

Norwich City Council Audit Results Report

Year ended 31 March 2020

18 November 2020

Audit committee 24 November 2020

**Item 8 Statement of Accounts and Audit
Results Report 2019-2020 - Appendix 2**



**Audit Committee
Norwich City Council**

18 November 2020

Dear Committee Members

We are pleased to attach our audit results report for the forthcoming meeting of the Audit Committee. This report summarises our preliminary audit conclusion in relation to the audit of Norwich City Council for 2019/20.

We are progressing towards completion of our audit of Norwich City Council for the year ended 31 March 2020. Subject to concluding the outstanding matters listed in our report, we confirm that we expect to issue an unqualified audit opinion on the financial statements in the form at Section 3, before the deadline of 30 November 2020. We also have no matters to report on your arrangements to secure economy, efficiency and effectiveness in your use of resources.

This report is intended solely for the use of the Audit Committee, other members of the Authority, and senior management. It should not be used for any other purpose or given to any other party without obtaining our written consent.

We would like to thank your staff for their help during the engagement.

We welcome the opportunity to discuss the contents of this report with you at the Audit Committee meeting on 24 November 2020.

Yours faithfully

Mark Hodgson

Mark Hodgson

Associate Partner

For and on behalf of Ernst & Young LLP

Encl

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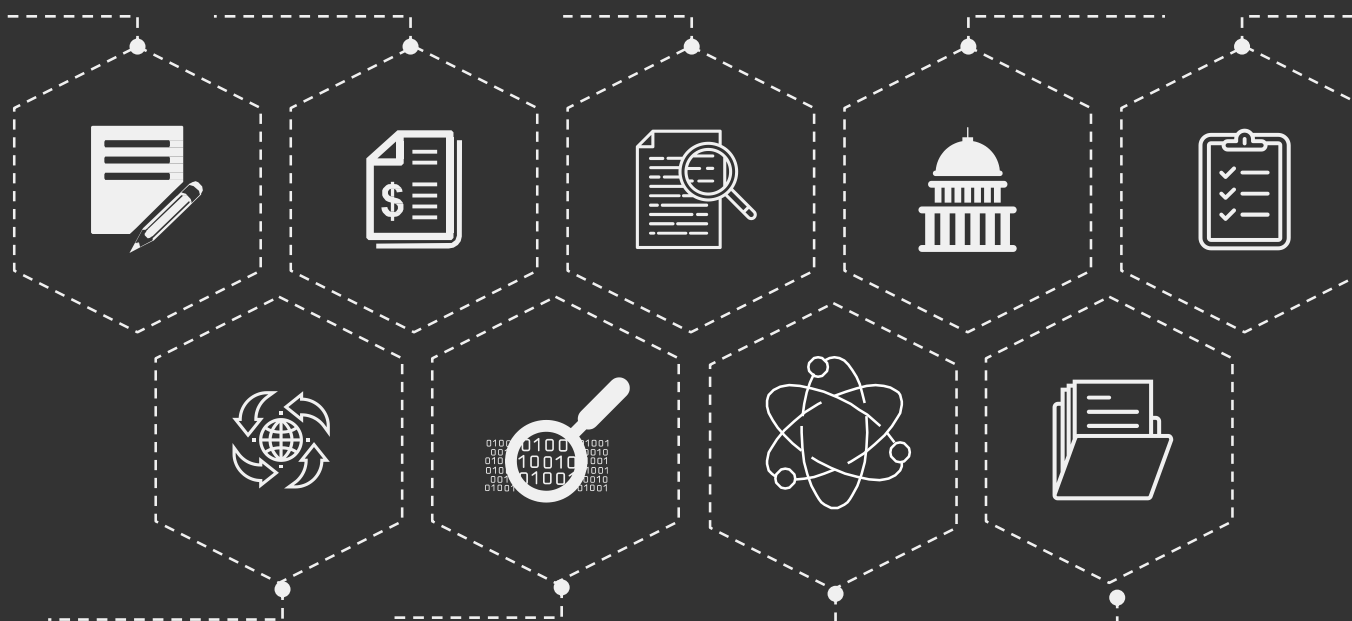
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Public Sector Audit Appointments Ltd (PSAA) have issued a 'Statement of responsibilities of auditors and audited bodies'. It is available from the Chief Executive of each audited body and via the PSAA website (www.psaa.co.uk). This Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas. The 'Terms of Appointment (updated April 2018)' 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 / Terms and Conditions of Engagement. 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 Hywel Ball, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.



01

Executive Summary



Executive Summary

Scope update

In our Audit Plan dated 30 April 2020, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We carried out our audit in accordance with this plan, with the following exceptions:

- ▶ Changes to reporting timescales - As a result of Covid-19, new regulations, the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020 No. 404, have been published and came into force on 30 April 2020. This announced a change to the publication date for approved financial statements from 31 July to 30 November 2020 for all relevant authorities.
- ▶ Changes to our risk assessment as a result of Covid-19:
 - ▶ Valuation of Property Plant and Equipment and Investment Property - The Royal Institute of Chartered Surveyors (RICS), the body setting the standards for property valuations, has issued guidance to valuers highlighting that the uncertain impact of Covid-19 on markets might cause a valuer to conclude that there is a material uncertainty. Caveats around this material uncertainty have been included in the year-end valuation reports produced by the Council's external valuer. We consider that the material uncertainties disclosed by the valuer gave rise to an increased risk relating to disclosures on the valuation of property, plant and equipment and investment property valued using existing use value or fair value. For more detail see Section 2 of this report.
 - ▶ Disclosures on Going Concern - Financial plans for 2020/21 and medium term financial plans will need revision for Covid-19. We considered the unpredictability of the current environment gave rise to a risk that the Council would not appropriately disclose the key factors relating to going concern, underpinned by managements assessment with particular reference to Covid-19 and the Council's actual year end financial position and performance.
- ▶ Change in materiality - We have considered whether any change to our materiality is required in light of Covid-19. Following this consideration we remain satisfied that the basis for planning materiality, performance materiality and our audit threshold for reporting differences reported to you in our Audit Plan remain appropriate.

We updated our planning materiality assessment using the 2019/20 draft statement of accounts. Based on our materiality measure of 2% of gross expenditure on the provision of services, we have updated our assessments as follows:

- ▶ Overall materiality assessment to £3.449 million for the Council and Overall materiality assessment to £3.449 million for the Council and £3.462 million for the Group (Audit Plan – £3.425 million for the Council and £3.462 million for the Group);
- ▶ Performance materiality, at 75% of our overall planning materiality, of £2.587 million for the Council and £2.597 million for the Group; and
- ▶ Threshold for reporting misstatements of £0.172 million for the Council and £0.173 million for the Group (5% of Planning Materiality).
- ▶ Information Produced by the Entity (IPE) - We identified an increased risk around the completeness, accuracy, and appropriateness of information produced by the entity due to the inability of the audit team to verify original documents or re-run reports on-site from the Council's systems. We undertook the following to address this risk:
 - ▶ Used the screen sharing function of Microsoft Teams to evidence re-running of reports used to generate the IPE we audited; and
 - ▶ Agree IPE to scanned documents or other system screenshots.



Executive Summary

Status of the audit

We have substantially completed our audit of Norwich City Council financial statements for the year ended 31 March 2020 and have performed the procedures outlined in our Audit Plan.

The outstanding work at the date of this report is:

- ▶ Procedures in relation to our Property, Plant and Equipment and Investment Property valuation testing;
- ▶ Procedures in relation to Reserves and the adjustments between accounting and funding basis;
- ▶ Completion of REFCUS testing;
- ▶ Completion of Debtors testing;
- ▶ Completion of Creditors testing;
- ▶ Completion of Housing Benefit expenditure testing;
- ▶ Completion of other expenditure testing;
- ▶ Completion of other income testing;
- ▶ Completion of Collection Fund procedures including the NDR appeals provision; and
- ▶ Completion of HRA Income, Expenditure and disclosure testing.

Closing Procedures:

- ▶ Updating unrecorded liabilities testing up to the opinion date;
- ▶ Review of the final version of the financial statements;
- ▶ Completion of subsequent events review;
- ▶ Receipt of the signed management representation letter; and
- ▶ Final Manager and Engagement Partner reviews.

Subject to satisfactory completion of the outstanding items above, we expect to issue an unqualified opinion on the Council's financial statements in the form which appears at Section 3.

We expect to issue the audit certificate at the same time as the audit opinion.



Executive Summary

Audit differences

Unadjusted differences

At the date of this report there are no unadjusted audit differences arising from our audit.

Adjusted differences

At the date of this report we have identified two adjusted audit difference arising from our audit. They relate to £0.336 million journal that was incorrectly posted resulting in understated short term creditors and debtors and adjusted disclosures in regards to the pension liability. See section 4 for more information. During the audit we have identified some minor disclosure audit amendments in the draft financial statements which management has chosen to adjust. We have judged that the majority of these do not warrant flagging to the Audit Committee in this report.

Until all our audit work is complete, further amendments may arise. We will update the Committee verbally.

Areas of audit focus

Our Audit Plan identified key areas of focus for our audit of Norwich City Council's financial statements. This report sets out our observations and conclusions, including our views on areas which might be conservative, and where there is potential risk and exposure. We summarise our consideration of these matters, and any others identified, in the "Areas of Audit Focus" section of this report.

We ask you to review these and any other matters in this report to ensure:

- ▶ There are no other considerations or matters that could have an impact on these issues;
- ▶ You agree with the resolution of the issue; and
- ▶ There are no other significant issues to be considered.

There are no matters, apart from those reported by management or disclosed in this report, which we believe should be brought to the attention of the Audit Committee.



Executive Summary

Control observations

We have adopted a fully substantive audit approach, so have not tested the operation of controls.

Value for money

We have considered your arrangements to take informed decisions; deploy resources in a sustainable manner; and work with partners and other third parties.

We identified two significant risks in relation to our value for money assessment in our audit plan and following our planned procedures we have no matters to report about your arrangements to secure economy efficiency and effectiveness in your use of resources.

Other reporting issues

We have reviewed the information presented in the draft version of the Annual Governance Statement for consistency with our knowledge of the Council. We concluded that the statement did not adequately reflect the findings of internal audit from 3 of its audits. The Annual Governance Statement has been updated to reflect these.

We have completed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission. The Council falls below the testing threshold set by the NAO for detailed procedures on the consolidation return (Threshold - £500 million). We do not therefore have any issues to report.

We have no other matters to report.

Independence

Please refer to Section 8 for our update on Independence. There are no relationships from 1 April 2019 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

Correspondence from the public

We have not received any correspondence from members of the public. We did not receive any formal objections or questions from members of the public.



02

Areas of Audit Focus



Areas of Audit Focus

Significant risk

Misstatements due to fraud or error



Significant Risk

What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

As identified in ISA (UK) 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.

For the Council, we have identified the capitalisation of revenue and accounting adjustments made in the movement in reserves statement as the key areas at risk of manipulation.

What did we do and what judgements did we focus on?

In order to address this risk we undertook the following audit procedures:

- Identified fraud risks during the planning stages;
- Inquired of management about the risks of fraud and the controls put in place to address those risks;
- Documented our understanding of the oversight given by those charged with governance of management's processes over fraud;
- Considered the effectiveness of management's controls designed to address the risk of fraud;
- Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements;
- Reviewed the accounting estimates for evidence of management bias; and
- Evaluated the business rationale for significant unusual transactions.

ISA 240 mandates we perform procedures on; accounting estimates, significant unusual transactions and journal entries to ensure they are appropriate and in line with expectations of the business.

What are our conclusions?

We have not identified any material weakness in controls or evidence of material management override.

We have not identified any instances of inappropriate judgements being applied, or of any management bias in accounting estimates we have reviewed to date.

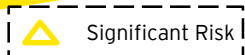
We have not identified any inappropriate journal entries or other adjustments to the financial statements from our work.



Areas of Audit Focus

Significant risk

**Misstatements due to fraud or error -
Incorrect capitalisation of revenue expenditure**



What is the risk?

Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.

The Council is under financial pressure to achieve budget and maintain reserve balances above the minimum approved levels. Manipulating expenditure is a key way to achieve these targets. We consider the risk applies to capitalisation of revenue expenditure. Management could manipulate revenue expenditure by incorrectly capitalising expenditure which is revenue in nature and should be charge to the comprehensive income and expenditure account.

What did we do and what judgements did we focus on?

In order to address this risk we carried out a range of procedures including:

- ▶ Obtaining an analysis of capital additions in the year, reconciling to the Fixed Assets Register (FAR), and reviewing the descriptions to identify whether there are any potential items that could be revenue in nature;
- ▶ Performing sample testing on additions to property, plant and equipment, ensuring that they had been correctly classified as capital transactions and included at the correct value; and
- ▶ Applied our data analytics tool to identify and test journal entries that moved expenditure items from revenue codes to capital codes.

What are our conclusions?

Our sample testing of additions to Property, Plant and Equipment found that they had been correctly classified as capital and included at the correct value.

Our sample testing of additions to Property, Plant and Equipment did not identify any revenue items that were incorrectly classified.

We are concluding on our data analytical procedures for journal entries moving expenditure into capital codes. We will verbally update the committee on our progress.

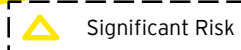


Areas of Audit Focus

Significant risk

Misstatements due to fraud or error -

Accounting adjustments made in the 'Movement in Reserves Statement'



What is the risk?

Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.

We consider the risk applies to accounting adjustments made in the movement in reserves statement.

► The adjustments between accounting basis and funding basis under Regulation changes the amounts charged to General Fund balances. Regulations are varied and complex, resulting in a risk that management misstatement accounting adjustments to manipulate the General Fund balance. We have identified the risk to be highest for adjustments concerning:

► Revenue Expenditure Funded from Capital

Under Statute (REFCUS)

► Minimum revenue provision

What did we do and what judgements did we focus on?

In order to address this risk we carried out a range of procedures including:

- Sample tested REFCUS to ensure the expenditure meets the definition of allowable expenditure, or is incurred under direction from the Secretary of State and;
- Reviewed the Council's policy and application of the 'Minimum Revenue Provision'.

What are our conclusions?

We are in the process of completing our sample on REFCUS and will update the committee verbally.

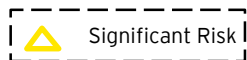
Review of the Council's minimum revenue provision policy and application has not identified any issues.



Areas of Audit Focus

Significant risk

New Financial System



What is the risk?

The Council implemented a new general ledger financial system (e5) on the 11 November 2019.

As with any major IT upgrade programme, there is a risk that 100% of the relevant financial information has not been appropriately transferred to the new system leading to material misstatement in the 2019/20 financial statements.

In addition, we need to be assured that the IT control environment within the new financial system is working as designed.

What did we do and what judgements did we focus on?

In order to address this risk we carried out a range of procedures including:

- ▶ We have checked the balances carried forward into the new system, reviewed internal audits report and recommendations, and reviewed the work completed by the Council on the brought forward balances to gain assurance that the balances have been correctly brought forward;
- ▶ Applied data analytic trending analysis to identify and investigate any material differences;
- ▶ Used transactions testing applied to Balance Sheet and Income & Expenditure statement accounts to provide further assurance on the mapping applied to the 2019/20 data;
- ▶ We engaged with our IT team who reviewed the design and use of IT application controls within the new financial system to ensure the IT control environment remains stable.

What are our conclusions?

Our testing of the balances carried forward into the new system and work undertaken by the Council has not identified any significant issues.

Data loaded into the analytics tool was able to be mapped to the financial statements.

Our transaction testing of balance sheet and income and expenditure items did not identify any mis-classified items adding assurance that the data has been mapped appropriately in the new system.

We did not identify any issues with the design and use of IT application controls within the new financial system.

However, a significant amount of audit resource was required to resolve all the coding issues for the new chart of accounts. We have no other matters to report.



Areas of Audit Focus

Significant Risk

Valuation of Property, Plant and Equipment – Other Land and Buildings and Investment Property valued at Fair value/Existing Use Value

What is the risk?

The fair value of Property, Plant and Equipment (PPE) and Investment Properties (IP) represent significant balances in the Council's accounts (£1.022 billion at 31 March 2019).

These balances are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the Balance Sheet.

Due to Covi-19 valuer's included a material value uncertainty statement in the valuation report. We have considered this along with EY Real Estate and have upgraded this risk for other land and buildings and investment property valued at fair value and existing use value from inherent to significant. Other Land and Building valued on a different basis is still considered an inherent risk and this is considered on the next page.

What did we do and what judgements did we focus on?

In order to address this risk we carried out a range of procedures including:

- ▶ Considering the work performed by the Council's valuer, including the adequacy of scoping the work, their professional capabilities and the results of their work;
- ▶ Sample testing key asset information used by the valuer in performing their valuation (e.g. floor plans to support valuations based on price per square metre);
- ▶ Considering the annual cycle of valuations to ensure that assets have been valued within the appropriate time frame and any changes communicated to the valuer;
- ▶ Reviewing assets not subject to valuation in 2019/20 to confirm that the remaining asset base was not materially misstated;
- ▶ Considering changes to useful economic lives as a result of the most recent valuation;
- ▶ Testing accounting entries had been correctly processed in the financial statements; and
- ▶ We have engaged with EY Real Estate to undertake a review of a sample of revalued properties in year.

What are our conclusions?

Following full consideration of their work, we have placed reliance on the Council's experts (NPS).

In addition to the audit teams work in this area, we employed the use of our own expert (EY Real Estates) to support the work in relation to the valuation of land and buildings. We have not completed our work in this area and our expert has not finalised their findings at the time of issuing this report. We will update the committee verbally on our progress.



Areas of Audit Focus

Other Area of Audit Focus

Valuation of Property, Plant and Equipment – Other Land and Buildings

What is the risk?

The fair value of Property, Plant and Equipment (PPE) and Investment Properties (IP) represent significant balances in the Council's accounts (£1.022 billion at 31 March 2019).

These balances are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the Balance Sheet.

What did we do and what judgements did we focus on?

In order to address this risk we carried out a range of procedures including:

- ▶ Considering the work performed by the Council's valuer, including the adequacy of scoping the work, their professional capabilities and the results of their work;
- ▶ Sample testing key asset information used by the valuer in performing their valuation (e.g. floor plans to support valuations based on price per square metre);
- ▶ Considering the annual cycle of valuations to ensure that assets have been valued within the appropriate time frame and any changes communicated to the valuer;
- ▶ Reviewing assets not subject to valuation in 2019/20 to confirm that the remaining asset base was not materially misstated;
- ▶ Considering changes to useful economic lives as a result of the most recent valuation; and
- ▶ Testing accounting entries had been correctly processed in the financial statements.

What are our conclusions?

The Council's expert valuer possesses the relevant qualifications and experience, and undertook a review of a selection of assets as instructed.

We considered the underlying assumptions made by the expert valuer and concluded that they were reasonable so far.

Our testing has not identified any material misstatements from inappropriate judgements being applied to the property valuation estimates so far.



Areas of Audit Focus

Other Areas of Audit Focus – continued

Pension liability valuation – inherent risk

What is the risk?

The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme (LGPS) administered by Lincolnshire County Council.

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 31 March 2019 this totalled £204.1 million. The information disclosed is based on the IAS19 report issued to the Council by the actuary to the County Council.

Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf.

ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates. For 2019/20 it is possible these entries will be subject to further volatility as a consequence of Brexit and Covid-19.

What did we do and what judgements did we focus on?

We have performed the following procedures:

- ▶ Liaised with the auditors of Norfolk Pension Fund to obtain assurances over the information supplied to the actuary in relation to Norwich City Council;
- ▶ Assessed the work of the Pension Fund actuary (Hymans Robertson) including the assumptions they used by relying on the work of PwC - Consulting Actuaries commissioned by National Audit Office (NAO) for all Local Government sector auditors, and considering the corresponding reviews performed by the EY actuarial team;
- ▶ Reviewed and tested the accounting entries and disclosures made within Norwich City Council's financial statements in relation to IAS19, including the 31 March 2019 triennial valuation; and
- ▶ Reviewed the impact of Brexit and Covid-19 on the value of Pension Fund assets and considered any risks of material misstatement arising from this.

The detail of our findings is set out on the next page.



Areas of Audit Focus

Other Areas of Audit Focus – continued

Pension liability valuation – inherent risk

What are our conclusions?

We have obtained the required assurances from the auditors of Norfolk Pension Fund over the information supplied to the actuary in relation to Norwich City Council. We did not identify any issues with the work of the Pension Fund actuary (Hymans) including the assumptions they used by relying on the work of PwC – Consulting Actuaries commissioned by National Audit Office (NAO) for all Local Government sector auditors.

We reviewed and tested the accounting entries and disclosures made within the Council's financial statements in relation to IAS19, including the 31 March 2019 triennial valuation. No issues were identified by the Norfolk Pension Fund auditor in relation to the 31 March 2019 triennial valuation and no issues were identified with the disclosures in the Council's financial statements.

We have considered the impact of Covid-19 on the valuation of complex (Level 3) investments held by Norfolk Pension Fund, that were estimated as at 31 March 2020. The Norfolk Pension Fund auditors compared the estimated value of these investments to actual valuations received post year end and identified an audit difference of £13.72 million (understatement). This Council's share of this difference is £1.025 million

We have concluded on the impact of the McCloud and Goodwin legal cases and the treatment of these by the actuary in the Council's triannual valuation and IAS19 report. For 2019/20 there is an additional impact of McCloud as HM Treasury, on the 16 July 2020, issued a consultation regarding transitional arrangements for public sector pensions, to eliminate discrimination as identified through the McCloud case. This consultation had the effect of changing the assumptions used by the Actuary in their calculations for the impact on the liability.

The Council has obtained an updated liability report from the Actuary which we have agreed to the updated entries in the accounts. As a result of this report a trivial adjustment was made to the Pension Liability – with associated other adjustments within the revised financial statements. See Section 4 for more details.



Areas of Audit Focus

Other Areas of Audit Focus – continued

Group Accounts

What is the risk?

In 2015 the Council incorporated Norwich Regeneration Limited (NRL), a company, with the Council as the sole owner. Activity is at a level considered material, which requires the Council to prepare group accounts.

We identify this as an inherent risk as the Council this can be a complex area of accounting.

What did we do and what judgements did we focus on?

In order to address this risk we carried out a range of procedures including:

- ▶ Reviewed the group assessment prepared by the Council, ensuring that the accounting framework and accounting policies are aligned to the Norwich City Council group;
- ▶ Scoped the audit requirements for NRL based on their significance to the group accounts. We have liaised with the external auditor of NRL (Aston Shaw) and issued group instructions that detail the required audit procedures they are to undertake in order to provide us with assurance for the opinion we will issue on the group accounts;
- ▶ Ensured the appropriate consolidation procedures are applied when preparing the Council group accounts and appropriate disclosures are made within the group accounts.

What are our conclusions?

We have reviewed the Council's Group Assessment and agree with the conclusion reached.

We have been provided with Group audit deliverables from Aston Shaw and have performed a review of their work for the key balances that have been included within the Group accounts with no matters to bring to your attention.

Our testing of the consolidation has not identified any audit differences.



Areas of Audit Focus

Other Areas of Audit Focus – continued

Impact of Covid-19 – going concern

What is the risk?

Financial plans for 2020/21 and medium term financial plans will need revision for Covid-19.

We considered the unpredictability of the current environment gave rise to a risk that the Council may not appropriately assess and disclose the key factors relating to going concern, underpinned by managements assessment, with particular reference to Covid-19 and the Council's actual year end financial position and performance.

What did we do and what judgements did we focus on?

In order to address this risk we performed a range of procedures including:

- ▶ Obtaining management's going concern assessment and reviewing it for any evidence of bias and consistency with the accounts;
- ▶ Reviewing the financial forecasts prepared by the Council. This considered key assumptions, and the risk to cash flow up to the date of 12 months after the signing date of the accounts and opinion;
- ▶ Ensuring that an appropriate going concern disclosure has been made within the statement of accounts; and
- ▶ Considering the impact on our audit report and complying with EY consultation requirements.

What are our conclusions?

We have recently received management's assessment of Going Concern, and we are completing our audit procedures in order to conclude upon it.

We will provide an update at the Audit Committee on 24 November 2020.



03

Audit Report

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Audit Report

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Our proposed opinion on the financial statements

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF NORWICH CITY COUNCIL

Opinion

We have audited the financial statements of Norwich City Council for the year ended 31 March 2020 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- Authority and Group Movement in Reserves Statement,
- Authority and Group Comprehensive Income and Expenditure Statement,
- Authority and Group Balance Sheet,
- Authority and Group Cash Flow Statement,
- the related notes 1 to 47 to the Authority Accounts and notes 1 to 18 to the Group Accounts;
- the Expenditure and Funding Analysis to the Authority Accounts;
- the Housing Revenue Account Income and Expenditure Statement and the related notes 1 to 13; and
- the Collection Fund and the related notes 1 to 4.

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

In our opinion the financial statements:

- give a true and fair view of the financial position of Norwich City Council and Group as at 31 March 2020 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Authority and group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's (C&AG) AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



Audit Report – continued

DRAFT

Our proposed opinion on the financial statements

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Chief Finance Officer's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Chief Finance Officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The other information comprises the information included in the "*Statement of Accounts for the year ending 31 March 2020*", other than the financial statements and our auditor's report thereon. The Chief Finance Officer is responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matters prescribed by the Local Audit and Accountability Act 2014

Arrangements to secure economy, efficiency and effectiveness in the use of resources

In our opinion, based on the work undertaken in the course of the audit, having regard to the guidance issued by the Comptroller and Auditor General (C&AG) in April 2020, we are satisfied that, in all significant respects, Norwich City Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.



Audit Report - continued

Our proposed opinion on the financial statements

Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Council;
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

Responsibility of the Chief Finance Officer

As explained more fully in the *“Statement of Responsibilities for the Statement of Accounts”* Set out on page 33, the Chief Financial Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20, and for being satisfied that they give a true and fair view.

In preparing the financial statements, the Chief Finance Officer is responsible for assessing the Authority’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Authority either intends to cease operations, or have no realistic alternative but to do so.

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor’s responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.



Audit Report – continued

DRAFT

Our proposed opinion on the financial statements

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General (C&AG) in April 2020, as to whether Norwich City Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether Norwich City Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, Norwich City Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our conclusion relating to proper arrangements.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Certificate

We certify that we have completed the audit of the accounts of Norwich City Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office.

Use of our report

This report is made solely to the members of Norwich City Council, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.



04

Audit Differences



Audit Differences

In the normal course of any audit, we identify misstatements between amounts we believe should be recorded in the financial statements and the disclosures and amounts actually recorded. These differences are classified as “known” or “judgemental”. Known differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation.

Summary of Adjusted differences

We highlight audit differences greater than £0.172 million which have been identified during the course of the audit and which management has chosen to adjust.

We have identified two audit differences above this level at the time of drafting this report.

1. Debtors / Creditors

We identified a journal as part of our debtors and creditors work that was incorrectly posted resulting in understated short term creditors and debtors. This has a nil impact on the Balance Sheet. The correcting accounting entries were:

Balance sheet short term creditors: debit £0.336 million
Balance sheet short term debtors: credit £0.336 million

2. Pension Liability

The updated pension report provided resulted in a change to the pension disclosure. The Pension Fund Plan Assets in the draft financial statements were understated by £0.417 million, resulting in the Pension Fund plan liabilities being overstated by £0.362 million, a net difference of £0.055 million.

A small number of other disclosure and presentational items have been highlighted to management for amendment. We do not deem these to merit inclusion in this report.

We are awaiting the outcome of work on Property, Plant and Equipment and Investment Property valuation testing and Going Concern disclosures. We will report any further adjustments above our reporting level to you.

Summary of Unadjusted differences

We have identified one misstatement which management has chosen not to adjust.



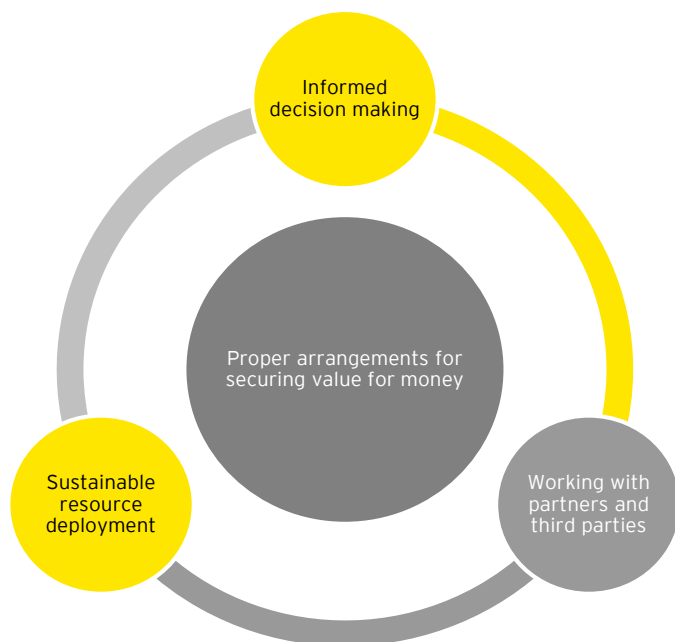
05

Value for Money Risks





Value for Money



Background

We are required to consider whether the Authority 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.

For 2019/20 this is based on the overall evaluation criterion:

"In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people"

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.

In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

Impact of Covid-19 on our Value for Money assessment

On 16 April 2020 the National Audit Office published an update to auditor guidance in relation to the 2019/20 Value for Money assessment in the light of Covid-19.

This clarified that in undertaking the 2019/20 Value for Money assessment auditors should consider Local Authorities' response to Covid-19 only as far as it relates to the 2019/20 financial year; only where clear evidence comes to the auditor's attention of a significant failure in arrangements as a result of Covid-19 during the financial year, would it be appropriate to recognise a significant risk in relation to the 2019/20 VFM arrangements conclusion.

We did not identify any such significant failure in arrangements.

Overall conclusion

We identified two significant risks around the three criteria from our planning work. These are considered on the next page.

We expect having no matters to report about your arrangements to secure economy, efficiency and effectiveness in your use of resources.

Value for Money Risk

We are only required to determine whether there are any risks that we consider significant within the Code of Audit Practice, where risk is defined 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”

Our risk assessment supports the planning of enough work to deliver a safe conclusion on your arrangements to secure value for money, and enables us to determine the nature and extent of any further work needed. If we do not identify a significant risk we do not need to carry out further work.

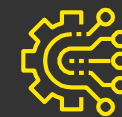
The table below presents the findings of our work in response to the risks areas in our Audit Planning Report as well as any additional risks identified since then.

What is the significant value for money risk?	What arrangements did the risk affect?	What are our findings?
<p>Medium Term Finances</p> <p>The Medium Term Financial Strategy (MTFS) shows a need to make further gross savings of £10.0 million over the next four years, assuming demand-led growth of £0.75 million per annum. Following the existing “smoothed” approach this equates to gross savings of £2.49 million each year to 2024/25.</p> <p>Savings plans have yet to be fully developed to address this gap and the commercialisation agenda above is one approach to mitigating the risk.</p> <p>Given the level of the savings required this presents a risk to the Council’s financial position.</p>	<ul style="list-style-type: none"> Deploy resources in a sustainable manner 	<p>We have undertaken the following:</p> <ul style="list-style-type: none"> Monitored the financial position for 2019/20. The Council recognised an underspend of £3.4 million and delivered 96% of it’s savings targets. The Council has a track record of recording underspends and achieving it’s savings targets. Reviewed the arrangements the Council has for identifying their medium savings requirements through review of the medium term financial strategy. They have modelled savings across different service lines. Used the Institute of Fiscal Studies report and dashboard on financial risk and resilience of English Local Authorities, which provides a varied impact of Covid-19, to challenge assertions made by management. <p>Overall the Council appears to have a strong track record in identifying and achieving savings targets. The Council’s Medium Term Financial Strategy appears sound. The Council does envisage using reserves to support the revenue budget over the next three years, but at the planned pace of use, these reserves would remain above the approved minimum level.</p>

What is the significant value for money risk?	What arrangements did the risk affect?	What are our findings?
<p>Commercialisation</p> <p>The Council continues to identify new ways to generate income in the current constrained financial environment.</p> <p>In 2019/20 the Council has increased investments in commercial property and the investment in the Council's own company, Norwich Regeneration Limited. This has included diversifying the investment portfolio and purchasing assets out of area.</p> <p>Entering into commercial activity on an increased scale requires the Council to continue to have appropriate governance and corporate arrangements in place to appropriately plan and deliver these schemes.</p> <p>We have identified a risk due to the increasing activity by the Council in this area.</p>	<ul style="list-style-type: none"> • Taking informed decisions 	<p>To address this risk, we have completed the following:</p> <ol style="list-style-type: none"> 1. To Consider the Council's Commercial Property Strategy to ensure it is in line with current guidance. And to review of the purchase of investment properties in the year to ensure they are in line with the Council's strategy. <p>Internal audit have undertaken a review of the Council's Commercial Property Investment Strategy in 2019/20. This audit considered the council's strategy and assessed properties purchased against the strategy. This concluded that the Council have good control environment and good compliance. We have therefore not performed any further work on this given the work undertaken by Internal Audit, though we recommend that Internal Audits recommendations are implemented as soon as possible.</p> <ol style="list-style-type: none"> 3. A review of the updated Norwich Regeneration Limited business plan and how it aligns with Council priorities; <p>Internal Audit undertook a review of NRL in 2018/19 and highlighted a number of key recommendations. These recommendations had not been fully implemented at the time of our audit planning, and a significant credit loss of £4 million has been raised against the NRL loan in the Council's accounts - attracting much press coverage.</p> <p>Together, these factors indicated an audit risk so we have undertaken a review of NRL. This review focused on the governance of NRL by Norwich City Council as the 'parent' organisation and focussed on a number of areas highlighted in the internal audit report and reviewed the house building activities, including associated financing arrangements.</p> <p>Our review concludes that:</p> <ul style="list-style-type: none"> ▸ The governance arrangements for the approval of working capital loans to NRL appear to be robust. Loan arrangements and associated VFM and governance considerations identified no concerns; ▸ We reviewed the NCC's risk register at June 2020. The Corporate Risk Register was reviewed by the NCC corporate leadership team on a quarterly basis at the quarterly assurance review. A review of the June 2020 risk register showed that five of the seven risks identified do not have a risk owner or actions attached to them. NRL is not identified as an individual risk but is incorporated into other commercialisation risk. Risk management processes appear to be lacking in ownership and action but these are being addressed, through an updated corporate action. <p>Overall the review identified no significant governance or value for money issues.</p> <ol style="list-style-type: none"> 4. The financial modelling of the returns from commercial activity included in the Medium Term Financial Strategy. <p>We considered this at the time the budget was set and concluded that it appeared appropriate given prior year returns and the investment strategy.</p> <p>Overall we have no others matters to report.</p>



06 Other reporting issues



Other reporting issues

Consistency of other information published with the financial statements, including the Annual Governance Statement

We must give an opinion on the consistency of the financial and non-financial information in the Statement of Accounts 2019/20 with the audited financial statements.

We must also review the Annual Governance Statement for completeness of disclosures, consistency with other information from our work, and whether it complies with relevant guidance.

Financial information in the Statement of Accounts 2019/20 and published with the financial statements was consistent with the audited financial statements.

We have reviewed the Annual Governance Statement (AGS). We identified inconsistencies between the AGS and the outcome of Internal Audit work which had resulted in limited assurance or where there were outstanding recommendations - which should have been reflected within the AGS. The AGS has now been updated to reflect these areas - which were on Risk Management, Contract Management and Norwich Regeneration Limited. We confirm that the AGS is consistent with other information from our audit of the financial statements.

We have no other matters to report.

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 return. The extent of our review, and the nature of our report, is specified by the NAO.

We have completed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission. The Council falls below the testing threshold set by the NAO for detailed procedures on the consolidation return (Threshold - £500 million). We do not therefore have any issues to report.

Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Authority to consider it or to bring it to the attention of the public (i.e. "a report in the public interest"). We did not identify any issues which required us to issue a report in the public interest.

We also have a duty to make written recommendations to the Authority, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014. We did not identify any issues and have not had course to use this duty.

Other reporting issues – continued

Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of the Authority's financial reporting process. They include the following:

- ▶ Significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures;
- ▶ Any significant difficulties encountered during the audit;
- ▶ Any significant matters arising from the audit that were discussed with management;
- ▶ Written representations we have requested;
- ▶ Expected modifications to the audit report;
- ▶ Any other matters significant to overseeing the financial reporting process;
- ▶ Related parties;
- ▶ External confirmations;
- ▶ Going concern;
- ▶ Consideration of laws and regulations; and
- ▶ Group audits.

We have reported in respect of going concern earlier in this report on page 19. We have no other matters to report.



07

Assessment of Control Environment



Assessment of Control Environment

Financial controls

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

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. As we have adopted a fully substantive approach, we have therefore not tested the operation of controls. Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant deficiencies in internal control.

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware.

We considered whether circumstances arising from Covid-19 resulted in a change to the overall control environment of effectiveness of internal controls, for example due to significant staff absence or limitations as a result of working remotely. We identified no issues which we wish to bring to your attention.



08

Independence

Confirmation

We confirm that there are no changes in our assessment of independence since our confirmation in our Audit Plan dated 30 April 2020.

We complied with the APB Ethical Standards. 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 consider that our independence in this context is a matter which should be reviewed by both you and ourselves. It is therefore important that you and your Audit Committee consider the facts of which you are aware and come to a view. If you would like to discuss any matters concerning our independence, we will be pleased to do so at the forthcoming meeting of the Audit Committee on 24 November 2020.

Relationships, services and related threats and safeguards

The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and your Authority, and its directors and senior management and its affiliates, including all services provided by us and our network to your Authority, its directors 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 2019 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

Services provided by Ernst & Young

Below includes a summary of the fees that you have paid to us in the year ended 31 March 2020 in line with the disclosures set out in FRC Ethical Standard and in statute.

We confirm that none of the services listed on the following page have been provided on a contingent fee basis.

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.

Independence

Fee Analysis

As part of our reporting on our independence, we set out below a summary of the fees paid for the year ended 31 March 2020.

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

	Proposed Final Fee 2019/20	Scale Fee 2019/20	Final Fee 2018/19
	£'s	£'s	£'s
Total Audit Fee - Code work	61,534	61,534	66,057
Changes in work required to address professional and regulatory requirements and scope associated with risk (See Note 1)	55,268	-	-
Revised Proposed Scale Fee	116,802	-	-
Additional specific one-off work required for Covid-19 considerations	Note 2	-	-
Total Fees	To be confirmed	61,534	66,057

All fees exclude VAT

Notes:

Note 1 - For 2019/20 the scale fee has been re-assessed to take into account a number of risk factors as outlined below:

- Procedures performed to address the risk profile of Norwich City Council - £23,550.
- Additional work to address increase in Regulatory standards - £30,150
- Client readiness and IT support for Data Analytics - £1,568

This revised scale fee has been discussed with management and is subject to review and approval by the PSAA Ltd.

Note 2 - As set out in this report, we have had to perform additional audit procedures to respond to the financial reporting and associated audit risks pertaining to Covid-19. As we are concluding our work in relation to these areas, we cannot quantify the fee impact at this time. We will provide an update on the additional fee implications at the conclusion of the audit and report this within the Annual Audit Letter.

New UK Independence Standards

The Financial Reporting Council (FRC) published the Revised Ethical Standard 2019 in December and it will apply to accounting periods starting on or after 15 March 2020. A key change in the new Ethical Standard will be a general prohibition on the provision of non-audit services by the auditor (and its network) which will apply to UK Public Interest Entities (PIEs). A narrow list of permitted services will continue to be allowed.

Summary of key changes

- Extraterritorial application of the FRC Ethical Standard to UK PIE and its worldwide affiliates
- A general prohibition on the provision of non-audit services by the auditor (or its network) to a UK PIE, its UK parent and worldwide subsidiaries
- A narrow list of permitted services where closely related to the audit and/or required by law or regulation
- Absolute prohibition on the following relationships applicable to UK PIE and its affiliates including material significant investees/investors:
 - Tax advocacy services
 - Remuneration advisory services
 - Internal audit services
 - Secondment/loan staff arrangements
- An absolute prohibition on contingent fees.
- Requirement to meet the higher standard for business relationships i.e. business relationships between the audit firm and the audit client will only be permitted if it is inconsequential.
- Permitted services required by law or regulation will not be subject to the 70% fee cap.
- Grandfathering will apply for otherwise prohibited non-audit services that are open at 15 March 2020 such that the engagement may continue until completed in accordance with the original engagement terms.
- A requirement for the auditor to notify the Audit Committee where the audit fee might compromise perceived independence and the appropriate safeguards.
- A requirement to report to the audit committee details of any breaches of the Ethical Standard and any actions taken by the firm to address any threats to independence. A requirement for non-network component firm whose work is used in the group audit engagement to comply with the same independence standard as the group auditor. Our current understanding is that the requirement to follow UK independence rules is limited to the component firm issuing the audit report and not to its network. This is subject to clarification with the FRC.

Next Steps

We will continue to monitor and assess all ongoing and proposed non-audit services and relationships to ensure they are permitted under FRC Revised Ethical Standard 2016 which will continue to apply until 31 March 2020 as well as the recently released FRC Revised Ethical Standard 2019 which will be effective from 1 April 2020. We will work with you to ensure orderly completion of the services or where required, transition to another service provider within mutually agreed timescales.

We do not provide any non-audit services which would be prohibited under the new standard.

Other communications

EY Transparency Report 2020

Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year end 30 June 2020:

https://assets.ey.com/content/dam/ey-sites/ey-com/en_uk/about-us/transparency-report-2020/ey-uk-2020-transparency-report.pdf






09

Appendices




Appendix A

Required communications with the Audit Committee





There are certain communications that we must provide to the Audit Committees of UK clients. We have detailed these here together with a reference of when and where they were covered:

		 Our Reporting to you
Required communications	 What is reported?	 When and where
Terms of engagement	Confirmation by the Audit Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	Audit Plan - 30 April 2020
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit Plan - 30 April 2020
Significant findings from the audit	<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 - 18 November 2020



Appendix A – continued

		 Our Reporting to you
Required communications	 What is reported?	 When and where
Going concern	<p>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 	Audit Results Report – 18 November 2020
Misstatements	<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 ▶ Material misstatements corrected by management 	Audit Results Report – 18 November 2020
Subsequent events	<ul style="list-style-type: none"> ▶ Enquiry of the audit committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements. 	Audit Results Report – 18 November 2020
Fraud	<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 Authority ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▶ Unless all of those charged with governance are involved in managing the Authority any identified or suspected fraud involving: <ul style="list-style-type: none"> a. Management; b. Employees who have significant roles in internal control; or c. Others where the fraud results in a material misstatement in the financial statements. ▶ The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected ▶ Any other matters related to fraud, relevant to Audit Committee responsibility. 	Audit Results Report – 18 November 2020





Appendix A – continued

		 Our Reporting to you
Required communications	 What is reported?	  When and where
Related parties	<p>Significant matters arising during the audit in connection with the Authority'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 Authority 	Audit Results Report – 18 November 2020
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, 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 <p>Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place.</p>	<p>Audit Plan – 30 April 2020</p> <p>Audit Results Report – 18 November 2020</p>

Appendix A – continued

		Our Reporting to you	
Required communications	 What is reported?	 When and where	
External confirmations	<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 	Audit Results Report - 18 November 2020	
Consideration of laws and regulations	<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 	Audit Results Report - 18 November 2020	
Internal controls	<ul style="list-style-type: none"> ▶ Significant deficiencies in internal controls identified during the audit 	Audit Results Report - 18 November 2020	
Group Audits	<ul style="list-style-type: none"> ▶ An overview of the type of work to be performed on the financial information of the components ▶ An overview of the nature of the group audit team's planned involvement in the work to be performed by the component auditors on the financial information of significant components ▶ Instances where the group audit team's evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work ▶ Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted ▶ Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial statements 	Audit Plan - 30 April 2020 Audit Results Report - 18 November 2020	

Appendix A – continued

		 Our Reporting to you
Required communications	 What is reported?	  When and where
Written representations we are requesting from management and/or those charged with governance	<ul style="list-style-type: none"> ▶ Written representations we are requesting from management and/or those charged with governance 	Audit Results Report – 18 November 2020
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	<ul style="list-style-type: none"> ▶ Material inconsistencies or misstatements of fact identified in other information which management has refused to revise 	Audit Results Report – 18 November 2020
Auditors report	<ul style="list-style-type: none"> ▶ Any circumstances identified that affect the form and content of our auditor's report 	Audit Results Report – 18 November 2020
Fee Reporting	<ul style="list-style-type: none"> ▶ Breakdown of fee information when the Audit Plan is agreed ▶ Breakdown of fee information at the completion of the audit ▶ Any non-audit work 	Audit Plan – 30 April 2020 Audit Results Report – 18 November 2020



Appendix B

Request for a Management Representation Letter



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INVESTOR IN PEOPLE

Hannah Simpson
Chief Financial Officer
Norwich City Council
City Hall
St Peter Street
Norwich
NR2 1NH

16 November 2020

Ref:
Your ref:

Direct line: 01223 394547

Email: MHodgson@uk.ey.com

Dear Hannah,

Norwich City Council & Group – 2019/20 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 Group and 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 and Group ("the Group and Council") for the year ended 31 March 2020.

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 financial position of the Group and Council as of 31 March 2020 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 2019/20.

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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, for the Group and Council the Accounts and Audit Regulations 2015 (as amended in 2020 for Covid-19) and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.
2. That you acknowledge as members of management of the Group and Council, your responsibility for the fair presentation of the Group and Council's financial statements. You believe the Group and Council financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the Group and Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 and are free of material misstatements, including omissions. You have approved the Group and Council financial statements.
3. That the significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
4. As members of management of the Group and Council, you believe that the Group and 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 2019/20, that are free from material misstatement, whether due to fraud or error. You have disclosed to us any significant changes in your processes, controls, policies and procedures that you have made to address the effects of the COVID-19 pandemic on your system of internal controls.
5. That you believe that the effects of any unadjusted audit differences, summarised in the Audit Results Report, if relevant, accumulated by us during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

That you have not corrected these differences identified and brought to your attention by us because (please specify the reasons for not correcting the misstatements).

or

There are no unadjusted audit differences.



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B. Non-compliance with law and regulations, including fraud

1. That you acknowledge that you are responsible to determine that the Group and Council's activities are conducted in accordance with laws and regulations and that you are responsible for identifying and addressing any non-compliance with applicable laws and regulations, including fraud.
2. That you acknowledge that you are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
3. That you have disclosed to us the results of your assessment of the risk that the financial statements may be materially misstated as a result of fraud.
4. You have no knowledge of any identified or suspected non-compliance with laws and regulations, including fraud that may have affected the Group or Group and Council (regardless of the source or form and including without limitation, any allegations by "whistleblowers") including non-compliance matters:
 - involving financial statements;
 - related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the Group and Council's financial statements;
 - related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Group and Council's activities, its ability to continue to operate, or to avoid material penalties;
 - involving management, or employees who have significant roles in internal controls, or others; or
 - in relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

C. 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, including those related to the COVID-19 pandemic.



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3. That you have made available to us all minutes of the meetings of the Group and 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: 24 November 2020.
4. That you confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Group and 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 Group and 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.
7. That from the date of your last management representation letter to us, through the date of this letter, you have disclosed to us any unauthorized access to your information technology systems that either occurred or to the best of your knowledge is reasonably likely to have occurred based on your investigation, including of reports submitted to you by third parties (including regulatory agencies, law enforcement agencies and security consultants), to the extent that such unauthorized access to your information technology systems is reasonably likely to have a material impact to the financial statements, in each case or in the aggregate.

D. 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 (please specify the Note) all guarantees that you have given to third parties.

E. Subsequent Events

1. That other than the disclosure described in Note X (insert Note) to the Group and Council's financial statements, there have been no events, including events related to the COVID-19 pandemic, subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.



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F. 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.

G. Expenditure Funding Analysis

1. You confirm that the financial statements reflect the operating segments reported internally to the Group and Council.

H. Going Concern

1. That the Group and Council has prepared the financial statements on a going concern basis and that Note 41 (insert note) to the financial statements discloses all of the matters of which you are aware that are relevant to the Group and Council's ability to continue as a going concern, including significant conditions and events, your future financial plans and the veracity of the associated future funding allocations from the Department of Housing, Communities and Local Government, the sufficiency of cash flows to support those financial plans.

I. Ownership of Assets

1. That except for assets capitalised under finance leases, the Group and Council has satisfactory title to all assets appearing in the balance sheet(s), and there are no liens or encumbrances on the Group and Council's assets, nor has any asset been pledged as collateral. All assets to which the Group and Council has satisfactory title appear in the balance sheet(s).

J. Reserves

1. You have properly recorded or disclosed in the Group and Council financial statements the useable and unusable reserves.



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K. Valuation of Property, Plant and Equipment Assets

1. That you agree with the findings of the experts engaged to evaluate the values of the Group and Council's land and buildings and have adequately considered the qualifications of the experts in determining the amounts and disclosures included within the Group and 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.
2. You believe that the measurement processes, including related assumptions and models, used to determine the accounting estimate(s) have been consistently applied and are appropriate in the context of the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.
3. You confirm that the significant assumptions used in making the valuation of assets appropriately reflect your intent and ability to carry out specific courses of action on behalf of the entity.
4. You confirm that the disclosures made in the Group and Council financial statements with respect to the accounting estimate(s) are complete and made in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.
5. You confirm that no adjustments are required to the accounting estimate(s) and disclosures in the Group and Council financial statements due to subsequent events.
6. You confirm that you have performed a desktop review of all assets not subject to revaluation as part of the 5 year rolling programme for valuations and that each asset category is not materially misstated.
7. You confirm that for assets carried at historic cost, that no impairment is required.

L. 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. All significant retirement benefits and all settlements and curtailments have been identified and properly accounted for.
2. You agree with the findings of the specialists that you engaged to evaluate the Valuation of Pension Liabilities and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the consolidated and Group and Council financial statements and the underlying accounting records. You did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and you are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.
3. You believe that the measurement processes, including related assumptions and models, used to determine the accounting estimate(s) have been consistently applied and are appropriate in the context of the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.



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4. You confirm that the significant assumptions used in making the valuation of the pension liability appropriately reflect your intent and ability to carry out specific courses of action on behalf of the entity.
5. You confirm that the disclosures made in the consolidated and Group and Council financial statements with respect to the accounting estimate(s) are complete and made in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.
6. You confirm that no adjustments are required to the accounting estimate(s) and disclosures in the consolidated and Group and Council financial statements due to subsequent events.

M. Other information

1. You acknowledge your responsibility for the preparation of the other information. The other information comprises the Narrative Report included in the "Statement of Accounts 2019-2020".
2. You confirm that the content contained within the other information is consistent with the financial statements.

N. Group audits

1. There are no significant restrictions on your ability to distribute the retained profits of the Group because of statutory, contractual, exchange control or other restrictions other than those indicated in the Group financial statements.
2. Necessary adjustments have been made to eliminate all material intra-group unrealised profits on transactions amongst council, subsidiary undertakings and associated undertakings.
3. You confirm that entities excluded from the consolidated financial statements are immaterial on a quantitative and qualitative basis.

O. Use of the Work of a Specialist – Pension Liabilities

1. You agree with the findings of the specialists that you engaged to evaluate the Valuation of Pension Liabilities and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the consolidated and council financial statements and the underlying accounting records. You did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and you are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

P. Valuation of Pension Liabilities

1. You believe that the measurement processes, including related assumptions and models, used to determine the accounting estimate(s) have been consistently applied and are appropriate in the context of the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.
2. You confirm that the significant assumptions used in making the valuation of the pension liability appropriately reflect your intent and ability to carry out specific courses of action on behalf of the entity.



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3. You confirm that the disclosures made in the consolidated and council financial statements with respect to the accounting estimate(s) are complete and made in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

4. You confirm that no adjustments are required to the accounting estimate(s) and disclosures in the consolidated and council financial statements due to subsequent events.

Q. 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 (date to be advised) on formal headed paper.

Yours sincerely

Mark Hodgson
Associate Partner
Ernst & Young LLP
United Kingdom

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