

Annual Audit Letter

Norwich City Council

30 October 2014



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working world

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

30 October 2014

Dear Members,

Annual Audit Letter

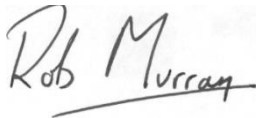
The purpose of this Annual Audit Letter is to communicate to the Members of Norwich City Council and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to their attention.

We have already reported the detailed findings from our audit work to those charged with governance of Norwich City Council in the 2013/14 Audit Results Report issued to the Audit Committee on 15 September 2014.

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

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

Yours faithfully

A handwritten signature in dark ink, appearing to read 'Rob Murray', with a horizontal line underneath.

Rob Murray
Director
For and behalf of Ernst & Young LLP
Enc

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Executive summary

Our 2013/14 audit work has been undertaken in accordance with the Audit Plan we issued on 25 February 2014 and was conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

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

As auditors we are responsible for:

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

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

Audit the financial statements of Norwich City Council for the financial year ended 31 March 2014 in accordance with International Standards on Auditing (UK & Ireland)	On 29 September 2014 we issued an unqualified audit opinion in respect of the Authority.
Form a conclusion on the arrangements the Authority has made for securing economy, efficiency and effectiveness in its use of resources.	On 29 September 2014 we issued an unqualified value for money conclusion.
Issue a report to those charged with governance of the Authority (the Audit Committee) communicating significant findings resulting from our audit.	On 15 September 2014 we issued our report in respect of the Authority.
Notify the NAO that the Authority is below the Whole of Government Accounts threshold and provide the supporting calculations to confirm.	We reported our findings to the National Audit Office on 26 September 2014.
Consider the completeness of disclosures in the Authority's Annual Governance Statement, identify any inconsistencies with the other information of which we are aware from our work and consider whether it complies with CIPFA / SOLACE guidance.	No issues to report.

Consider whether, in the public interest, we should make a report on any matter coming to our notice in the course of the audit.

No issues to report.

Determine whether any other action should be taken in relation to our responsibilities under the Audit Commission Act.

No issues to report.

Issue a certificate that we have completed the audit in accordance with the requirements of the Audit Commission Act 1998 and the Code of Practice issued by the Audit Commission.

On 29 September 2014 we issued our audit completion certificate.

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

We plan to issue our annual certification report to those charged with governance with respect to the 2013/14 financial year by 31 January 2015.

Key findings

Financial statement audit

We audited the Authority's Statement of Accounts in line with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission. We issued an unqualified audit report on 29 September 2014.

In our view, the quality of the process for producing the accounts, including the supporting working papers was adequate. We will work with the Authority to implement further strengthening of the closedown process, and provision of supporting working papers.

The main issues identified as part of our audit were:

Significant risk 1: Property Asset Valuation

Due to the complexity in accounting for property, plant and equipment and the material values involved, there is a higher risk that asset valuations contain material misstatements.

We agreed the revaluation and impairments to reports provided by the Council's valuation expert. We assessed the qualifications, independence and scope of the Council's valuation expert to ensure we could rely upon the valuation reports provided.

We identified an understatement on the value of HRA assets de-recognised in the year. The projected error was calculated as £0.600 million. This does not impact upon useable reserve balances.

The Authority decided not to amend as the error identified was projected, and not considered material.

We have commented in previous years on weaknesses in the spreadsheets used as a fixed asset register. The register is difficult to use and does not produce quality management information.

Every year that the Council delays in implementing a new fixed asset register makes the task more difficult as officers will have to consider data as far back as 1 April 2007, when the revaluation reserve was first introduced.

Significant risk 2: Assessment of the group boundary

This was the first full year for the Norse Environmental Ltd arrangement. The Council undertook an assessment of the group boundary against the criteria stipulated in the relevant international accounting standards. The purpose of the assessment is to conclude which partnership arrangements fall within the boundary and therefore require consolidating into the Council's Financial Statements.

The assessment concluded that Norse Environmental Ltd did fall within the group boundary as associate undertakings. However, it was judged not material and therefore group accounts were not required. We agreed with the conclusion drawn from this assessment.

Significant risk 3: Localisation of business rates

There were significant changes in the arrangements for business rates from April 2013. One of the main changes is that individual councils now need to provide for rating appeals. This includes not only claims from 1 April 2013 but claims that relate to earlier periods. As appeals are made to the Valuation Office, Councils may not be aware of the level of claims. Councils may also find it difficult to obtain sufficient information to establish a reliable estimate.

Our audit work confirmed that the accounting treatment adopted by the Council for business rates was appropriate and in compliance with the CIPFA Code of Practice.

The business rates appeals provision accounted for by the Council was deemed to have been calculated on a reasonable basis in line with the requirements of the relevant accounting standard.

We identified an understatement of £0.511 million in the provision charged to the Collection Fund. The Authority decided not to amend as the error was not considered material and the cash and general fund impact would not occur until 2015/16.

Significant risk 4: Risk of misstatement due to fraud and error

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

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

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

Value for money conclusion

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

In accordance with guidance issued by the Audit Commission, in 2013/14 our conclusion was based on two criteria:

- ▶ The organisation has proper arrangements in place for securing financial resilience; and
- ▶ The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

We issued an unqualified value for money conclusion on 29 September 2014. We noted the following issues as part of our audit.

Financial resilience

Along with many other Councils, Norwich City Council is facing significant financial challenges over the next three to four years.

The Council's external funding sources are reducing and are subject to change and uncertainty in future years. Some of the main areas of uncertainty relate to:

- ▶ Future levels of business rates income.
- ▶ Future funding through the New Homes Bonus.
- ▶ Level of Government funding through the Revenue Support Grant (RSG) and Baseline Funding (business rates).

The Council is acutely aware of the challenges it faces and is continually looking at ways in which services can be provided more efficiently and effectively over the coming years. Officers are also considering how the Council can generate income by operating on a more commercial basis.

The Council has a good track record of delivering savings and meeting its budget. Additional income projects and savings of £3.2 million are built into the 2014/15 budget and good progress has already been made on the 2015/16 savings requirement of £1.6 million.

The Council's financial forecasts that have been reported to Members make clear the scale of the challenge being faced. Some of the key issues reported include:

- ▶ The Council has a cumulative budget gap of around £8 million over the next 5 years (to 2019-20) which will need to be bridged through savings and efficiencies or increased income.
- ▶ The Council has included New Homes Bonus funding to support the base budget in each of the next 5 years. Although officers have calculated this funding on the basis of current trends, this funding stream has not been confirmed beyond 2016-17. If this source of funding was removed, or significantly reduced from 2017-18, the Council would have an additional base budget gap to address from 2017-18.
- ▶ The Council increased its council tax in 2014/15 by 1.95%. Decisions relating to council tax increases, or decreases, have an ongoing impact on the Council's ability to raise revenue in future years due to the annual restrictions on the level of annual increases

In light of the future financial pressures the Council is facing, Members need to continue to consider carefully the impact of any decisions to freeze or reduce council tax or use reserves to support the Council's finances, the ongoing sustainability of the Council's financial position and its ability to maintain service levels in future years.

Whole of government accounts

We notified the National Audit Office that the Authority is below the Whole of Government Accounts threshold and provided the results of our work and supporting calculations to confirm. We did not identify any areas of concern.

Annual governance statement

We are required to consider the completeness of disclosures in the Authority's Annual Governance Statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it complies with CIPFA / SOLACE guidance. We completed this work and did not identify any areas of concern.

Certification of grants claims and returns

We have not yet completed our work on the certification of grants claims and returns. We will issue the Annual Certification Report for 2013/14 in January 2015.

Control themes and observations

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control we communicated to those charged with governance at the Authority, as required, significant deficiencies in internal control.

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

Fees update

A breakdown of our agreed fee is shown below.

	Final fee 2013/14 £	Planned fee 2013/14 £	Actual fee 2012/13 £	Explanation of variance
Total Audit Fee - Code work	117,682	105,652	145,925	See below
Certification of claims and returns	50,395 (Proposed)	56,900	50,442	See below

We communicated our planned fee to you within our Audit Plan issued in February 2014; providing an estimated update within our Audit Results Report issued in September 2014.

Our final fee for code work is £12,030 higher than the planned fee. This is due to correspondence received from a member of the public which we have a duty to consider as part of our audit procedures.

Our fee for certification of grants and claims is yet to be finalised for 2013/14 and will be reported to those charged with governance in January 2015 within the Audit Certification Report for 2013/14. The proposed final fee is £6,505 lower than the planned fee due to some claims no longer requiring certification.

Ernst & Young LLP

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