

Report

Background

1. The audit results report is attached at Appendix 1. It summarises the findings from the 2015/16 external audit which is substantially complete. It includes the messages arising from the audit of the council's financial statements and the results of the work undertaken to assess arrangements to secure value for money in the council's use of resources. The report also includes a copy of the request by the external auditor for a Letter of Representation to be discussed and approved by the Audit committee as those charged with governance of the council, and signed by the chief finance officer.

Audit findings

Adjustments to the financial statements

2. The audit committee should note the adjustments made to the financial statements and that there are no unadjusted errors.

Qualitative aspects of accounting practices

3. The audit results report details areas of inefficiency/weakness relating to non-current assets. These relate to the current spreadsheet used as a Fixed Asset register. The council plans to introduce a new fixed asset register alongside its new financial system which will address these issues.

VFM risks

4. The audit results report draws attention to the significant risks around both the General Fund and Housing Revenue Account funding positions going forwards. The council is well aware of these risks and the report recognises the actions, both already taken by the council, and ongoing, to address these gaps.

Other matters

5. The report draws attention to the need to review the current closedown timetable and timing of the preparation of the accounts to meet the earlier deadlines required by 2017/18. The council has been progressively working towards earlier dates for signature for the last two years with the draft accounts approved this year on 22 June. This work will continue as we move towards 2017/18.
6. As the audit is not yet fully complete a verbal update will be given to on any further matters arising at the committee meeting.

Letter of Representation

7. The draft letter of representation is attached at Appendix 2. The audit committee is asked to review and approve the draft letter on behalf of the council before the audit opinion and conclusion is issued.

Norwich City Council

Audit Results Report - ISA (UK and Ireland) 260
for the year ended 31 March 2016

12 September 2016

Ernst & Young LLP



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In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued ‘Statement of responsibilities of auditors and audited bodies 2015-16’. It is available from the Chief Executive of each audited body and via the PSAA website (www.psa.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 from 1 April 2015’ 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 Audit Results Report is prepared in the context of the Statement of responsibilities. This report is intended solely for the use of the Members of the audited body. 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

The National Audit Office's Code of Audit Practice (the Code) requires us to report to those charged with governance – the Audit Committee – on the work we have carried out to discharge our statutory audit responsibilities together with any governance issues identified. This report summarises the findings from the 2015/16 audit which is substantially complete. It includes messages arising from our audit of your financial statements and the results of the work we have undertaken to assess your arrangements to secure economy, efficiency and effectiveness in your use of resources.

Below are the results and conclusions on the significant areas of the audit process.

Status of the audit	<p>We have substantially completed our audit of the financial statements of Norwich City Council for the year ended 2015/16.</p> <p>The following areas of our work programme remain to be completed as of the date of this report:</p> <ul style="list-style-type: none"> • completion of property, plant and equipment and investment property additions and revaluation work; • completion of disclosure notes concerning financial instruments; • completion of final manager and director review procedures; • completion of subsequent events review; and • receipt of the signed management representation letter. <p>We have performed the procedures outlined in our Audit Plan and subject to satisfactory completion of the outstanding items above anticipate issuing an unqualified opinion on the Authority's financial statements.</p> <p>We expect to conclude that you have put in place proper arrangements to secure value for money in your use of resources.</p> <p>We are not reporting any matters to the National Audit Office (NAO) regarding the Whole of Government Accounts submission as the Authority falls below the £350 million threshold for review as per the NAO's group instructions.</p> <p>The audit certificate is issued to demonstrate that the full requirements of the Audit Commission's Code of Audit Practice have been discharged for the relevant audit year. We expect to issue the audit certificate at the same time as the audit opinion.</p>
Audit differences	<p>There are no unadjusted audit differences.</p> <p>Our audit identified a number of audit differences which our team have highlighted to management for amendment. These primarily relate to disclosure and presentational matters and have been corrected during the course of our work. Further details are provided at Appendix A. These adjustments have not had an impact on useable reserves.</p>
Scope and materiality	<p>In our audit plan presented at the 15 March 2016 Audit Committee meeting, we communicated that our audit procedures would be performed using a materiality of £3.6 million.</p> <p>We have reassessed this based on the actual results for the financial year and there has been no change to the materiality level we have applied. The basis of our assessment is 2% of gross operating expenditure, which has remained consistent with prior years.</p>

<p>Scope and materiality (continued)</p>	<p>The threshold for reporting audit differences which impact the financial statements has also not changed at £0.18 million.</p> <p>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:</p> <ul style="list-style-type: none"> • Remuneration disclosures including any exit packages and termination benefits: Reduced materiality level is applied to our testing of disclosures for completeness and accuracy. This is in line with the bandings reported in the accounts; • Related party transactions: Reduced materiality level is applied to testing of disclosures for completeness and accuracy. We also carry out Companies House searches to identify whether any key decision-makers in the Council had undisclosed interests; and • Members allowances: review and test all transactions to supporting evidence and approvals <p>We carried out our work in accordance with our Audit Plan.</p>
<p>Significant audit risks</p>	<p>We identified the following audit risks during the planning phase of our audit, and reported these to you in our audit plan:</p> <p>Significant audit risks:</p> <ul style="list-style-type: none"> • Property, plant and equipment valuations; • Pensions valuations and disclosures; • Risk of fraud in revenue recognition; and • Risk of management override. <p>Other audit risks:</p> <ul style="list-style-type: none"> • Assessment of the group boundary; and • Existence of plant and equipment assets. <p>The 'addressing audit risks' section of this report sets out how we have gained audit assurance over these issues.</p>
<p>Other reporting issues</p>	<p>We have no other matters we wish to report.</p>
<p>Control observations</p>	<p>Our initial assessment of the key processes across the Council identified payroll as a key process where we would seek to test key controls.</p> <p>We have not identified any issues with testing of payroll controls.</p> <p>We have adopted a fully substantive approach for other key processes and have therefore not tested the operation of controls.</p>

Objections	We have received no objections to the 2015/16 accounts from members of the public.
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We would like to take this opportunity to thank the Council's staff for their assistance during the course of our work.

Mark Hodgson
Executive Director
For and on behalf of Ernst & Young LLP

2. Responsibilities and purpose of our work

The Council's responsibilities

The Council is responsible for preparing and publishing its Statement of Accounts, accompanied by the Annual Governance Statement (AGS). In the AGS, the Council reports publicly on the extent to which it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in the year, and on any planned changes 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.

Purpose of our work

Our audit was designed to:

- Express an opinion on the 2015/16 financial statements and the consistency of other information published with them;
- Report on an exception basis on the Annual Governance Statement;
- Consider and report any matters that prevent us being satisfied that the Council had put in place proper arrangements for securing economy, efficiency and effectiveness in the use of resources (the value for money conclusion); and
- Discharge our statutory duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

In addition, this report contains our findings related to the areas of audit emphasis and any views on significant deficiencies in internal control or the Council's accounting policies and key judgments.

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

3. Financial statements audit

Addressing audit risks

We identified the following audit risks during the planning phase of our audit, and reported these to you in our Audit Plan. Here, we set out how we have gained audit assurance over those issues.

A significant audit risk in the context of the audit of the financial statements is an inherent risk with both a higher likelihood of occurrence and a higher magnitude of effect should it occur and which requires special audit consideration. For significant risks, we obtain an understanding of the entity's controls relevant to each risk and assess the design and implementation of the relevant controls.

Significant Risks (including fraud risks)	Audit procedures performed	Assurance gained and issues arising
<p>Property, plant and equipment valuations</p> <p>We have commented in previous years on weaknesses in the spreadsheets used as a fixed asset register. The Council have continued to use these spreadsheets during 2015/16.</p> <p>The register is difficult to use and does not produce quality management information. This has contributed to errors and increased audit testing of valuations in previous years.</p> <p>Due to the complexity in accounting for property, plant and equipment and the material values involved, these weaknesses increase the risk that asset valuations and contain material misstatements.</p> <p>The valuation risk is increased with the prospective application of IFRS13 Fair Value Measurement from 1 April 2015. This is likely to have the largest impact on the Council's investment property portfolio where asset valuations need to be reviewed to ensure they are based on best use.</p>	<ul style="list-style-type: none"> • Reviewed and relied on management's valuation experts, including comparison to industry valuation trends and reliance on our own valuation experts where significant unexplained variations were identified; • Tested the accounting treatment of valuations made in the year, including the assessment and treatment of impairments; and • Reviewed and tested the Council's application of IFRS13 to ensure the fair value of relevant assets is based on economic best interest. 	<p>We are concluding our work in this area.</p> <p>To date, we have gained sufficient assurance over the property, plant and equipment valuations and disclosures.</p> <p>We have no matters to report.</p>

Significant Risks (including fraud risks)	Audit procedures performed	Assurance gained and issues arising
<p>Pensions valuations and disclosures</p> <p>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.</p> <p>The Council's current pension fund deficit is a highly material and sensitive item and the Code requires that this liability be disclosed on the Council's Balance Sheet.</p> <p>The information disclosed is based on the IAS19 report issued to the Council by the actuaries to the Norfolk Pension Fund.</p> <p>As part of their actuarial review, councils are being asked to make additional payments to the pensions scheme to fund deficits.</p>	<ul style="list-style-type: none"> • Liaised with the auditors of the Norfolk Pension Fund, to obtain assurances over the information supplied to the actuary in relation to Norwich City Council; • Assessed the conclusions drawn on the work of the actuary by the Consulting Actuary commissioned by Public Sector Auditor Appointments, PwC; and • Reviewed and tested the accounting entries and disclosures made in relation to IAS19. 	<p>We have gained sufficient assurance over the pension valuations and disclosures.</p> <p>We have no matters to report.</p>
<p>Risk of fraud in revenue recognition</p> <p>Under ISA240 there is a presumed risk that revenue may be misstated due to improper recognition of revenue.</p> <p>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.</p> <p>We have rebutted this risk for the Council's income and expenditure streams except for the capitalisation of revenue expenditure on Property, Plant and Equipment given the extent of the Council's capital programme.</p>	<ul style="list-style-type: none"> • Reviewed and tested revenue and expenditure recognition policies • Reviewed and discussed with management any accounting estimates on revenue or expenditure recognition for evidence of bias • Developed a testing strategy to test material revenue and expenditure streams • Reviewed and tested revenue cut-off at the period end date, and • Tested the additions to the Property, Plant and Equipment balance to ensure that they are properly classified as capital expenditure. 	<p>Our audit procedures have not identified any improper recognition of revenue and expenditure.</p> <p>We did not identify any matters that we need to bring to your attention.</p>

Significant Risks (including fraud risks)	Audit procedures performed	Assurance gained and issues arising
<p>Risk of management override</p> <p>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.</p>	<ul style="list-style-type: none"> • Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements • Reviewed accounting estimates for evidence of management bias; and • Evaluated the business rationale for any significant unusual transactions. 	<p>Our audit work on journals and accounting estimates has not identified any evidence of management bias or significant unusual transactions.</p> <p>We did not identify any matters that we need to bring to your attention.</p>

We also identified the following audit risks during the planning phase of our audit, and reported these to you in our Audit Plan. Here, we set out how we have gained audit assurance over those issues.

Other Risks	Audit procedures performed	Assurance gained and issues arising
<p>Assessment of the group boundary</p> <p>The Council is entering into new contracts and partnerships in the delivery of services. The nature of these arrangements need to be assessed to determine whether they create functional bodies and other group entities which now fall within the group boundary and therefore require consolidating into the Council's Financial Statements.</p>	<ul style="list-style-type: none"> • Reviewed the Council's assessment of where overall control lies and consideration of materiality with regard to the operation and delivery of services of the potential group bodies; and • Ensured that appropriate consolidation procedures are applied to those bodies where required. 	<p>We concluded that Norwich Regeneration does fall within the Council's group boundary.</p> <p>However, on the grounds of materiality (both quantitative and qualitative) consolidation is not required within the 2015/16 financial statements and therefore group accounts were not required.</p>
<p>Existence of plant and equipment assets</p> <p>The Council had vehicle and equipment assets of £26.7 million at 31 March 2015. These assets tend to be more mobile and generally have a shorter useful life. The weaknesses in the fixed asset system result in increased risk that assets recorded on the balance sheet are no longer used or owned by the Council.</p>	<ul style="list-style-type: none"> • Reviewed the Council's controls concerning asset verification, and • Carried out testing of assets for continuing existence. 	<p>We have gained sufficient assurance over the existence of plant and equipment assets.</p> <p>We have no matters to report.</p>

Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we are required to communicate to you significant findings from the audit and other matters that are significant to your oversight of the Council's financial reporting process, including the following:

- Qualitative aspects of your accounting practices; estimates and disclosures;
- Matters specifically required by other auditing standards to be communicated to those charged with governance. For example, issues about fraud, compliance with laws and regulations, external confirmations and related party transactions;
- Any significant difficulties encountered during the audit; and
- Other audit matters of governance interest.

We have one matter that we wish to report to you.

We experienced delays in the receipt of key supporting working papers at the start of the audit and further delays were experienced during the audit. We adjusted our delivery plan and worked with officers to ensure this did not impact on our statutory audit reporting deadlines. Procedures will need to be improved going forward as the deadlines for preparation, approval and audit opinion move to the 31 May and 31 July respectively in 2017/18.

Recommendation

Management should review the current closedown timetable and the associated responsibilities for preparing the supporting records to the statement of accounts. This should factor in the earlier reporting deadlines in respect of the 2017/18 financial statements.

We have no other matters we wish to report.

Control themes and observations

It is the responsibility of the Council 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 Council has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

We have tested the controls of the Council only to the extent necessary for us to complete our audit. We have not identified any issues with testing of payroll controls.

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

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.

We have reviewed the Annual Governance Statement and can confirm that it not misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Council.

Request for written representations

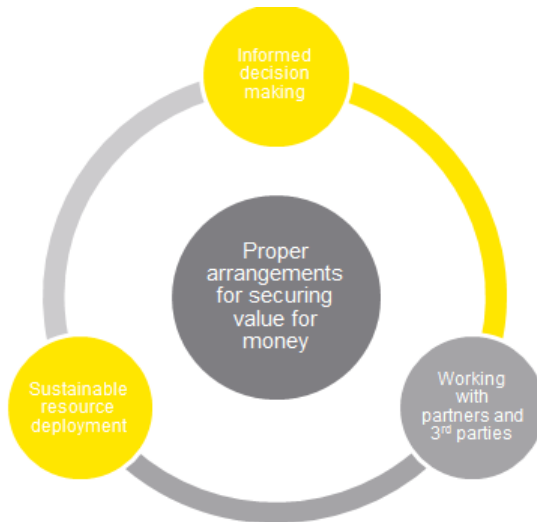
We have requested a management representation letter to gain management's confirmation in relation to a number of matters. We have not requested any specific representations in addition to the standard representations. Our request for such a letter is outlined in Appendix D.

Whole of Government Accounts

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

The Authority falls below the £350 million threshold for a full review, so we have undertaken the limited procedures that are required. We have concluded our work in this area and have no matters to report to the Audit Committee.

4. 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.

Overall conclusion

We identified a significant risk in relation to the Council's arrangements to "ensure it deployed resources to achieve planned and sustainable outcomes for taxpayers and local people" as reported in our audit plan.

We have performed the procedures outlined in our audit plan and the results are set out below. We did not identify any significant weaknesses in the Council's arrangements.

We therefore expect to conclude that you have put in place proper arrangements to secure value for money in your use of resources.

Significant risks

The table below presents the findings of our work in response to the risk area set out in our audit plan.

We are only required to determine whether there are any risks that we consider significant, which the Code of Audit Practice defines as: "A matter is significant if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public".

VFM risk identified within our audit plan

Achievement of savings required over the medium term

The medium term financial strategy includes a £4.6 million budget gap for 2017/18 and 2018/19, this is on top of £3.7 million transformation savings/income to be delivered in in the 2016/17 budget.

Although the Council has assessed the savings/income for 2016/17, there remains a risk that they are not achievable at the planned level. In addition, further savings or increased income need to be identified to close the funding shortfall in 2017/18 and 2018/19.

Impacts arrangements for:

▶ Deploying resources in a sustainable manner.

Key findings

- ▶ The Council has a track record of achieving its planned level of annual savings and budget over the past 3 years.
- ▶ The Council currently has a high level of general fund reserves. These are £12.1 million at 31 March 2016, which is significantly above the minimum levels set by the Council's s151 officer of £4.5 million. These provide the Council 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, would have a detrimental impact on the Council's financial standing.
- ▶ Whilst there is a significant planned use of general fund reserves (£4.5 million) over the next 4 years to support the general fund budget, the remaining planned general fund reserve balance remain above the Council's approved minimum level.
- ▶ The Councils medium term financial strategy shows a need to make further net savings of £10.3 million over the next 5 years. The Council continue to work on developing proposals for additional savings to bridge the medium-term budget gap.
- ▶ The Council has appropriate processes for setting its budget, and the budget assumptions appear reasonable.

Achievement of savings required over the medium term

The Council have assessed that the impact of legislation on HRA rent levels would require the Council to borrow above its borrowing cap. The Council also anticipates that further changes in the Housing and Planning Bill 2015/16 would increase right to buys and reduce housing stock.

The HRA Business Plan needs to be re-worked to reflect the impact of the proposed changes and options developed to mitigate the impact of a determination and maintain HRA borrowing below the cap.

▶ Deploying resources in a sustainable manner.

- ▶ The Council have re-worked the HRA business plan for the 1% rent reduction.
- ▶ To offset the loss of rental income, the maintenance programme has been revised.
- ▶ Although the Council have considered various options, plans are on hold until the determination clarifies guidance going forward.
- ▶ The Council continue to assess the impact from legislation changes, and reflect agreed actions in business plans.

Appendix A – Corrected audit differences

The following corrected differences, which are greater than £0.180 million, have been identified during the course of our audit and warrant communicating to you.

These items have been corrected by management within the revised financial statements.

Balance sheet

Item of balance sheet	Short term creditors (Decrease) / Increase £m	Long term creditors (Decrease) / Increase £m
Restatement of long term creditor to short term as payable with 12 months.	1.223	(1.223)
Cumulative effect of adjusted differences	1.223	(1.223)

Disclosures

Disclosure	Description of difference
Narrative Report	Amended to ensure compliance with the CIPFA guidance.
Note 1 - Accounting Policies	Amended to update references to the Audit and Accounts Regs 2015 and Service Reporting Code of Practice 2015/16. A similar amendment was made in the annual governance statement.
Note 7 - Adjustments between Accounting Basis and Funding Basis under regulations	Amended to reflect 2015/16 entries. Note was reporting prior year entries in the current year.
Note 16 - Financial instruments	Amended disclosure to reflect 2015/16. Note was reporting prior year disclosure in the current year. Amended entry to “NPT, HIL and DHL” as overstated by £0.82 million. This related to the investment in Norwich Airport that is included on a separate line.
Note 28 - Cash flow statement operating activities	Amended as amortisation (£0.22 million) incorrectly included in depreciation.
Note 30 - Cash flow statement financing activities	Amended as the entry for repayment of borrowing (£5.06 million) was missing.
Note 31 - Amounts reported for resource allocation disclosure	Amended the reconciliations to the CIES cost of services to reflect 2015/16 entries. Note was reporting prior year entries in the current year. Amended the reconciliation to the subjective analysis to include current year impairment (£1.1 million).
Note 39 - Capital expenditure and capital financing	Amended to include a line for the closing capital financing requirement. Amended comparatives so that they agree to the audited 2014/15 statement of accounts, and added a prior year adjustment entry to the 2015/16 figures (£1.250 million).
Note 44 - Defined benefit pension scheme	Amended to reflect 2015/16 disclosures. Note was reporting some prior year entries in the current year.
Other Notes Notes 11, 12, 14, 23, 33, 37, HRA Note 8, and Collection Fund Note 2.	Amended for typographical errors and to ensure consistency with other notes or primary statements.

Appendix B – Independence

We confirm there are no changes in our assessment of independence since our confirmation in our Audit Plan dated 15 March 2016.

We complied with the Auditing Practices Board's Ethical Standards for Auditors and the requirements of the Public Sector Audit Appointments Ltd (PSAA)'s Terms of Appointment. 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 of regulatory and professional requirements.

We confirm that we are not aware of any relationships that may affect the independence and objectivity of the firm that we are required by auditing and ethical standards to report to you.

We consider that our independence in this context is a matter that should be reviewed by both you and ourselves. It is therefore important that you consider the facts of which you are aware and come to a view. If you wish to discuss any matters concerning our independence, we will be pleased to do so at the forthcoming meeting of the Audit Committee on 20 September 2016.

We confirm that we have met the reporting requirements to the Audit Committee, as 'those charged with governance' under International Standards on Auditing (UK and Ireland) 260 – Communication with those charged with governance. Our communication plan to meet these requirements was set out in our Audit Plan of 15 March 2016.

Appendix C – Auditor fees

The table below sets out the scale fee and our final proposed audit fees.

Description	Proposed final Fee 2015/16 £'s	Scale Fee 2015/16 £'s	Variation comments
Total Audit Fee - Code work (Note 1)	To be confirmed	79,914	None
Certification of claims and returns (Note 2)	To be confirmed	35,780	None

Note 1 - Audit Fee – Code work. We need to review our costs once we have completed the outstanding procedures before reporting formally agreeing the final fee with you within our Annual Audit Letter.

We have undertaken a review of the Council's approach to the Minimum Revenue Provision. This additional work has an additional fee of £3,682 and is currently subject to approval by Public Sector Audit Appointments Ltd (PSAA).

Note 2 - Certification of claims and returns. We have not commenced our work in this area. We will report the results of our work and the final fee with you in our Annual Certification Report.

We confirm we have not undertaken any non-audit work outside of the PSAA's requirements.

Appendix D – Request for a Management representation letter



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Justine Hartley
Chief Financial Officer
Norwich City Council
City Hall
St. Peter's Street
Norwich
NR2 1NH

8 September 2016

Ref:
Your ref:
Direct line: 01223 394547
Email: MHodgson@uk.ey.com

Dear Justine,

Norwich City Council – 2015/16 financial year Request for a letter of representation

International Standards on Auditing set out guidance on the use by auditors of management representations (ISA (UK&I) 580) and on possible non-compliance with laws and regulations (ISA (UK&I) 250). I have interpreted this guidance as it affects Local Government bodies and I expect the following points to apply:

- auditors may wish to obtain written representation where they are relying on management's representations in respect of judgemental matters (for example the level of likely incidence of a claim), which may not be readily corroborated by other evidence;
- auditors are likely to request written representations on the completeness of information provided;
- auditors may wish to obtain written representation on issues other than those directly related to the Statement of Accounts;
- the letter is dated on the date on which the auditor signs the opinion and certificate;
- the letter is signed by the person or persons with specific responsibility for the financial statements; and
- the letter is formally acknowledged as having been discussed and approved by the Audit Committee, as those charged with governance of the Council.

I would expect the letter of representation to include the following matters.

General statement

That the letter of representations is provided in connection with our audit of the financial statements of Norwich City Council ("the Council") for the year ended 31 March 2016. That you recognise that obtaining representations from you concerning the information contained in this letter is a significant procedure in enabling us to form an opinion as to whether the financial statements give a true and fair view of the Council financial position of Norwich City Council as of 31 March 2016 and of its income and expenditure for the year then ended in accordance with CIPFA / LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.



You understand that the purpose of our audit of your financial statements is to express an opinion thereon and that our audit is conducted in accordance with International Standards on Auditing (UK and Ireland), which involves an examination of the accounting system, internal control and related data to the extent we considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, you make the following representations, which are true to the best of your knowledge and belief, having made such inquiries as you considered necessary for the purpose of appropriately informing ourselves:

A. Financial Statements and Financial Records

1. That you have fulfilled your responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the CIPFA Code of Practice on Local Authority Accounting (CIPFA Code).
2. That you acknowledge your responsibility for the fair presentation of the financial statements. You believe the financial statements referred to above give a true and fair view of the financial position, financial performance and cash flows of the Council in accordance with the CIPFA Code and are free of material misstatements, including omissions. You have approved the financial statements.
3. You confirm that the Responsible Officer has:
 - Reviewed the accounts
 - Reviewed all relevant written assurances relating to the accounts, and
 - Made other enquiries as appropriate.
4. That the significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
5. As members of management of the Council, we believe that the Council has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16, that are free from material misstatement, whether due to fraud or error

B. Fraud

1. You acknowledge that you are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud
2. You have disclosed to us the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.



3. That you have no knowledge of any fraud or suspected fraud involving management or other employees who have a significant role in the Council internal controls over financial reporting. In addition, you have no knowledge of any fraud or suspected fraud involving other employees in which the fraud could have a material effect on the financial statements. You have no knowledge of any allegations of financial improprieties, including fraud or suspected fraud, (regardless of the source or form and including without limitation, any allegations by "whistleblowers") which could result in a misstatement of the financial statements or otherwise affect the financial reporting of the Council.

C. Compliance with Laws and Regulations

1. You have disclosed to us all known actual or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.

D. Information Provided and Completeness of Information and Transactions

1. You have provided us with:
 - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters as agreed in terms of the audit engagement.
 - Additional information that we have requested from us for the purpose of the audit; and
 - Unrestricted access to persons within the entity from whom we determined it necessary to obtain audit evidence.
2. That all material transactions have been recorded in the accounting records and are reflected in the financial statements.
3. That you have made available to us all minutes of the meetings of the Council and its relevant committees (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meeting on the following date: 20 September 2016.
4. That you confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Council related parties and all related party relationships and transactions of which you are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the financial statements.
5. That you believe that the significant assumptions you used in making accounting estimates, including those measured at fair value, are reasonable.



6. That you have disclosed to us, and the Council has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

E. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to us and are appropriately reflected in the financial statements.
2. That you have informed us of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
3. That you have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent, and have disclosed in the financial statements all guarantees that you have given to third parties.

F. Subsequent Events

1. That other than described in the financial statements, there have been no events subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

G. Accounting Estimates

1. That you believe that the significant assumptions you used in making accounting estimates, including those measured at fair value, are reasonable.
2. In respect of accounting estimates recognised or disclosed in the financial statements:
 - That you believe the measurement processes, including related assumptions and models, you used in determining accounting estimates is appropriate and the application of these processes is consistent.
 - That the disclosures relating to accounting estimates are complete and appropriate in accordance with the applicable financial reporting framework.
 - That the assumptions you used in making accounting estimates appropriately reflects your intent and ability to carry out specific courses of action on behalf of the entity, where relevant to the accounting estimates and disclosures.
 - That no subsequent event requires an adjustment to the accounting estimates and disclosures included in the financial statements.



H. Segmental reporting

1. That you have reviewed the operating segments reported internally to the Council and that you are satisfied that it is appropriate to aggregate these as, in accordance with IFRS 8: Operating Segments, they are similar in each of the following respects:
 - The nature of the products and services
 - The nature of the production processes
 - The type or class of customer for their products and services
 - The methods used to distribute their products

I. Going Concern

1. That you have made us aware of any issues that are relevant to the Council's ability to continue as a going concern, including significant conditions and events, our plans for future action, and the feasibility of those plans.

J. Retirement Benefits

1. That on the basis of the process established by you and having made appropriate enquiries, you are satisfied that the actuarial assumptions underlying the scheme liabilities are consistent with your knowledge of the business. That all significant retirement benefits and all settlements and curtailments have been identified and properly accounted for.

K. Use of management experts

1. That you agree with the findings of the experts engaged to evaluate the values of the Council's land and buildings and have adequately considered the qualifications of the experts in determining the amounts and disclosures included within the Council's financial statements and the underlying accounting records. That you did not give or cause any instructions to be given to the experts with respect to the values or amounts derived in an attempt to bias their work, and that you are not otherwise aware of any matters that have had an effect on the independence or objectivity of the experts.



L. Specific Representations

We do not require any specific representations in addition to those above.

I would be grateful if you could provide a letter of representation, which is appropriately signed and dated (by the s151 officer and Chair of Audit Committee) on the proposed audit opinion date (20 September 2016) on formal headed paper.

Yours sincerely

Mark Hodgson
Executive Director
Ernst & Young LLP
United Kingdom

Appendix E – Required communications with the audit committee

There are certain communications that we must provide to the Audit Committee of UK clients. These are detailed here:

Required communication	Reference
<p>Planning and audit approach Communication of the planned scope and timing of the audit, including any limitations.</p>	Audit Plan
<p>Significant findings from the audit</p> <ul style="list-style-type: none"> ▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ Significant difficulties, if any, encountered during the audit ▶ Significant matters, if any, arising from the audit that were discussed with management ▶ Written representations that we are seeking ▶ Expected modifications to the audit report ▶ Other matters if any, significant to the oversight of the financial reporting process ▶ 	Audit Results Report
<p>Going concern Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> ▶ Whether the events or conditions constitute a material uncertainty ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The adequacy of related disclosures in the financial statements 	No conditions or events were identified, either individually or in aggregate, that indicated there could be doubt about Norwich City Council's ability to continue as a going concern for the 12 months from the date of our report.
<p>Misstatements</p> <ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ In writing, corrected misstatements that are significant 	Audit Results Report
<p>Fraud</p> <ul style="list-style-type: none"> ▶ Enquiries of the audit committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▶ A discussion of any other matters related to fraud 	We have made enquiries of management. We have not become aware of any fraud or illegal acts during our audit.
<p>Related parties Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</p> <ul style="list-style-type: none"> ▶ Non-disclosure by management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures ▶ Non-compliance with laws and regulations ▶ Difficulty in identifying the party that ultimately controls the entity 	We have not matters we wish to report.

Required communication	Reference
<p>External confirmations</p> <ul style="list-style-type: none"> ▶ Management’s refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures 	We have received all requested confirmations.
<p>Consideration of laws and regulations</p> <ul style="list-style-type: none"> ▶ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off ▶ Enquiry of the audit committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of 	We have not identified any material instances of non-compliance with laws and regulations.
<p>Independence</p> <p>Communication of all significant facts and matters that bear on EY’s objectivity and independence</p> <p>Communication of key elements of the audit engagement partner’s consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information about the general policies and process within the firm to maintain objectivity and independence 	Audit Plan and Audit Results Report
<p>Significant deficiencies in internal controls identified during the audit</p>	Audit Results Report
<p>Fee Information</p> <ul style="list-style-type: none"> ▶ Breakdown of fee information at the agreement of the initial audit plan ▶ Breakdown of fee information at the completion of the audit 	<p>Audit Plan</p> <p>Audit Results Report</p> <p>Annual Audit Letter if considered necessary</p>
<p>Certification work</p> <ul style="list-style-type: none"> ▶ Summary of certification work undertaken 	Certification Report

EY | Assurance | Tax | Transactions | Advisory

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20 September 2016

**Mark Hodgson
Executive Director
Ernst & Young LLP
One Cambridge Business Park
Cambridge
CB4 0WZ**

Dear Mark

**Audit of Financial Statements 2015/16
Letter of Representation**

This representation letter is provided in connection with your audit of the financial statements of Norwich City Council (“the Council”) for the year ended 31 March 2016. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the financial position of Norwich City Council as of 31 March 2016 and of its income and expenditure for the year then ended in accordance with the CIPFA / LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

We understand that the purpose of your audit of our financial statements is to express an opinion thereon and that your audit is conducted in accordance with International Standards on Auditing (UK and Ireland), which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose – all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the CIPFA Code of Practice on Local Authority Accounting (CIPFA Code).
2. We acknowledge our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial

position, financial performance and cash flows of the Council in accordance with the CIPFA Code and are free of material misstatements, including omissions. We have approved the financial statements.

3. We confirm that the Responsible Officer has:
 - Reviewed the accounts
 - Reviewed all relevant written assurances relating to the accounts; and
 - Made other enquiries as appropriate.
4. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
5. We believe that the Council has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 that are free from material misstatement, whether due to fraud or error.

B. Fraud

1. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
2. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
3. We have no knowledge of any fraud or suspected fraud involving management or other employees who have a significant role in the Council's internal controls over financial reporting. In addition, we have no knowledge of any fraud or suspected fraud involving other employees in which the fraud could have a material effect on the financial statements. We have no knowledge of any allegations of financial improprieties, including fraud or suspected fraud, (regardless of the source or form and including without limitation, any allegations by "whistleblowers") which could result in a misstatement of the financial statements or otherwise affect the financial reporting of the Council.

C. Compliance with Laws and Regulations

1. We have disclosed to you all known actual or suspected noncompliance with laws and regulations whose effects should be considered when preparing the financial statements.

D. Information Provided and Completeness of Information and Transactions

1. We have provided you with:
 - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters as agreed in terms of the audit engagement;
 - Additional information that you have requested from us for the purpose of the audit; and
 - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
3. We have made available to you all minutes of the meetings of the Council and its relevant committees (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meeting on the following date: 20 September 2016.
4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Council's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the financial statements.
5. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
6. We have disclosed to you, and the Council has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

E. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.
2. We have informed you of all outstanding and possible litigation and claims which might

impact the 2015/16 accounts, whether or not they have been discussed with legal counsel.

3. We have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent. There are no guarantees that we have given to third parties.

F. Subsequent Events

1. Other than described in Note 6 to the financial statements, there have been no events subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

G. Accounting Estimates

1. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
2. Accounting estimates recognised or disclosed in the financial statements:
 - We believe the measurement processes, including related assumptions and models, we used in determining accounting estimates is appropriate and the application of these processes is consistent.
 - The disclosures relating to accounting estimates are complete and appropriate in accordance with the applicable financial reporting framework.
 - The assumptions we used in making accounting estimates appropriately reflects our intent and ability to carry out specific courses of action on behalf of the entity, where relevant to the accounting estimates and disclosures.
 - No subsequent event requires an adjustment to the accounting estimates and disclosures included in the financial statements.

H Segmental reporting

1. We have reviewed the operating segments reported internally to the Council and are satisfied that it is appropriate to aggregate these by the Service Directorate in which the expenditure is managed and controlled as disclosed in note 31 to the financial statements.

I Going concern

1. We have made you aware of any issues that are relevant to the Council's ability to continue as a going concern, including significant conditions and events, our plans for future action, and the feasibility of those plans.

J Retirement benefits

1. On the basis of the process established by us and having made appropriate enquiries, we are satisfied that the actuarial assumptions underlying the scheme liabilities are consistent with our knowledge of the business. All significant retirement benefits and all settlements and curtailments have been identified and properly accounted for.

K Use of management experts

1. We agree with the findings of the experts engaged to evaluate the values of the Council's land and buildings and have adequately considered the qualifications of the experts in determining the amounts and disclosures included in the financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the experts with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the experts.

Yours sincerely

Chief Finance Officer

I confirm that this letter has been discussed and agreed at the Audit Committee on 20 September 2016

Chair of Audit Committee