Norfolk County Council and Norfolk Pension Fund

Auditor's Annual Report

Year ended 31 March 2022

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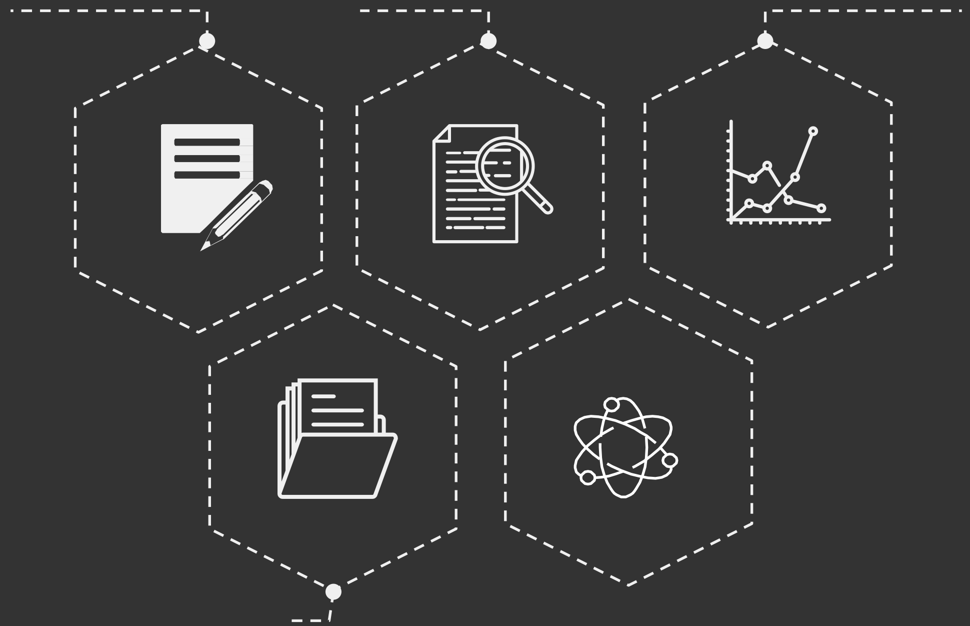

Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (https://www.psaa.co.uk/audit-quality/statement-of-responsibilities/).The Statement of responsibilities serves as the formal terms of engagement 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 July 2021)" 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 Council and management of Norfolk County Council and Norfolk Pension Fund in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Council 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 Council and management Norfolk County Council and Norfolk Pension Fund for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.

Introduction

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 value for money (VFM) arrangements, 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

We have undertaken our 2021/22 audit work in accordance with the Audit Plans we issued in July 2022. We have complied with the National Audit Office's (NAO) 2020 Code of Audit Practice, other guidance issued by the NAO and International Standards on Auditing (UK).

As auditors we are responsible for:

Expressing an opinion on:

- The 2021/22 financial statements of the Council and Pension Fund;
- Conclusions relating to going concern; and
- The consistency of other information published with the financial statements, including the narrative statement.

Reporting by exception:

- If the governance statement does not comply with relevant guidance or is not consistent with our understanding of the Council and Pension Fund;
- 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 and Pension Fund

The Council and Pension Fund are responsible for preparing and publishing its financial statements, narrative statement and annual governance statement. The Council is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Introduction (continued)

2021/22 Conclusions -Norfolk County Council and Norfolk Pension Fund	
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 2022 and of the expenditure and income for the year then ended. We issued our auditor's reports on 20 February 2024.
Going concern	We have concluded that the Section 151 Officer's use of the going concern basis of accounting in the preparation of the Council and Pension Fund financial statements is appropriate.
Consistency of the other information published with the financial statement	Financial information in the narrative statement and published with the financial statements was consistent with the audited Council and Pension Fund accounts and Pension Fund Annual Report.
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 Appendix A.
Consistency of the annual governance statement	We were satisfied that the Annual Governance Statement was consistent with our understanding of the Council and Pension Fund.
Public interest report and other auditor powers	We had no reason to use our auditor powers.
Whole of government accounts	Alongside our work on the financial statements, we also review and report to the National Audit Office (NAO) on your Whole of Government Accounts (WGA) return. The extent of our review, and the nature of our report, is specified by the NAO. As the Council falls below the £2 billion threshold for review as per the NAO's 2021/22 group instructions, we do not expect to have to perform any procedures. However, until the NAO has confirmed whether they have selected Norfolk County Council as one of the additional sampled components for additional audit procedures we are not able to fully conclude this work.
Certificate	We are not able to issue our certificate until the NAO have confirmed whether we are required to undertaken any addition work on the WGA return as noted above.

Audit of the financial statements – Norfolk County Council

Key findings
The Narrative Statement and 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 issued an unqualified opinion on the financial statements for the Council. We reported our detailed findings to the Audit and Governance Committee on the 7 September 2023 and updated our findings in our final report on 13 February 2024. 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 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 have not identified any material weaknesses in controls or evidence of material management override.
Inappropriate capitalisation of revenue expenditure In considering how the risk of management override may present itself, we conclude that this is primarily through management taking action to override controls and manipulate in year financial transactions that impact the medium to longer term projected financial position. A key way of improving the revenue position is through the inappropriate capitalisation of revenue expenditure. The Council has a significant fixed asset base and a material capital programme and therefore has the potential to materially impact the revenue position through inappropriate capitalisation.	Prior to the completion of our audit procedures, but subsequent to the publishing of the authorized draft accounts, management identified an adjustment in REFCUS reducing this expenditure by £4.382 million. We have reviewed this adjustment and agreed the updated treatment is appropriate. As management identified this issue and brought it to our attention, we are satisfied that this was due to error and not management override or fraud. Our audit work did not identify any other material issues or unusual transactions which indicated any misreporting of the Council's financial position through the inappropriate capitalisation of revenue expenditure.

Audit of the financial statements – Norfolk County Council

Higher inherent risks	Conclusion
Valuation or property, plant, and equipment and investment property The fair value of property, plant and equipment (PPE) and investment properties (IP) represents significant balances in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges. At 31 March 2022, the net book value of PPE was £1,767 million, and the fair value of investment properties was £14.635 million. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the Balance Sheet.	We identified one investment property (Norwich Airport Industrial Estate) with a late valuation update by the management expert which resulted in an increase in the value of £3.57 million. The property was also reclassified from investment property to assets held from sale with a value of £21.021 million as it now met the accounting standard definition of an asset held for sale. We also identified and applied relevant indices to assets not subject to valuation in 2021/22 and estimated that the value of these assets may be understated by £22.07 million. This estimated difference is below our audit materiality and therefore we are satisfied that the valuation of assets is materially accurate and no adjustment to the draft statement of accounts is required. We have not identified any other issues related to the valuation of property, plant, and equipment and investment property than those noted above.
Pension liability valuation (IAS19) The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding the Local Government Pension Scheme (LGPS) in which it is an admitted body. The Council's current pension fund deficit is a material and sensitive item and the Code requires that this liability be disclosed on the Council's balance sheet. The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. At 31st March 2022 this totalled £407 million. The information disclosed is based on the IAS 19 report issued by the Pension Fund actuary to the Council. Accounting for these schemes involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on its behalf. We are required to undertake procedures on the use of the actuary as management's expert and the assumptions underlying fair value estimates.	The pension liability and related disclosures in the draft statement of accounts were based on an IAS19 report which included estimates based on roll forward of the information and assumptions in the March 2019 triannual valuation. The Council obtained an updated IAS19 report in March 2023 following release of the March 2022 triannual valuation. This has resulted in an amendment to the draft Statement of Accounts increasing the pension liability by £56.717 million.

Audit of the financial statements – Norfolk County Council

Higher inherent risks	Conclusion
Accounting for COVID-19 related government grants In response to the COVID-19 pandemic, the Council have received significant levels of grant funding, both to support the Council and to pass on to local businesses. Each of these grants will have distinct restrictions and conditions that will impact the accounting treatment of these. We are aware of new COVID-19 grant income in 2021/22 for example the COVID-19 Additional Relief Fund (CARF) that is material in nature. Given the volume of these grants, the new conditions for the Council to understand the accounting impact of, there is an inherent risk that these may be misclassified in the financial statements or inappropriately treated from an accounting perspective.	We have completed our work and our testing confirmed that grants have been accounted for correctly.
Group Reporting Within the group accounts of the Council there are various accounting issues that have arisen during the period for consideration in the audit including the treatment of IFRS 16, the impact of the withdrawal from the Norwich Norse Partnership, and the consolidation of the new Repton entity.	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, increasing the value of both lease liabilities and property, plant and equipment in the Group Balance Sheet. These leases are reflected in the Group Accounts at 31 March 2020 as finance liabilities of £12.116 million, matched by an increased value of property, plant & equipment. In order to apply the CIPFA Code to the Group accounts, the impact of the adoption of IFRS 16 by the Norse Group should be reversed out of the Group Accounts, reducing both assets and liabilities by £12.116 million. The Council have not made the necessary adjustments in relation to this. This same error was also noted in the prior year. We have not been provided with a breakdown of the impacted leases in 2021/22. However, the movement on finance leases in the Norse accounts is a reduction of £3 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. In addition, the component auditor reported that the dilapidation provision was understated after performing an updated assessment using data from Royal Institution of Chartered Surveyors (RICS) and Building Cost Information Service (BCIS) rates. The provision was originally recorded at £0.800 million. The component auditors assessment determined a range of £1.400 million to £2.700 million. This resulted in an understatement of the provision by £1.864 million, which is not material to the Group accounts.

Audit of the financial statements – Norfolk County Council

Higher inherent risks	Conclusion
Going concern There is a presumption that the Council will continue as a going concern for the foreseeable future and that it's accounts should therefore be prepared on a going concern basis. However, the Council is required to carry out a going concern assessment that is proportionate to the risks it faces. In light of the continued impact of Covid and economic volatility on the Council's day to day finances, its annual budget, its cashflows and its medium term financial strategy, there is a need for the Council to ensure its going concern assessment is appropriately comprehensive. The Council is also required to ensure that its going concern disclosure within the statement of accounts adequately reflects its going concern assessment and in particular highlights any uncertainties it has identified.	We reviewed management's assessment and considered the adequacy of this along with the disclosure in the accounts by: • Challenging management's identification of events or conditions impacting going concern. • Testing management's assessment of going concern by evaluating supporting evidence (including consideration of the risk of management bias). • Reviewing the Council's cashflow forecast covering the foreseeable future, to ensure that it has sufficient liquidity to continue to operate as a going concern. • Undertaking a 'stand back' review to consider all of the evidence obtained, whether corroborative or contradictory, when we draw our conclusions on going concern. • Challenging the disclosure made in the accounts in respect of going concern and any material uncertainties. • Ensuring the assessment covers a period of at least 12 months from the date of audit report We are satisfied that the Council's going concern assessment and disclosures are appropriate.

Audit of the financial statements – Norfolk County Council

Higher inherent risk	Conclusion
Infrastructure assets subsequent expenditure We identified the subsequent expenditure on infrastructure assets as a significant risk. Norfolk County Council has material infrastructure assets of £1,049 million held on its balance sheet at 31 March 2022. We initially identified this as a significant risk as a result of an issue which was raised with the National Audit Office's Local Government technical network in March 2022 in relation to the accounting for infrastructure assets. Under the CIPFA Code, these assets were held at depreciated historic cost. It was identified that, whilst local authorities add expenditure incurred on replacing or enhancing such assets, most do not appear to be reviewing the Code requirement to establish whether this spend is a replacement of an asset, or a recognised component, and therefore, are not derecognising the old component. As a consequence gross cost/gross accumulated depreciation are continually increasing, and the balance sheet may be misstated where the expenditure is a replacement for an asset/component not fully depreciated. DLUHC issued a Statutory Instrument which came into effect on 25 December 2022. This allowed for a temporary change in accounting rules in this area giving authorities the option to account for infrastructure assets on a net rather than gross basis. CIPFA also released an update to the Local Authority Accounting Code and a Local Authority Accounting Panel (LAAP) bulletin was issued which provided practitioners guidance on how they should account for Infrastructure Assets should an Council wish to adopt the Statutory Instrument. The Council adopted the Statutory Instrument issued by CIPFA in December 2022, this has resulted in less onerous disclosures and reduced audit risk. We have therefore reassessed the risk and removed the significant risk and updated our planned audit response as a result. The main risk now identified is that the Council does not correctly apply the Code update and Statutory Override and does not make appropriate disclosures in its accounts, and that economic useful lives are inappropriate resulting in depreciation being materially misstated	Our work did not identify any material issues in relation to infrastructure assets. The Council has applied the statutory override and Code adaptation and reported these assets on a net book value basis and made appropriate disclosures in the accounts related to this. Our review of the economic useful lives applied by the Council has provided sufficient assurance that depreciation and net book values for infrastructure assets are materially accurate.

Audit of the financial statements – Norfolk Pension Fund

Key findings

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.

We issued an unqualified opinion on the financial statements and our consistency opinion. We reported our detailed findings to the Audit and Governance Committee on the 28 November 2022 and updated with our final findings on 13 February 2024. 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 risks	Conclusion
Misstatements due to fraud or error (Management override) 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 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 evidence of management bias in relation to accounting estimates.
Misstatement due to fraud or error (Incorrect posting of investment valuation journals) 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 considered the key areas where management has the opportunity and incentive to specifically override controls that could affect the Pension Fund's Financial Statements. We have identified the main risk to be the incorrect posting of investment valuation journals.	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. Our additional procedures in relation to the review of the reconciliations to source reports, including fund managers and custodians reports, and the re-performance of the investment note have not identified any instances of inappropriate posting of investment journals.

Audit of the financial statements – Norfolk Pension Fund

Significant risks	Conclusion
Valuation of complex investments (including level 3 investments) The Fund's investments include unquoted investment vehicles such as private equity, infrastructure, pooled property funds and private credit. We have identified the valuation of investments, particularly complex investments, as an area of specific risk. We have identified the valuation of investments, particularly complex investments, as an area of specific risk. Judgements are taken by the Fund Managers to value those investments whose prices are not publicly available. The material nature of the 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. As these investments are more complex to value, we have identified the Fund's investments in private equity, infrastructure, pooled property and private credit as significant risk, as even a small movement in these assumptions could have a material impact on the financial statements.	Our testing has not identified any material misstatements within year end investment asset valuations. Our additional procedures, including the review of the latest set of audited accounts and the internal control reports for the fund managers, identified one matter to bring to your attention. Last year, we reported that the Aviva Infrastructure fund accounts had been qualified due to insufficient information being made available to the auditor due to an ongoing legal case. This qualification is still in place for the same reason. The value of the Pension Fund's investment in this fund is £43 million and we have concluded that it was unlikely that this issue would have a material impact on the Pension Fund. Management have included an enhanced disclosure in Note 5 – Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty in relation to this matter. We have not identified any material valuation differences in the reported funds valuation within the financial statements. We also challenged the material accuracy of the valuation as at 31 March 2022 through substantive analytical review using relevant indices. We have not identified any material differences following the completion of our work.
Change in Custodian In November 2021, the Pension Fund made a changed of custodian from HSBC to Northern Trust. Given the nature of the custodian's role to the Pension Fund and their key role for the provision of information upon which the financial statements are based, we therefore consider that this presents a significant audit risk. The audit risk is that information may be incorrectly transferred leading to errors within or reported within the 2021/22 financial statements.	We have obtained an understanding of the custodian change process and of the controls in place to mitigate potential risks over the transfer of data and concluded that the process and controls were appropriately designed We have completed a review of the reconciliation performed by the Pension Fund between the HSBC closing investment balance and Northern Trust opening investment balance. We noted no differences.

Audit of the financial statements – Norfolk Pension Fund

Areas of audit focus	Conclusion
Going concern disclosure There is a presumption that the Fund will continue as a going concern for the foreseeable future. However, the Fund is still required to carry out a going concern assessment that is proportionate to the risks it faces. The unpredictability of the current economic environment and also the volatility of the capital markets due to the ongoing impact of Covid as well as the Ukraine Russia conflict give rise to a risk that the Pension Fund may not appropriately disclose the impact of these issues on their going concern assessment. The disclosure should be underpinned by management's assessment based on the Pension Fund's actual year end financial position and projected performance and cashflows for the going concern period of 12 months from the auditor's report date.	To address this risk, we : • Obtained management's going concern assessment and reviewed for any evidence of bias and consistency with the accounts. • Challenged management's identification of events or conditions impacting going concern. • Reviewed the cashflow forecasts prepared by the Pension Fund. • Assessed the adequacy of going concern disclosures in the Pension Fund's financial statements. Our review of the disclosure on going concern has not identified any issues. Management revisited and updated the disclosure close to the expected date of authorisation of the accounts for issue to ensure that it remains appropriate to the Pension Fund's circumstances for the foreseeable future (the next twelve months).
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 £6,651 million as at 31 March 2022. The figure is material and subject to complex estimation techniques and judgements by the Actuary, Hyman 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 2022.	We assessed whether the IAS26 disclosure is in line with the relevant standards and consistent with the valuation provided by the Actuary and have not identified any issues. Management agreed to amend the disclosures in their accounts to reflect the revised IAS26 disclosures issued by the actuary as a result of the 2022 triennial valuation exercise completed in March 2023. We have reviewed and are satisfied with the revised disclosures and have undertaken additional procedures to ensure we can place reliance on the updated figures.

Value for Money – Norfolk County Council

We did not identify any risks of significant weaknesses in the Council's VFM arrangements for 2021/22.

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

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

Scope

We are required to report on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in it use of resources. We have complied with the guidance issued to auditors in respect of their work on value for money arrangements (VFM) in the 2020 Code of Audit Practice (2020 Code) and Auditor Guidance Note 3 (AGN 03). We presented our VFM risk assessment to the Council which was based on a combination of our cumulative audit knowledge and experience, our review of Council reports, meetings with officers and evaluation of associated documentation through our regular engagement with Council management and the finance team.

Reporting

We completed our risk assessment procedures and did not identify any significant weaknesses in the Council's VFM arrangements. We have also not identified any significant risks during the course of our audit. As a result, we had no matters to report by exception in the audit report on the financial statements.

Our detailed commentary for 2021/22 is set out on the following pages. The commentary on these pages summarises our conclusions over the arrangements at the Council in relation to our reporting criteria (see below) throughout 2021/22. Appendix A includes the detailed arrangements and processes underpinning the reporting criteria. These were reported in our 2020/21 Annual Auditors Report and have been updated for 2021/22.

We have also considered the Council's most recent financial reporting as part of our assessment of financial sustainability and have included detailed comment on this on the following page.

Reporting criteria	Risks of significant weaknesses in arrangements identified?	Actual significant weaknesses in arrangements identified?
Financial sustainability: How the Council plans and manages its resources to ensure it can continue to deliver its services	No significant risks identified	No significant weaknesses identified
Governance: How the Council ensures that it makes informed decisions and properly manages its risks	No significant risks identified	No significant weaknesses identified
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	No significant risks identified	No significant weaknesses identified

Value for Money (continued)

Financial Sustainability: How the Council plans and manages its resources to ensure it can continue to deliver its services

The Council is required to have arrangements in place to ensure proper resource management and the primary responsibility for these arrangements and reporting on the design and operation of these arrangements via the annual governance statement, rests with management. In accordance with the NAO's Code the focus of our work should be on the arrangements that the Council is expected to have in place during the year ended 31 March 2022. Our risk assessment did not identify any risk of significant weakness in arrangements to secure financial sustainability.

The Council has a robust process of estimating the recurring and non-recurring expenditure for at least four years and the funding sources for the same period. The forecast Medium Term Financial Plan position is reviewed in February each year to identify pressures and required savings to allocate savings targets to departments. A revenue budget is prepared with reference to the Medium Term Financial Plan and the identified pressures and saving targets. Executive Directors monitor their assigned budgets and any over-runs are reported monthly to Cabinet.

The budget and Medium Term Financial Strategy approved by Council in February 2022 identified a significant budget gap of £59.927 million for 2023/24. Management and those charged with governance have demonstrated urgency in identifying savings to bridge this gap as noted through our minute review of Cabinet meetings. Starting in April 2022, Cabinet set a two phased approach to identify savings with a target of identifying £15 million by July 2022. As at the July 2022 meeting, £13.007 million (86.7% of target) was identified. This was largely driven by savings programs in adult social care and children services. As at October 2022, identified savings proposals had increased by £19.508 million to £32.515 million, reducing the gap by half from the starting point. The budget and Medium Term Financial Strategy approved by Council in February 2023 presented a balanced budget with savings of £59.703 million included. The Council has demonstrated historical success and achieving the majority of the savings targets identified in previous years with success rates in excess of 85%.

At 31 March 2022, the Council held a general fund reserve balance of £23.84 million and had further earmarked revenue reserves of £211.50 million. Projected balances for the general fund and earmarked reserves through to 31 March 2024 were £25.41 million and £144.48 million respectively. This provides resources to support the budget if future savings are not identified or achieved in each of the four years of the Medium Term Financial Strategy. These balances exceed the minimum level of general fund balances set at £19.706 million in the 2021 – 2025 Budget Book.

The use of reserves to support the budget is however not a sustainable strategy and the Council should continue its focus on the assessment of the savings requirement and continue to identify relevant schemes to achieve the annual savings requirements to minimise the use of reserves where possible.

Conclusion: Based on the work performed, the Council had proper arrangements in place in 2021/22 to enable it to plan and manage its resources to ensure that it can continue to deliver its services.

Value for Money (continued)

Governance: How the Council ensures that it makes informed decisions and properly manages its risks

The Council is required to have arrangements in place to ensure proper risk management and the primary responsibility for these arrangements and reporting on the design and operation of these arrangements via the Annual Governance Statement, rests with management. In accordance with the NAO's Code the focus of our work should be on the arrangements that the Council is expected to have in place during the year ended 31 March 2022. In 2021/22, we did not identify a risk of significant weakness in arrangements in place to ensure sound governance.

The Council continuously identifies the risks it faces, including the likelihood of the risks occurring and the impact. These risks are reported to the Governance and Audit Committee on a quarterly basis.

A common theme in the risks identified for 2021/22, relates to increasing costs of providing services and funding reductions. To address this, the Council revisited their funding projections and closely monitored the budget, Covid recovery and inflation. We have assessed the Council's arrangements in terms of financial sustainability and concluded they are adequate. We are therefore satisfied that the risk assessment procedures in place in the Council are adequate and risks are being appropriately managed.

In terms of internal controls in place, the Council received an overall rating of 'reasonable assurance' from Internal Audit, which is the second highest level of assurance that Internal Audit may provide.

The Council also has a climate change strategy which supports the Government's UK Net Zero Strategy.

Conclusion: Based on the work performed, the Council had proper arrangements in place in 2021/22 to enable it to make informed decisions and properly manage its risks.

Value for Money (continued)

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

The Council is required to have arrangements in place to ensure economy, efficiency and effectiveness, and the responsibility for these arrangements and reporting on the design and operation of these arrangements via the annual governance statement, rests with management. In accordance with the NAO's Code the focus of our work should be on the arrangements that the Council is expected to have in place during the year ended 31 March 2022. In 2021/22, we did not identify a risk of significant weakness in arrangements in place to ensure economy, efficiency and effectiveness.

We did not identify any weaknesses in the Council's procurement procedures in 2021/22. All procurements are governed by the Council's Contract and Procurement Rules (part of the Council's Constitution). Compliance with these is monitored by Procurement and Legal and the Contract Procurement Group.

The Council launched its new strategy 'Better Together, For Norfolk' during 2021/22 which set out the Council's key priorities through to 2025.

During the period, a number of disputes between the Council's subsidiary. Norse, and its joint ventures with other district councils came to light. Norfolk County Management are aware of the disputes and have been working with Norse management to develop greater clarity on the expectations for Norse in the provision of services.

Conclusion: Based on the work performed, the Council had proper arrangements in place in 2021/22 to enable it to use information about its costs and performance to improve the way it manages and delivers services.

Appendices

Appendix A – Summary of arrangements

Financial Sustainability	
Reporting Sub-Criteria	**Findings**
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 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 senior managers. The RBOs are responsible for identifying budget risks. Any risks which have long term implications are then escalated to the Finance Projects team and incorporated into the budget process for risk mitigation activities to be coordinated with the service areas.
How the body plans to bridge its funding gaps and identifies achievable savings	The Council has a 4 year Medium Term Financial Plan. The Council reviews the forecast position in February each year and subsequently Cabinet allocates savings targets to 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 February 2022 Medium Term Financial Plan, a council tax increase along with identified saving proposals meant there was no budget shortfall identified for 2022/23.
How the body plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities	Strategic and Financial Planning reports 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 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 (the FM Code) and the Annual Budget Report sets out an assessment of how compliance with the FM Code is achieved

Appendix A – Summary of arrangements (continued)

Financial Sustainability

Reporting Sub-Criteria	Findings
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 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 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, prudential borrowing and capital receipt. All prudential borrowing is taken on with regard to the Treasury Management policy. The revenue budget, reserves strategy, capital 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 in one report.
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 identified through various mechanisms including regular financial monitoring and risk management processes. Financial regulations set out that Executive Directors are responsible for managing their services 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 FM Code. The Budget report to Council includes an assessment of the robustness of budget estimates and broad sensitivity analysis.

Appendix A – Summary of arrangements (continued)

Governance

Reporting Sub-Criteria	Findings
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 a corporate, departmental and service risk registers. Regular reports are taken to Governance and Audit Committee to consider and agree. Internal Audit produce a 3 year strategic plan which is risk focused. Discussions are held with Executive/Assistant Directors and key senior managers to incorporate details on current risks within the Directorate's departments along with a review of the risk registers. These feed into the annual plan of audits undertaken by Internal Audit. Quarterly reports are taken to Governance and Audit Committee for consideration along with an annual report by the Head of Internal Audit. Internal audit reviews provide the Council with assurance over the effective operation of internal control, which cover arrangements to prevent and detect fraud. They feed into the Annual Governance Statement which is prepared annually.
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 (MTFS) 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; - MTFS 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 - Final settlement and then Budget taken to Cabinet in February to recommend to Council - Scrutiny Committee to consider budget proposals, consultation and impact assessments - Budget taken to Full Council for approval 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.

Appendix A – Summary of arrangements (continued)

Governance

Reporting Sub-Criteria	Findings
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	There is a budget manager system in place to capture the monthly review by RBOs and this is supported by Finance. The review identifies any over/underspends, which are then included in 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.
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 processes are set out within Constitution and financial decisions are 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, 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.
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.

Appendix A – Summary of arrangements (continued)

Improving economy, efficiency and effectiveness

Reporting Sub-Criteria	Findings
How financial and performance information has been used to assess performance to identify areas for improvement	Annually through the Annual Governance Statement and Narrative Report the Council assesses its performance. This informs planning going forward. Quarterly "vital signs" are reported to Cabinet in the Corporate Significant Vital Signs report, to highlight the key performance indicators (KPIs) for each service area and provide updates on actions taken by each area to address any shortfall in performance. Each service area leadership team also receives monthly reports on performance from finance business partners and service managers.
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 2021-2025. The "Better Together, for Norfolk" aims are a vibrant sustainable economy; better opportunities for children and young people; health fulfilling and independent lives, strong, engaged, and inclusive communities; and a greener, more resilient future. The plan provides a whole-Council view of significant activities and supports and is aligned with the Medium Term Financial Strategy. Quarterly "vital signs" reported to Cabinet capture the service performance against this Plan and is used by Cabinet to evaluate the performance and identify next steps for improvement, efficiencies and mitigations. There is a core transformation team in place which assists services in leveraging change projects and initiatives to achieve the improvements aimed for in service plans.
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 that affect the Council will still be subject to the Council's Constitution. Members on these boards feedback to the appropriate committee where performance is monitored and action taken where necessary. To deliver its role with the New Anglia Local Enterprise Partnership, the Council 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 Business Rates Pool, particular governance agreements will be in place and details of the Pool are reported to Cabinet annually, as the Council is the lead authority. 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 feedback how these contributed to Council decisions.
How the body ensures that commissioning and procuring services is done in accordance with relevant legislation, professional standards and internal policies, and how the body assesses whether it is realising the expected benefits	Procurement activities are supported by a 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 the 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 directorate management teams 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 directorate management team as part of regular performance reporting. Internal Audit undertake periodic reviews of procurement and these are reported to the Governance and Audit Committee.

Appendix B – Fees – Norfolk County Council
Relationships, services and related threats and safeguards

The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and the Council, and its members and senior management and its affiliates, including all services provided by us and our network to the Council, its members and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on the our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats.

There are no relationships from 1 April 2022 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity. As at the date of this report, there are no future services which have been contracted and no written proposal to provide non-audit services has been submitted.

We carried out our audit of the Council's financial statements in line with PSAA "Statement of Responsibilities of auditors and audited bodies" and "Terms of Appointment and further guidance (updated April 2018)".

	Final proposed fee 2021/22 Note 2 (£)	Planned fee 2021/22 (£)	Final fee 2020/21 Note 1 (£)
Scale fee	98,361	98,361	98,361
Scale fee rebasing (regulatory requirements)	25,040	-	60,751
Group accounting	11,705	TBD	
Pension valuation	15,175	TBD	
Additional Major Local Audit procedures	13,445	TBD	
Property valuation	19,325	TBD	
PFI	3,487	TBD	
Technical accounting issues	18,135	TBD	
Quality or preparation Issues	10,790	-	
VFM	18,007	10,000 to 19,000	
Covid-19	4,940	TBD	
Additional work of EY pensions experts	7,320	TBD	
ISA 540 estimates work	4,493	4,400	
Infrastructure assets accounting	8,982	-	
Non-compliance with laws and regulations	32.595	-	
Total audit fees	**291,800**	**TBD**	**159,112**

Details of individual fee increases are included in the next page

Appendix B – Fees – Norfolk County Council
Relationships, services and related threats and safeguards

Notes

1) The 2020/21 Code work includes an additional fee of £60,781, which relates to additional work undertaken to address the risks identified during the audit. This has been approved by PSAA.

(2) For 2021/22, the scale fee represents the base fee, i.e. not including any additional testing to address risks or meet increased regulatory requirements. As outlined in previous reports, we have proposed an increase of £25,040 to the base scale fee to reflect the increased regulatory requirements. The audit was also impacted by a range of factors included in our Audit Planning Report and Audit Results Report which resulted in additional work. We set out the proposed additional fee to address these issues below. Now that the audit is complete, we have finalised our proposed fee and submitted it to PSAA for determination. We provide additional detail below:

- Work required to assess group boundaries, scope the group audit, manage component auditors, and complete consolidation procedures, £11,705
- Work required to obtain assurance over IAS19 reporting, including work over triennial valuation updates, £15,175
- The need to engage EY Pensions to review assumptions used in estimating the pensions IAS19 liability (specialist cost only), £7,320.
- Norfolk County qualifies as an major local authority and this requires the inclusion of an engagement quality review and increased considerations on independence, materiality and technical review of financial statements, £13,445
- Work required to gain assurance over the valuation of other land and buildings and investment property, £19,325.
- Work required to gain assurance over accounting on PFI schemes held by the Council, including review of models and disclosures, £3,487
- Work required to gain assurance over technical accounting issues including testing of capital expenditure recognition and management override, alternative procedures for non-receipt of investment confirmations, and consideration of net versus gross implications on the cash flow, £18,135
- Quality considerations relating to procedures to complete mapping of data analytics and obtain assurance over information produced by the entity, rechecking of final sets of accounts due to consistency issues, and resampling expenditure and income for updated populations, £10,790
- Completion of VFM commentary and consideration of impact of identified potential non-compliance with laws and regulations on arrangements, £18,007
- Additional procedures to gain assurance over covid grant income and going concern disclosures, £4,940
- Additional procedures required by ISA 540 on all accounting estimates (excluding specialist costs), £4,493
- Additional procedures performed on accounting for subsequent expenditure on infrastructure assets, £8,982
- Consideration of impact of potential non-compliance with laws and regulations including consultation with internal specialists, £32,595

In addition, we are driving greater innovation in the audit through the use of technology. The significant investment costs in this global technology continue to rise as we seek to provide enhanced assurance and insight in the audit.

** All fees exclude VAT*

Appendix B – Fees – Norfolk Pension Fund Relationships, services and related threats and safeguards

The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and the Council, and its members and senior management and its affiliates, including all services provided by us and our network to the Council, its members and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on the our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats.

There are no relationships from 1 April 2022 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity. As at the date of this report, there are no future services which have been contracted and no written proposal to provide non-audit services has been submitted.

We carried out our audit of the Council's financial statements in line with PSAA Ltd's "Statement of Responsibilities of auditors and audited bodies" and "Terms of Appointment and further guidance (updated April 2018)".

Audit Fees – Norfolk Pension Fund	Final proposed fee 2021/22	Planned fee 2021/22	Final Fee 2020/21
	£	£	£
Scale fee	20,866	20,866	20,866
Changes in work required to address professional and regulatory requirements and scope associated with risk - variation to the scale fee	50,140 (b)	50,006 (b)	17,037 (a)
Additional fee in respect of work on behalf of admitted body auditors – non code work (c)	15,000	15,000	12,500
Additional level 3 investment valuation procedures (d)	6,729	-	N/A
Additional going concern procedures (e)	1,075	-	N/A
Impact of revised ISA 540 – estimates (f)	2,004	-	N/A
Change in custodian (g)	6,980		N/A
Total Fees	**102,794**	**TBC**	**49,196**

All fees exclude VAT

See next slide for notes on the fees per table above. The above fees have been submitted to PSAA for determination

Appendix B – Fees – Norfolk Pension Fund
Relationships, services and related threats and safeguards

Notes on fees

(a) For 2020/21, PSAA approved a fee variation of £17,037 in addition to the scale fee of £20,866. The additional fee represents the cost incurred as a result of additional work required in response to increased FRC challenge on investment valuations and estimates including time spent mapping general ledger data.

(b) We do not believe that the current scale fee reflects the changes in the audit market and increases in regulation since the PSAA tender exercise for this audit. For 2021/22, as in the previous year, we have therefore proposed increases to the scale fee to take into account a number of risk factors including: procedures to address the risk profile of the Pension Fund; additional work to address increase in regulatory standards; client readiness and IT support for data analytics. The proposed scale fee increase is subject to determination by PSAA.

(c) Additional fee to take into account the work required to respond to IAS19 assurance requests from admitted bodies and their auditors. The Pension Fund can recharge this fee to the relevant admitted bodies. This is not subject to PSAA approval.

(d) Additional audit procedures performed relating to the valuation of Investments, particularly the Level 3 investments where we have a significant risk.

(e) Additional procedures relating to the going concern, which we identified as an area of focus for 2021/22.

(f) In response to the revised auditing standard ISA 540 (Estimates), we have performed additional procedures and completed additional documentation on significant estimates. For the Pension Fund, the significant estimates included the valuation of level 3 investments and IAS 26 disclosures related to the actuarial value of retirement benefit.

(G) Additional work to gain assurance over change in custodian from HSBC to Northern Trust which we identified as an inherent risk.

Now that we have concluded our audit we have submitted the addition fee proposals to PSAA for determination.

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ED None

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