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North Norfolk District Council

Annual Audit Letter

2014/15

Government and
Public Sector

October 2015

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Contents

<i>Introduction</i>	1
<i>Audit Findings</i>	3
<i>Final Fees</i>	6

Code of Audit Practice and Statement of Responsibilities of Auditors and of Audited Bodies

In April 2010 the Audit Commission issued a revised version of the 'Statement of responsibilities of auditors and of audited bodies'. It is available from the Chief Executive of each audited body. The purpose of the statement is to assist auditors and audited bodies by explaining where the responsibilities of auditors begin and end and what is to be expected of the audited body in certain areas. Our reports and management letters are prepared in the context of this Statement. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the audited body and no responsibility is taken by auditors to any Member or officer in their individual capacity or to any third party.

An audit is not designed to identify all matters that may be relevant to those charged with governance. Our audit does not ordinarily identify all such matters.

Introduction

The purpose of this letter

This letter summarises the results of our 2014/15 audit work for members of the Authority.

We have already reported the detailed findings from our audit work to the Audit Committee in the following reports:

- Audit opinion for the 2014/15 financial statements, incorporating conclusion on the proper arrangements to secure economy, efficiency and effectiveness in its use of resources;
- Report to those charged with Governance (ISA (UK&I) 260); and
- Annual Certification Report (to those charged with governance).

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

Scope of Work

The Authority is responsible for preparing and publishing its Statement of Accounts, accompanied by the Annual Governance Statement. It is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Our 2014/15 audit work has been undertaken in accordance with the Audit Plan that we issued in March 2015 and is conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

North Norfolk District Council

We met our responsibilities as follows:

Audit Responsibility	Results
Perform an audit of the accounts in accordance with the Auditing Practice Board's International Standards on Auditing (ISAs (UK&I)).	We reported our findings to the Audit Committee on 15 September 2015 in our 2014/15 report to those charged with governance (ISA (UK&I) 260). On 30 September 2015 we issued an unqualified audit opinion.
Report to the National Audit Office on the accuracy of the consolidation pack the Authority is required to prepare for the Whole of Government Accounts.	We reported to the National Audit Office on 30 September 2015 that a detailed review of the consolidation pack was not required as the Authority was below the threshold.
Form a conclusion on the arrangements the Authority has made for securing economy, efficiency and effectiveness in its use of resources.	On 30 September 2015 we issued an unqualified value for money conclusion.

Audit Responsibility**Results**

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 undertook our work in accordance with our Audit Plan. There were no issues to report in this regard.

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



We undertook our work in accordance with our Audit Plan. There were no issues to report in this regard.

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



We undertook our work in accordance with our Audit Plan. There were no issues to report in this regard.

Audit Responsibility**Results**

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.



We issued our certificate on 30 September 2015 on completion of our work. There were no issues to report in this regard.

Audit Findings

Accounts

We audited the Authority's accounts in line with approved Auditing Standards and issued an unqualified audit opinion on 30 September 2015.

We noted significant issues arising from our audit within our Report to Those Charged with Governance (ISA (UK&I) 260). This report was presented to the Audit Committee on 15 September 2015 and the final report was issued on 30 September 2015. We wish to draw the following points, included in that report, to your attention in this letter.

Related parties

In forming an opinion on the financial statements, we are required to evaluate:

- whether identified related party relationships and transactions have been appropriately accounted for and disclosed; and
- whether the effects of the related party relationships and transactions cause the financial statements to be misleading.

It was identified during the course of our work that the Authority does not hold a full list of related parties. Per CIPFA code of practice, paragraph 3.9.2.15, "Related party relationships where control exists should be disclosed irrespective of whether there have been transactions between the related parties." The Authority would therefore need to hold a complete list of related parties in order to meet this requirement.

Declaration forms completed by Councillors only require Councillors to disclose interests that they or their close family

members have in other organisations where they are aware that these organisations have transacted with the Authority. There is therefore a risk that Councillors omit related parties from their declaration forms because they didn't know about a transaction and the Authority does not hold a complete list of related parties.

Finally, the Authority was unable to obtain declaration forms for two Councillors who did not return to Council following the election.

In our work we identified five additional related parties which the Authority had transacted with or provided grants to in the year, and which had not been disclosed in the initial draft accounts. For four of these the Councillor in question was representing the Authority on the Board of another organisation. In one case the Authority was unaware of the individual's involvement in the organisation. These omissions were raised as adjusted misstatements relating to disclosures and we included recommendations for improvements in our ISA 260 report.

Pensions liability

The most significant estimate in the Statement of Accounts is in the valuation of net pension liabilities for employees in the Norfolk County Council pension fund. The Authority's net pension surplus/liability at 31 March 2015 was £39 million (2014 - £32 million).

We reviewed the reasonableness of the assumptions underlying the pension liability, and we are comfortable that the assumptions are within an acceptable range. The report from the Pension Fund actuary was reviewed by the PwC pensions team and the assumptions used were compared to

the industry averages with no exceptions or major variances noted.

We validated the data supplied to the actuary on which to base their calculations and did not identify any issues to report.

Valuation of property, plant and equipment

The Authority's property, plant and equipment (PPE) balance is significant – as at 31 March 2015, the Council held PPE assets of £50,211k (2013/14: £47,246k). Our risk assessment within our report to those charged with governance outlined the audit risk associated with this balance and the audit procedures we performed. Overall we are content that the valuation of the Authority's is materially correct however, our work has identified three issues which have resulted in unadjusted misstatements.

Asset valuations are a year out of date: The Authority values its assets which are based on market or replacement cost values to 1 April rather than 31 March. In financial year 2014/15, the assets subject to this kind of revaluation were the public conveniences. PwC performed an exercise to revalue the public conveniences from 1 April 2014 to 31 March 2015 and noted a movement in the value.

Assets not revalued in year: The Authority revalues its assets on a five year rolling cycle where there has been no significant movements since the previous revaluation which is in line with CIPFA guidance. The Authority did not undertake a formal assessment of whether there had been a significant movement on the asset not subject to a formal valuation in 2014/15. As part of our audit work, we requested that management perform this assessment as valuation indices indicated there may have been a material movement. As a result of this request, the Authority's internal valuers undertook a desktop revaluation of all significant assets and noted that the asset values had been subject to movement, however this was not material.

The combined unadjusted misstatement for these two items is £0.2m.

North Norfolk District Council

Grant income: Pathfinder grant income of £0.13m was recognised in 2014/15 as a gain on disposal of an asset. This was grant income initially received by the Authority from central government, and then passed to Norfolk Community Foundation to distribute based on certain conditions. Norfolk Community Foundation did not meet these conditions and so in 2014/15 the grant was returned to the Authority to distribute. When the grant was returned it was recognised as a gain on disposal of an asset (a credit to operating expenditure) but it is our view that it would be more appropriate to recognise this under grant income. This was reported as an unadjusted misstatement in our ISA 260 report.

Use of Resources

We carried out sufficient, relevant work in line with the Audit Commission's guidance, so that we could conclude on whether the Authority had in place, for 2014/15, proper arrangements to secure economy, efficiency and effectiveness in your use of the Authority's resources.

In line with Audit Commission requirements, our conclusion was based on two criteria:

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

To reach our conclusion, we carried out a programme of work that was based on our risk assessment which included:

- Obtaining and reviewing the Authority's Medium Term Financial Strategy, including the assumptions utilised in identifying the funding gaps arising;
- Considering and discussing the emerging savings options as well as the magnitude of unidentified savings with officers, in order to understand the current plans to address the funding gap;
- Considering the Authority's historic record in delivering savings; and
- Considering the monitoring and reporting arrangements, together with governance structures in place in relation to savings and efficiencies.

The Authority's most recent Medium Term Financial Strategy shows a balanced budget for 2016/17 with a total gap of £1.9m up to 2019/20. The Authority has demonstrated ongoing achievement of savings in the past years. Further its general fund reserves balance held as at 31 March 2015 is £2.3m which covers the funding gap up to 2019/20. This together with our review of its future savings plans has given us comfort over the Authority's arrangements in its use of resources.

We issued an unqualified conclusion on the ability of the organisation to secure proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Annual Governance Statement

Local authorities are required to produce an Annual Governance Statement (AGS) that is consistent with guidance issued by CIPFA/SOLACE. The AGS accompanies the Statement of Accounts.

Whole of Government Accounts

We undertook our work on the Whole of Government Accounts consolidation pack as prescribed by the National Audit Office. The audited pack was submitted on 30 September 2015. We found no areas of concern to report in this context.

Certification of Claims and Returns

We presented our most recent Annual Certification Report for 2013/14 to those charged with governance in January 2015. We certified one claim worth £31.7 million. A qualification letter was required to set out the issues arising from the certification of the claim. We will issue the Annual Certification Report for 2014/15 in January 2016.

Final Fees

Final Fees for 2014/15

We reported our fee proposals in our audit plan.

We are currently in the process of agreeing the fee over and above the scale element with Public Sector Audit Appointments Limited (PSAA) and will report the final position in due course.

Our fees charged were therefore:

	2014/15 outturn	2014/15 fee proposal	2013/14 final outturn
Audit work performed under the Code of Audit Practice			
- Statement of Accounts			
- Conclusion on the ability of the organisation to secure proper arrangements for the economy, efficiency and effectiveness in its use of resources	*	72,150	74,466
- Whole of Government Accounts			
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Certification of Claims and Returns	**	35,480	35,187
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Non Audit Work	-	-	-
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TOTAL		107,630	109,653

*Note our fee for the audit of the statement of accounts has not been finalised. We are currently in the process of agreeing this with the Authority and PSAA and will report the final position in due course.

**Our fee for certification of claims and returns is yet to be finalised for 2014/15 and will be reported to those charged with governance in March 2016 within the 2014/15 Annual Certification Report.



In the event that, pursuant to a request which North Norfolk District Council has received under the Freedom of Information Act 2000, it is required to disclose any information contained in this report, it will notify PwC promptly and consult with PwC prior to disclosing such report. North Norfolk District Council agrees to pay due regard to any representations which PwC may make in connection with such disclosure and North Norfolk District Council shall apply any relevant exemptions which may exist under the Act to such report. If, following consultation with PwC, North Norfolk District Council discloses this report or any part thereof, it shall ensure that any disclaimer which PwC has included or may subsequently wish to include in the information is reproduced in full in any copies disclosed.

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