

REPORT

Background

1. The annual audit letter communicates to the Member of Norwich City Council and external stakeholders, including members of the public, the key issues arising from the audit work carried out for the year ended 31 March 2013 by our external auditors.

Key Findings, control themes and observations

2. The audit committee should note the key findings, control themes and observations contained in the letter.

Fees Update

3. The audit committee should note the proposed audit fees for the 12-13 Statement of accounts and that for the certification of claims and returns.

Norwich City Council

Year ending 31 March 2013

Annual Audit Letter

31 October 2013



Building a better
working world

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The Members
Norwich City Council
City Hall
St. Peter's Street
Norwich
NR2 1NH

31 October 2013

Dear Members,

Annual Audit Letter

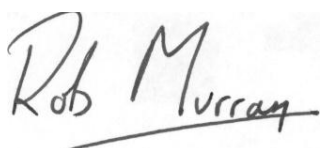
The purpose of this Annual Audit Letter is to communicate to the Members of Norwich City Council and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to their attention.

We have already reported the detailed findings from our audit work to those charged with governance of Norwich City Council in the 2012/13 Audit Results Report issued the Audit Committee on 24 September 2013.

The matters reported here are the most significant for the Authority.

I would like to take this opportunity to thank the officers of Norwich City Council for their assistance during the course of our work.

Yours faithfully



Rob Murray
Director
For and behalf of Ernst & Young LLP
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In March 2010 the Audit Commission issued a revised version of the 'Statement of responsibilities of auditors and audited bodies' (Statement of responsibilities). It is available from the Chief Executive of each audited body and via the [Audit Commission's website](#).

The Statement of responsibilities serves as the formal terms of engagement between the Audit Commission's 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 Standing Guidance serves as our terms of appointment as auditors appointed by the Audit Commission. The Standing Guidance sets out additional requirements that auditors must comply with, over and above those set out in the Code of Audit Practice 2010 (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.

1. Executive summary

Our 2012/13 audit work has been undertaken in accordance with the Audit Plan we issued on 19 March 2013 and is conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

The Authority is responsible for preparing and publishing its Statement of Accounts, accompanied by the Annual Governance Statement. In the Annual Governance Statement, the Authority reports publicly on an annual basis on the extent to which they comply with their own code of governance, including how they have monitored and evaluated the effectiveness of their governance arrangements in the year, and on any planned changes in the coming period. The Authority is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

As auditors we are responsible for:

- ▶ forming an opinion on the financial statements;
- ▶ reviewing the Annual Governance Statement;
- ▶ forming a conclusion on the arrangements that the Authority has in place to secure economy, efficiency and effectiveness in its use of resources; and
- ▶ undertaking any other work specified by the Audit Commission.

Summarised below are the conclusions from all elements of our work:

Audit the financial statements of Norwich City Council for the financial year ended 31 March 2013 in accordance with International Standards on Auditing (UK & Ireland).	On 30 September 2013 we issued an unqualified audit opinion on the financial statements of the Authority.
Form a conclusion on the arrangements the Authority has made for securing economy, efficiency and effectiveness in its use of resources.	On 30 September 2013 we issued an unqualified value for money conclusion.
Issue a report to those charged with governance of the Authority (the Audit Committee) communicating significant findings resulting from our audit.	On 24 September 2013 we issued our Audit Results Report (ISA 260) report in respect of the Authority.
Report to the National Audit Office on the accuracy of the consolidation pack the Authority is required to prepare for the Whole of Government Accounts.	We reported our findings to the National Audit Office on 30 September 2013.
Consider the completeness of disclosures in the Authority's Annual Governance Statement, identify any inconsistencies with the other information of which we are aware from our work and consider whether it complies with CIPFA / SOLACE guidance.	No issues to report.
Consider whether, in the public interest, we should make a report on any matter coming to our notice in the course of the audit.	No issues to report.
Determine whether any other action should be taken in relation to our responsibilities under the Audit Commission Act.	No issues to report.
Issue a certificate that we have completed the audit in accordance with the requirements of the Audit Commission Act 1998 and the Code of Practice issued by the Audit Commission.	On 30 September 2013 we issued our audit completion certificate.

Issue a report to those charged with governance of the Authority summarising the certification (of grant claims and returns) work that we have undertaken.

We plan to issue our annual certification report to those charged with governance with respect to the 2012/13 financial year by 31 January 2014.

2. Key findings

2.1 Financial statement audit

We audited the Authority's Statement of Accounts in line with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission. We issued an unqualified audit report on 30 September 2013.

In our view, the quality of the process for producing the accounts, including the supporting working papers had improved in comparison to previous years, although there is room for further strengthening of the closedown process.

The main issues identified as part of our audit were:

Significant risk 1: Opening balances

As a first year engagement, the application of professional judgement resulted in a lower materiality level than applied by your previous external auditor. We were therefore required to assess the impact of prior year unadjusted errors on the current year financial statements, as there was a risk that unadjusted errors from previous years would now be a material issue for our audit report on the 2012/13 financial statements.

We worked closely with the finance team to focus on those unadjusted errors from previous years where a further assessment was required to ensure there was not a material impact on the current year statements. All issues were satisfactorily concluded.

Significant risk 2: Property, Plant and Equipment (fixed assets) accounting records

Audit Reports submitted by predecessor auditors in previous years commented on weaknesses in accounting for fixed assets. This has contributed to material errors in previous years.

Due to the complexity and value of fixed assets, weaknesses in accounting records for fixed assets increase the risk of material misstatement in the accounts.

There are still significant weaknesses in fixed asset accounting records and these have impacted on the 2012/13 audit. In our Audit Results Report we reported on unresolved issues that caused difficulties during the current year audit relating to the accuracy of the fixed asset register, fixed asset additions and depreciation.

Significant risk 3: HRA self financing

The government reformed local authority housing finance by adopting a self-financing model from 1 April 2012. This involved a one-off settlement payment to central government in March 2012. The in year accounting for self-financing commenced in 2012/13 and required changes in accounting practices for HRA depreciation and the allocation of debt charges between housing and general fund services. Due to the complexity and magnitude of the HRA reform there was a risk the financial statements would be materially misstated.

We have worked closely with the finance team throughout the year regarding various aspects of capital accounting and financing. A number of issues regarding the general fund and HRA capital financing requirement and the pooling of debt were identified. All issues were satisfactorily concluded.

Significant risk 4: Assessment of the Group boundary

The finance team undertook an assessment of the group boundary against the criteria stipulated in the relevant accounting standard. The purpose of the assessment was to conclude which potential group entities fall within the boundary and therefore require consolidating into the Council's financial statements.

The assessment concluded that both Norse based companies did fall within the group boundary as associate undertakings. However, neither were material in 2012/13 and therefore group accounts were not required. We concurred with the conclusion drawn from this assessment with regard to 2012/13. The finance team will re-visit the assessment in 2013/14.

Other financial statement risk 1: Preparation of the financial statements

The Council have worked hard in previous years to improve financial reporting arrangements, and this was reported by the previous auditor in the 2011/12 Annual Governance Report. However, it was also reported that the 2011/12 accounts presented for audit were not fully supported by adequate working papers and contained a number of material issues that required adjustment. In the absence of further improvements there remained a risk that the 2012/13 financial statements would not be free from material misstatement and compliant with the Code of Practice.

We have worked closely with the finance team throughout the year, consulting and agreeing on a regular basis regarding various aspects of accounting treatment. In addition, we provided the finance team with the outcome of our technical review of the accounts; which focussed on the significant issues relevant to our opinion.

This close working and the diligence of the finance team has resulted in improved quality of financial reporting in 2012/13.

Other financial statement risk 2: Whole of Government Accounts

The previous auditor issued the 2011/12 audit report on the Whole of Government Accounts (WGA) after the 5 October deadline. A qualified 'disagreement' report was issued on 30 October 2012. As above, in the absence of further improvements there remained a risk that the WGA consolidation pack contains errors and is not consistent with the audited accounts.

We issued our shortform WGA assurance statement on 30 September 2013. We reported non material differences between the accounts and the consolidated pack for property, plant and equipment values and pension liabilities.

Other financial statement risk 3: Risk of misstatement due to fraud and error

Management has the primary responsibility to prevent and detect fraud. It is important that management, with the oversight of those charged with governance, has put in place a culture of ethical behaviour and a strong control environment that both deters and prevents fraud.

Our responsibility is to plan and perform audits to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatements whether caused by error or fraud. As auditors, we approach each engagement with a questioning mind that accepts the possibility that a material misstatement due to fraud could occur, and design the appropriate procedures to consider such risk.

We have designed and implemented appropriate procedures to obtain reasonable assurance as to whether the financial statements as a whole are free of material misstatements whether caused by error or fraud. There were no issues arising from this work.

The Council was 'green' rated in the latest National Fraud Initiative (NFI) assessment. Good progress has been made on all NFI match reports across all datasets. The Council appear on track to complete NFI reviews/investigations in reasonable time.

2.2 Value for money conclusion

We are required to carry out sufficient work to conclude on whether the Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

In accordance with guidance issued by the Audit Commission, in 2012/13 our conclusion was based on two criteria:

- ▶ Arrangements for securing financial resilience – whether the Council has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future; and
- ▶ Arrangements for securing economy, efficiency and effectiveness – whether the Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

We issued an unqualified value for money conclusion on 30 September 2013.

Key finding 1: Level of reserve balances

In common with other Councils, the continued pressure on Council funding increases the risk that general reserve levels may fall below levels considered prudent, and therefore impact upon the financial resilience of the Council.

We found:

- ▶ The Council applies a robust approach to determine minimum levels of reserves, which is updated annually as part of the budget setting process. This risk based approach assesses potential variances in all major sources of income and expenditure, and considers other factors that may impact on operations like regulatory changes.
 - ▶ The General Fund balance as at 31 March 2013 is £0.8 million higher than the minimum set level.
 - ▶ The 2013/14 budget setting report and Medium Term Financial Strategy updates budgets and savings targets for the next five years.
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2.3 Whole of government accounts

We reported to the National Audit Office on 30 September 2013 the results of our work performed in relation the accuracy of the pension liabilities and property, plant and equipment disclosed in the consolidation pack the Authority is required to prepare for the whole of government accounts. We completed this work and reported non-material differences between the accounts and the consolidated pack for property, plant and equipment values and pension liabilities.

2.4 Annual governance statement

We are required to consider the completeness of disclosures in the Authority's Annual Governance Statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it complies with CIPFA / SOLACE guidance. There were no issues to report regarding our work in this area.

2.5 Certification of grants claims and returns

We have not yet completed our work on the certification of grants claims and returns. We will issue the Annual Certification Report for 2012/13 in January 2014.

3. Control themes and observations

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. Although our audit was not designed to express an opinion on the effectiveness of internal control we communicated to those charged with governance at the Authority, as required, significant deficiencies in internal control.

Other than the ongoing control weaknesses regarding property, plant and equipment accounting records as outlined in section 2.1, our audit did not identify any control issues that we need to bring to your attention.

4. Fees update

A breakdown of our agreed fee is shown below.

	Proposed final fee 2012/13 £'000	Scale fee 2012/13 £'000	Actual fee 2011/12 £'000	Explanation of variance
Total Audit Fee – Code work	145,925	105,652	206,087	See below
Certification of claims and returns	*	48,850	100,236	See below

We communicated our planned fee to you within our Audit Plan issued in March this year; providing an estimated update within our Audit Results Report issued in September.

Our proposed final fee is £40,273 higher than the scale fee. This additional fee is in respect of:

- ▶ Providing specific and detailed technical support to the Authority covering minimum revenue provision, capital financing requirement and the pooling of debt (£20,815);
- ▶ Additional time and work required to complete audit procedures relating to property, plant and equipment due to ongoing significant weaknesses in accounting records (£11,109); and
- ▶ Additional time and work required to complete audit procedures relating to debtor and creditor balances and in dealing with the large number of disclosure adjustments required to the draft financial statements submitted for audit (£8,349).

Our proposed final fee is being discussed with officers and when agreed will be subject to a review by the Audit Commission who will determine a final scale fee which will not exceed the £145,925 above.

**Our fee for certification of grants and claims is yet to be finalised for 2012/13 and will be reported to those charged with governance in January 2014 within the Audit Certification Report for 2012/13.*

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