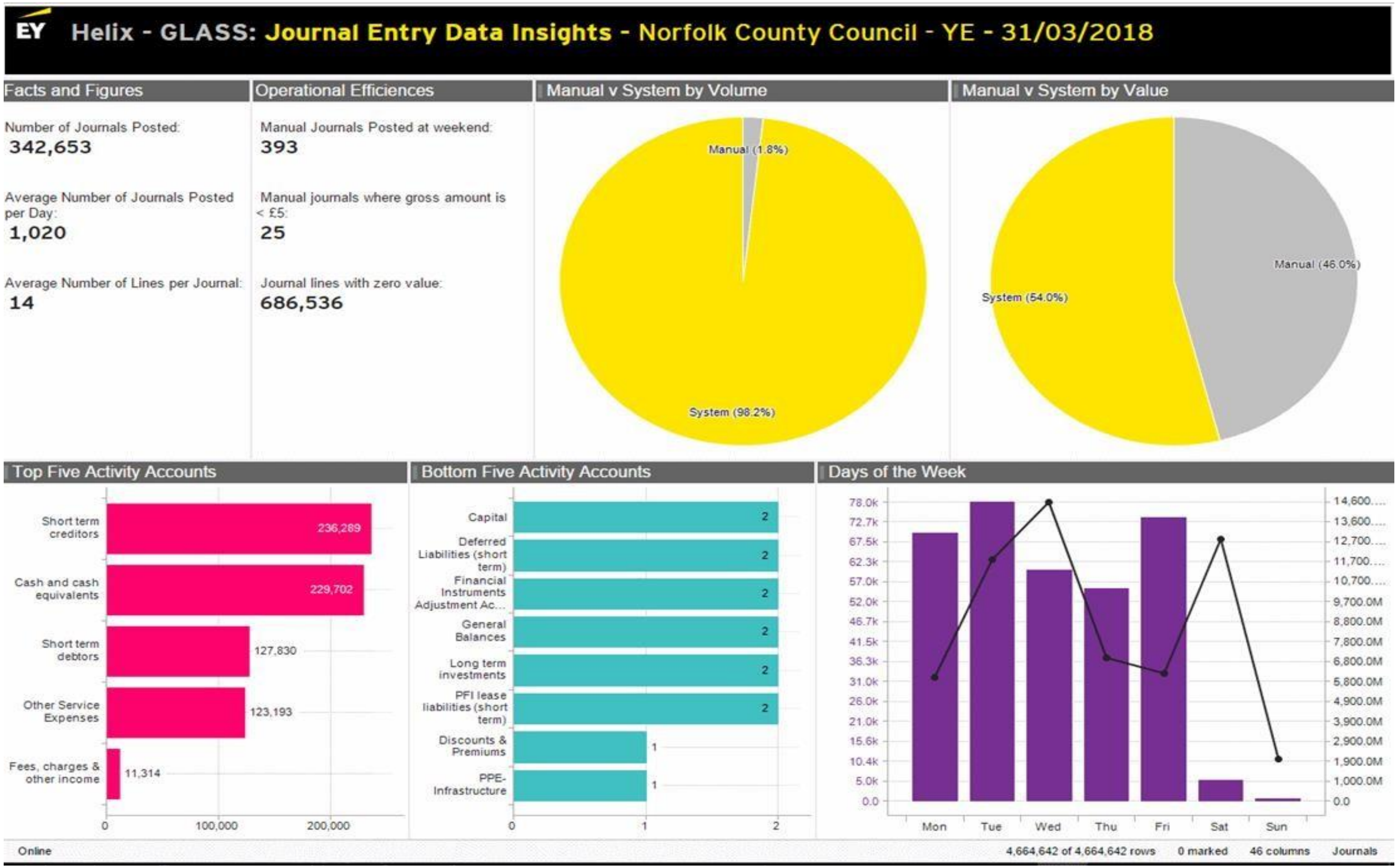
We obtain downloads of all of the Trust's financial ledger transactions posted in the year. We perform completeness analysis over the data, reconciling the sum of transactions to the movement in the trial balances and financial statements to ensure we have captured all data. Our analysers then review and sort transactions, allowing us to more effectively identify and test journals that we consider to be higher risk, as identified in our audit planning report.

Data Analytics

Journal Entry Data Insights

The graphic outlined summarises the Council's journal population for 2017/18. We review journals by certain risk based criteria to focus on higher risk transactions, such as journals posted manually by management, those posted around the year-end, those with unusual debit and credit relationships, and those posted by individuals we would not expect to be entering transactions.

The purpose of this approach is to provide a more effective, risk focused approach to auditing journal entries, minimising the burden of compliance on management by minimising randomly selected samples.



07 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 9 Financial Instruments	Applicable for local authority accounts from the 2018/19 financial year and will change: ▸ How financial assets are classified and measured; ▸ How the impairment of financial assets are calculated; and ▸ The disclosure requirements for financial assets. There are transitional arrangements within the standard and the 2018/19 Accounting Code of Practice for Local Authorities has now been issued, providing guidance on the application of IFRS 9. In advance of the Guidance Notes being issued, CIPFA have issued some provisional information providing detail on the impact on local authority accounting of IFRS 9, however the key outstanding issue is whether any accounting statutory overrides will be introduced to mitigate any impact.	Although the 2018/19 Code has now been issued, providing guidance on the application of the standard, along with other provisional information issued by CIPFA on the approach to adopting IFRS 9, until the Guidance Notes are issued and any statutory overrides are confirmed there remains some uncertainty. However, what is clear is that the Council will have to: ▸ Reclassify existing financial instrument assets; ▸ Re-measure and recalculate potential impairments of those assets; and ▸ Prepare additional disclosure notes for material items. Based on the information available the authority have assessed the likely impact of IFRS 9 and reported the position in the financial statements.
IFRS 15 Revenue from Contracts with Customers	Applicable for local authority accounts from the 2018/19 financial year. This new standard deals with accounting for all contracts with customers except: ▸ Leases; ▸ Financial instruments; ▸ Insurance contracts; and ▸ For local authorities; Council Tax and NDR income. The key requirements of the standard cover the identification of performance obligations under customer contracts and the linking of income to the meeting of those performance obligations. Now that the 2018/19 Accounting Code of Practice for Local Authorities has been issued it is becoming clear what the impact on local authority accounting will be. As the vast majority of revenue streams of Local Authorities fall outside the scope of IFRS 15, the impact of this standard is likely to be limited.	The 2018/19 Code confirms that IFRS 15 replaces IAS 18 Revenue and IAS 11 Construction Contracts and their associated interpretations, with implementation from 1 April 2018. The core principle in IFRS 15 for local authorities is that they should recognise revenue to depict the transfer of promised goods or services to the service recipient or customer in an amount that reflects the consideration to which the authority expects to be entitled in exchange for those goods or services. The Code adopts IFRS15 without adaptation. The scope includes: ▸ all contracts with customers except leases, financial instruments and insurance contracts; and ▸ excludes Council Tax and NDR income Given the nature of the Authority's income streams, it is unlikely that the future implementation of IFRS 15 will have a material impact on the single entity financial statements of the Authority. However, the Authority is yet to carry out a review of contract income from service recipients to assess the potential impact.

Focused on your future (cont'd)

Standard	Issue	Impact
IFRS 16 Leases	It is currently proposed that IFRS 16 will be applicable for local authority accounts from the 2019/20 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 2019/20 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 2019/20 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.

08 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 2018.

Our fee for 2017/18 is in line with the scale fee set by the PSAA.

We confirm that we have undertaken non-audit work outside the PSAA Code requirements in relation to Teachers' Pension Return and Local Transport Plan Major Project return for 2016/17. We have adopted the necessary safeguards in completing this work and complied with Auditor Guidance Note 1 issued by the NAO in Month Year.

Description	Final Fee 2017/18 £'s	Planned Fee 2017/18 £'s	Scale Fee 2017/18 £'s	Final Fee 2016/17 £'s
Norfolk County Council Total Audit Fee – Code work	134,347 (Note1)	131,742	127,742	131,084
Norfolk County Council Total Audit Fee – Certification of claims and returns (Teachers Pensions and Local Transport Plan Major Project return)				16,100
Norfolk Pension Fund Total Audit Fee – Code work	29,399 (Note 2)	29,399	27,099	29,399

Note 1 – As reported in our Audit Plan we will also need to levy an additional fee in respect of:

£1,428 for audit procedures required on the re-statement of the 2016/17 Comprehensive Income and Expenditure Account and Expenditure Funding Analysis as a result of the Directorate structure change.

£1,268 for audit work on the change to the Social Services financial system.

£3,909 for additional work to review the Authority's revised Minimum Revenue Provision policy.

Note 2 - As reported in our Audit Plan dated 2 March 2018, we will charge an additional fee of £2,300 in 2017/18 to take into account the additional work required to respond to IAS19 assurance requests from scheduled bodies.

All scale fee variations will be subject to agreement with the PSAA. We will write to confirm the final audit fee once it is agreed by the PSAA.

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