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North Norfolk District Council

Report to those charged with governance

Report to the Audit Committee of the authority on the audit for the year ended 31 March 2015 *(ISA (UK&I)) 260)*

Government and Public Sector

September 2015

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.

Contents

Executive summary	***2***
Audit approach	***3***
Significant audit and accounting matters	***7***
Internal controls	***14***
Risk of fraud	***17***
Fees update	***19***
Appendices	***20***
Appendix 1: Summary of uncorrected misstatements	***21***
Appendix 2: Summary of corrected misstatements	***23***
Appendix 3: Letter of representation	***24***

An audit of the Statement of Accounts is not designed to identify all matters that may be relevant to those charged with governance. Accordingly, the audit does not ordinarily identify all such matters. We have issued a number of reports during the audit year, detailing the findings from our work and making recommendations for improvement, where appropriate.

Executive summary

Background

This report tells you about the significant findings from our audit. Since we presented our plan to you in March 2015 we issued an updated plan in June to include a change in engagement leader from Harriet Aldridge to Anna Blackman. In addition we have amended our risk assessment to upgrade the risk related to the valuation of Property, Plant and Equipment from elevated to significant. Further detail is included in our Audit Approach section.

Audit Summary

Following our discussions with the Audit Committee on 15 September 2015, we can confirm we completed our audit work and issued an unqualified audit opinion on the Statement of Accounts on 30 September 2015.

At the Audit Committee on 15 September, we drew your attention to the four key judgements outlined on page 10 and the unadjusted misstatements detailed in Appendix 1. We also discussed with you the status of our work relating to the valuation of the Council's property, plant and equipment. At the Audit Committee meeting we highlighted that the key outstanding area of work was for us to consider the Council's assessment of the fair value of the assets not subject to revaluation during 2014/15, which had not been provided to us at the time of the Audit Committee. Following the Audit Committee, the Council undertook a desktop review of the assets not subject to revaluation which indicated these assets were understated by approximately £0.2m. This has been included as an additional unadjusted item in Appendix 1 and it has been confirmed to us that this was highlighted to Full Council on 23 September 2015, prior to the approval of the Statement of Accounts.

Please note that this report will be sent to the Public Sector Audit Appointments Limited in accordance with the requirements of its standing guidance.

Audit approach

Our audit approach was set in our audit plan which we presented to you in March 2015.

We have summarised below the significant risks we identified in our audit plan, the audit approach we took to address each risk and the outcome of our work.

Risk	Categorisation	Audit approach	Results of work performed
Management override of controls ISA (UK&I) 240 requires that we plan our audit work to consider the risk of fraud, which is presumed to be a significant risk in any audit. In every organisation, management may be in a position to override the routine day to day financial controls. Accordingly, for all of our audits, we consider this risk and adapt our audit procedures accordingly.	Significant	As part of our assessment of your control environment we considered those areas where management could use discretion outside of the financial controls in place to misstate the financial statements. We have performed procedures to: • Review the appropriateness of accounting policies and estimation bases, focusing on any changes not driven by amendments to reporting standards; • Test the appropriateness of journal entries and other year-end adjustments, targeting higher risk items such as those that affect the reported deficit/surplus; • Reviewed accounting estimates for bias and evaluated whether judgment and estimates used are reasonable (for example pension scheme assumptions, valuation and impairment assumptions); • Evaluated the business rationale underlying significant transactions outside the normal course of business; and • Performed unpredictable procedures targeted on fraud risks.	Our procedures did not identify any evidence of management overriding controls at the Council. Our work identified that journals below £100,000 are not subject to a review process and we have raised a recommendation to relation to this in the Internal Controls Section of this report.

Risk	Categorisation	Audit approach	Results of work performed
Risk of fraud in revenue and expenditure recognition Under ISA (UK&I) 240 there is a presumption that there are risks of fraud in revenue recognition. We extend this presumption to the recognition of expenditure in local government.	Significant	We have obtained an understanding of revenue and expenditure controls. We evaluated and tested the accounting policy for income and expenditure recognition to ensure that this is consistent with the requirements of the Code of Practice on Local Authority Accounting. We also performed detailed testing to high assurance of revenue and expenditure transactions which occurred within the last three months of the financial year end, and the first three months of the new financial year. In addition, we have considered the existence of complex supplier contracts and estimates in relation to accrued and deferred income and bad debt provisions.	**Expenditure Testing** In our expenditure testing we identified two transactions relating to 2014/15 that had been incorrectly included as expenditure in 2015/16 and had not been accrued as at 31 March 2015. Management have agreed to adjust these errors in the financial statements and this has been included in Appendix 2. **Revenue Testing** Two exceptions were noted in our testing of revenue recognition. In one case income received in 2014/15 but relating to 2015/16 had been erroneously included in 2014/15. In the second case income received in 2015/16 relating to 2014/15 had been erroneously included in 2015/16. These exceptions were below our SUM level of £50,000 and therefore do not require adjustment. We have assessed the errors identified as a result of our testing and concluded that they are not as a result of fraud in relation to expenditure and revenue recognition or material misstatement of the accounts, however we have raised a control weakness in the Internal Controls section of this report.

Property, Plant and Equipment: Valuation Property, Plant and Equipment is the largest figure on your balance sheet. Economic conditions continue to be uncertain, which has a potential impact on the valuation of property, plant and equipment. The Authority is required to assess the carrying value of assets every year. **Updated risk assessment** Following the completion of our planning procedures, this risk was upgraded from elevated to significant. This was following a recent reassessment of our risks and reflects that property, plant and equipment represents the largest balance on the balance sheet, and that even a slight fluctuation could result in a material misstatement.	Significant	Property, plant and equipment (PPE) represents the largest balance in the Authority's balance sheet. The Authority measures its properties at fair value involving a range of assumptions and the use of external valuation expertise. ISAs (UK&I) 500 and 540 require us, respectively, to undertake certain procedures on the use of external expert valuers and processes and assumptions underlying fair value estimates. Specific areas of risk include: • The accuracy and completeness of detailed information on assets; • Whether the Authority's assumptions underlying the classification of properties are appropriate; • Whether properties that are not programmed to be revalued in the year might have undergone material changes in their fair value; and • The valuer's methodology, assumptions and underlying data, and our access to these. Where assets are not formally re-valued in year, we reviewed the Authority's impairment assessment, and we used indices to assess the appropriateness of the year end values. We requested that management perform an assessment of all significant assets not revalued in 2014/15, to determine whether values had moved significantly to 31 March 2015. Where asset valuations are undertaken in-year we have: • Agreed the source data used by the Authority's valuer to supporting records, this involved reviewing the gross internal areas (GIAs) used by the valuers, and physically verified that these assets exist and are in use;	We have concluded our work on the Council's valuation of its property, plant and equipment and determined the valuation is materially correct. We have however identified three issues which have resulted in unadjusted misstatements: • Our physical verification of asset GIAs identified that three out of six public conveniences had an inaccurate GIA recorded on the valuers' system. • The Council has undertaken a desktop review of all significant assets not subject to revaluation this year (following challenge from the audit team on the fair value of these assets) and concluded these assets are understated by £0.2m. • The pathfinder grant has been recognised as a gain on disposal of an asset (as a credit to operating expenses) but would be more appropriately recognised under grant income. The value of this grant is £0.1m and is a classification error only. Further detail is included on page 9 and in Appendix 1. We are content that these unadjusted misstatements do not materially impact the valuation of the property, plant and equipment. We have also included control recommendations on page 14.

Risk	Categorisation	Audit approach	Results of work performed
		• Assessed the work of the Authority's valuer through use of our own internal specialists where required; and • Agreed the outputs to the Authority's Fixed Asset Register and accounts.	

Intelligent scoping

In our audit plan presented to you in March 2015 we reported our planned overall materiality which we used in planning the overall audit strategy. Our materiality level in the plan was based on the Authority's audited expenditure in 2013/14. Our actual materiality level was different to the amount reported in our plan because the Authority's actual expenditure in 2014/15 was lower than in 2013/14. This had no effect on our testing strategy.

Our revised materiality levels are as follows:

	£
Overall materiality	1,035,000
Clearly trivial reporting de minimis	50,000

Overall materiality has been set at 2% of actual expenditure for the year ended 31 March 2015.

ISA (UK&I) 450 (revised) requires that we record all misstatements identified except those which are "clearly trivial" i.e. those which we do expect not to have a material effect on the financial statements even if accumulated. We agreed the de minimis threshold with the Audit Committee at its meeting in March 2015.

Significant audit and accounting matters

Auditing Standards require us to tell you about relevant matters relating to the audit of the Statement of Accounts sufficiently promptly to enable you to take appropriate action.

Accounts

We have completed our audit and issued an unqualified opinion on 30 September 2015.

As part of our work on the Statement of Accounts we have reported to the NAO in line with their requirements which was to provide details of the outcome of our audit (i.e. that the opinion was unqualified) but we were not required to issue an opinion on the WGA schedules prepared by the Council.

Accounting issues

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 has been 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 have been raised in Appendix 2 as adjusted misstatements (relating to disclosures). This has also been raised as a control weakness on page 14low.

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 on page 5 outlines the audit risk associated with this balance and the audit procedures we have 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 the unadjusted misstatements outlined in Appendix 1.

- **Gross internal areas:** The Authority values its assets which are based on market or replacement cost values to 1 April rather than 31 March. This has been raised as an internal control weakness on page 14. 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:** Secondly, 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 as outlined in Appendix 1.

- 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. An unadjusted misstatement is included in Appendix 1 for this grant.

Misstatements and significant audit adjustments

We have to tell you about all uncorrected misstatements we found during the audit, other than those which are trivial. These are outlined in Appendix 1.

We also bring to your attention the misstatements set out in Appendix 2 to this report which have been corrected by management but which we consider you should be aware of in fulfilling your governance responsibilities.

Significant accounting principles and policies

Significant accounting principles and policies are disclosed in the notes to the Statement of Accounts. We have asked management to represent to us that the selection of, or changes in, significant accounting policies and practices that have, or could have, a material effect on the Statement of Accounts have been considered. Policies and their application are considered appropriate.

Judgments and accounting estimates

The Authority is required to prepare its financial statements in accordance with the CIPFA Code. Nevertheless, there are still many areas where management need to apply judgement to the recognition and measurement of items in the financial statements. The following significant judgements and accounting estimates were used in the preparation of the financial statements:

Property, Plant and Equipment – Depreciation and Valuation: the Authority charges depreciation based on an estimate of the Useful Economic Lives (UELs) of assets for the majority of its Property, Plant and Equipment (PPE). The total depreciation charge in 2014/15 was £1.9 million (2013/14 £2 million). The Authority also values its PPE in accordance with its accounting policies to ensure that the carrying value is true and fair. This involves judgement and reliance on the internal valuer who is charged with revaluing certain classes of assets annually based on a range of assumptions.

Accruals: The Authority raises accruals for expenditure incurred where an invoice has not been raised or received at year end, but where it knows there is a liability to be met which relates to the current year. This involves a degree of estimation as in some cases where invoices have not been received the exact amount due may not yet be known. Accruals are not disclosed separately within the statement of accounts but are shown within the payables balance. We did not identify any material misstatements as a result of our work however, we have raised a control weakness in relation to the recognition of expenditure.

Pensions: As above, the Authority relies on the work of an actuary in calculating these balances, which involves estimation. The net pension surplus/liability at 31 March 2015 was £39 million.

Bad Debt Provision: The Authority provides for all debts that have been outstanding for more than one year. Further judgement is used to make additional provisions for riskier debts which are not deemed to be collectable. The bad debt provision in 2014/15 for the General Fund was £0.83 million (2013/14 £0.79 million). We have reviewed the bad debt provision and concluded it is reasonable.

NNDR Provision for Appeals: The Authority provides for appeals to change the business rates paid. The Authority has calculated the provision amount based on historic data on the percentage success of claims and the percentage reduction of these successful claims multiplied by the rateable value for the year. The value for the current year is £0.8 million (2013/14 £0.4 million). We have reviewed the methodology for the calculation of the provision for appeals and concluded it is reasonable.

Management representations

The representation letter that we asked management to sign is attached in Appendix 3. This includes a list of related parties which Management and the Audit Committee must be satisfied is complete.

Audit independence

We are required to follow both the International Standard on Auditing (UK and Ireland) 260 (Revised) "Communication with those charged with governance", UK Ethical Standard 1 (Revised) "Integrity, objectivity and independence" and UK Ethical Standard 5 (Revised) "Non-audit services provided to audited entities" issued by the UK Auditing Practices Board.

Together these require that we tell you at least annually about all relationships between PricewaterhouseCoopers LLP in the UK and other PricewaterhouseCoopers' firms and associated entities ("PwC") and the Authority that, in our professional judgement, may reasonably be thought to bear on our independence and objectivity.

Relationships between PwC and the Authority

We are not aware of any relationships that, in our professional judgement, may reasonably be thought to bear on our independence and objectivity and which represent matters that have occurred during the financial year on which we are to report or up to the date of this document.

Relationships and Investments

We have not identified any potential issues in respect of personal relationships with the Authority or investments in the Authority held by individuals.

Employment of PricewaterhouseCoopers staff by the Authority

We are not aware of any former PwC partners or staff being employed, or holding discussions in respect of employment, by the Authority as a director or in a senior management position covering financial, accounting or control related areas.

Business relationships

We have not identified any business relationships between PwC and the Authority.

Services provided to the Authority

The audit of the Statement of Accounts is undertaken in accordance with the UK Firm's internal policies. The audit is also subject to other internal PwC quality control procedures such as peer reviews by other offices.

Fees

The analysis of our audit fees for the year ended 31 March 2015 is included below. We did not provide any non-audit services during the year.

Services to Directors and Senior Management

PwC does not provide any services e.g. personal tax services, directly to directors, senior management.

Rotation

It is Public Sector Audit Appointments Limited's[1] policy that engagement leaders at an audited body at which a full Code audit is required to be carried out should act for an initial period of five years. Public Sector Audit Appointments Limited's view is that generally the range of regulatory safeguards it applies within its audit regime is sufficient to reduce any threats to independence that may otherwise arise at the end of this period to an acceptable level. Therefore, to safeguard audit quality, and in accordance with APB Ethical Standard 3, it will subsequently approve engagement leaders for an additional period of up to no more than two years, provided that there are no considerations that compromise, or could be perceived to compromise, the auditor's independence or objectivity.

Gifts and hospitality

We have not identified any significant gifts or hospitality provided to, or received from, a member of Authority's Executive Team, senior management or staff.

Conclusion

We hereby confirm that in our professional judgement, as at the date of this document:

- we comply with UK regulatory and professional requirements, including the Ethical Standards issued by the Auditing Practices Board; and
- our objectivity is not compromised.

We asked the Audit Committee to consider the matters in this document on 15 September and it was confirmed that they agreed with our conclusion on our independence and objectivity.

[1] On the 31 March 2015 the Audit Commission was abolished and contracts were novated from the Audit Commission through to Public Sector Audit Appointments Limited.

Annual Governance Statement

Local Authorities are required to produce an Annual Governance Statement (AGS), which is consistent with guidance issued by CIPFA / SOLACE: "Delivering Good Governance in Local Government". The AGS was included in the Statement of Accounts.

We reviewed the AGS to consider whether it complied with the CIPFA / SOLACE "Delivering Good Governance in Local Government" framework and whether it is misleading or inconsistent with other information known to us from our audit work. We found no areas of concern to report in this context.

Economy, efficiency and effectiveness

Our value for money code responsibility requires us to carry out sufficient and relevant work in order to conclude on whether the Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in the use of resources.

Public Sector Audit Appointments Limited guidance includes 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 determine a local programme of audit work based on our audit risk assessment, informed by these criteria and our statutory responsibilities.

We have issued an unqualified value for money opinion.

Internal controls

Accounting systems and systems of internal control

Management are responsible for developing and implementing systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. As auditors, we review these arrangements for the purposes of our audit of the Statement of Accounts and our review of the annual governance statement.

The significant matters that we wish to bring to your attention are set out below.

Reporting requirements

We have to report to you any deficiencies in internal control that we found during the audit which we believe should be brought to your attention. No significant internal control deficiencies were identified. However, we are reporting other control deficiencies below which we consider you should be aware of.

Summary of internal control deficiencies

Deficiency	Recommendation
The Authority does not hold a full list of related parties, as required by CIPFA. - Declaration forms only require Councillors to disclose interests in other organisations which they or their close family have where they are aware that these have transacted with the Authority. However, CIPFA code of practice states that related parties should be declared regardless of whether there have been any transactions. - The Authority has been unable to obtain declaration forms for two Councillors who did not return following the election.	We recommend the Authority: - Provide training and/or guidance to Councillors on what constitutes a related party and the importance of completing declaration forms in full. - Revise the declaration form to require the disclosure of all organisations with which the Councillor has involvement, and not just those where the Councillor is aware there have been transactions with the Authority in the financial year. - Revise the declaration form to include the interests of close family members. - Obtain declaration forms from Councillors on a regular basis throughout the year.
The audit trail for the NNDR appeals provision was insufficient. The NNDR provision was calculated using data obtained from the Valuation Office Agency website. However, the data used could not be made available to PwC, and neither could the methods used to calculate the provision from the data.	The Authority should maintain a full audit trail to support all key figures in the Statement of Accounts.

Assets revaluations are a year out of date. Assets are revalued as at the start (rather than the end) of the financial year (i.e. as at 1 April 20xx-1 rather than as at 31 March 20xx). Where there is significant movement in property values in the financial year, this could have a significant impact on the accounts.	It is recommended that assets are revalued as at the end of the financial year to enable an accurate reflection of the valuation to be held on the Balance Sheet date. This has been raised as an uncorrected misstatement in Appendix 1.
Public convenience GIAs recorded and used in asset valuations are not all accurate. Six public convenience GIAs were independently measured by us. In three out of three cases we identified that the GIAs recorded by the internal valuer were inaccurate.	It is recommended that assets are re-measured to ensure that GIAs used in revaluations are accurate.
Consistent issues have been noted in relation to cut off. A misstatement of two invoices totalling £547k was noted in relation to accounts payable cut off, identified through our testing. An exception of £5k was also noted in relation to accounts receivable cut off, and a further exception of £175 was noted in relation to revenue cut off. Similar cut off issues were also identified in the prior year, with a corrected misstatement of £194k. Cut off is a consistent problem area for the Authority which should be addressed.	Training on the importance of cut off would help address some of the errors made by staff. We would also recommend increased scrutiny from management of transactions input around year end, for instance by spot-checking.
The Fixed Asset Register needs to be updated to amend prior year differences. There is a £62k variance on Other Land and Buildings and a £28k variance on Surplus Assets between the Fixed Asset Register and the accounts. This is because the Fixed Asset Register has not been fully kept up to date while the responsible individual was on sickness absence.	It is recommended that a second individual be given responsibility for maintaining the Fixed Asset Register when the primary responsible individual is away. It is recommended that historic variances be updated in the Fixed Asset Register.

The Authority do not independently check the income figures received from Victory Housing Association through the Property Right to Buy Scheme. The Authority sold its housing stock to Victory Housing Association prior to 2014/15. There is an agreement in place that when Victory sell one of these properties on through the right to buy scheme, the Authority receives a portion of that income. Victory pay over this income to the Authority but the Authority do not perform their own checks that the income received from Victory is correct and agrees with what is believed to be due to the Authority.	It is recommended that the Authority perform independent checks on the income received from Victory Housing Authority in relation to properties sold through the right to buy scheme, to ensure that they are receiving the correct amount of income.
Manual journals below £100k are not reviewed. Manual journals which are smaller in value than £100k are not required to be subject to review from a second or more senior staff member.	It is recommended that spot checking of journals under the value of £100k is undertaken by senior staff, to reduce the risk of inappropriate journals being processed.

We will agree management responses for these recommendations as part of our work to prepare the Annual Audit Letter which will be presented to the Audit Committee later in the year.

Risk of fraud

International Standards on Auditing (UK&I) state that we, as auditors, are responsible for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. The respective responsibilities of auditors, management and those charged with governance are summarised below:

Auditors' responsibility

Our objectives are:

- to identify and assess the risks of material misstatement of the financial statements due to fraud;
- to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and
- to respond appropriately to fraud or suspected fraud identified during the audit.

Management's responsibility

Management's responsibilities in relation to fraud are:

- to design and implement programmes and controls to prevent, deter and detect fraud;
- to ensure that the entity's culture and environment promote ethical behaviour; and
- to perform a risk assessment that specifically includes the risk of fraud addressing incentives and pressures, opportunities, and attitudes and rationalisation.

Responsibility of the Audit Committee

Your responsibility as part of your governance role is:

- to evaluate management's identification of fraud risk, implementation of anti-fraud measures and creation of appropriate "tone at the top"; and
- to investigate any alleged or suspected instances of fraud brought to your attention.

Your views on fraud

In our audit plan presented to the Audit Committee in March 2015 we enquired:

- Whether you have knowledge of fraud, either actual, suspected or alleged, including those involving management?
- What fraud detection or prevention measures (e.g. whistle-blower lines) are in place in the entity?
- What role you have in relation to fraud?

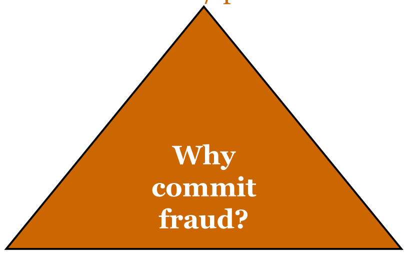
- What protocols / procedures have been established between those charged with governance and management to keep you informed of instances of fraud, either actual, suspected or alleged?

In presenting this report to you on 15 September 2015 we asked for your confirmation that there have been no changes to your view of fraud risk and that no additional matters have arisen that should be brought to our attention. You confirmed there were no changes and no additional mattes to report. A specific confirmation from management in relation to fraud is included in the letter of representation.

Conditions under which fraud may occur

Management or other employees have an incentive or are under pressure

Incentive / pressure



Opportunity	Rationalisation/attitude
Circumstances exist that provide opportunity – ineffective or absent control, or management ability to override controls	Culture or environment enables management to rationalise committing fraud – attitude or values of those involved, or pressure that enables them to rationalise committing a dishonest act

Fees update

Fees update for 2014/15

We reported our fee proposals in our plan.

Our fees charged were therefore:

	2014/15 forecast outturn	2014/15 fee proposal
Statement of Accounts (including whole of government accounts and value for money conclusion)	TBC	72,150
Grants and Certification Fee	TBC	35,480
TOTAL	**TBC**	**107,630**

We will discuss our final audit fee with the Council in due course. Any changes to the fee proposal will be communicated to the Audit Committee in our Annual Audit Letter.

Appendices

Appendix 1: Summary of uncorrected misstatements

We found the following misstatements during the audit that have not been adjusted by management. We requested that you formally consider these and you determined that you were content for the accounts not to be amended. As the misstatements were not adjusted, we required written representation from you explaining your reasons for not making the adjustments. The triviality level agreed with the Audit Committee in March 2015 was £50,000.

Adjustment 1: An adjustment below is proposed to bring the asset valuations of significant assets last revalued prior to 2014/15, and public conveniences valued as at 1 April 2014, to their estimated values as at 31 March 2015. See page 9 for detailed information.

Adjustment 2: An adjustment below is proposed to recognise the pathfinder grant income under grant income rather than under gain on disposal of an asset. Gains on disposals of assets are shown as credits to operating expenses so this is adjusted by debiting operating expenses. See page 9 for detailed information.

No	Description of misstatement (factual, judgemental, projected)		Income statement		Balance sheet	
			Dr	**Cr**	**Dr**	**Cr**
1	Dr revaluation reserve	J			242	
	Cr property, plant and equipment					242
	Being an adjustment to bring the valuations of significant assets revalued in past years and the public conveniences revalued as at 1 April 2014 to their estimated values as at 31 March 2015.					
2	Dr operating expenses	F	133	133		
	Cr grant income					
Total uncorrected misstatements			**133**	**-133**	**242**	**242**

Disclosure

The following disclosure was identified through the audit and not updated by management:

- Leases Note: the balance for “operating leases later than five years” has been altered from £474k to £301k. The difference of £172k was due to an error made when copying the value from the working papers to the draft accounts.

Appendix 2: Summary of corrected misstatements

We are required to report to you the following misstatements identified during the audit that have been adjusted by management.

No	Description of misstatement (factual, judgemental, projected)		Income statement		Balance sheet	
			Dr	Cr	Dr	Cr
1	Dr property, plant and equipment Cr accounts payable Being an adjustment to include expenses relating to 2014/15 in the financial year 2014/15. These expenses related to coastal defences at Cromer. Please note that as the Authority receives grant income which should be offset against capital expenditure on coastal defences as it is incurred, this adjustment will also impact on grant income in the Comprehensive Income and Expenditure Statement.	F			547	547
Total uncorrected misstatements			**0**	**0**	**547**	**547**

Disclosure

The following disclosure was updated by management as a result of the audit:

- Related Parties Note: the note initially stated that "*during 2014/15, works and services to the value of £382,748 were commissioned from companies in which three members had an interest. Contracts were entered into in full compliance with the Authority's standing orders. In addition, the Authority paid grants totalling £21,405 to voluntary organisations in which two members had declared an interest*." Following audit work which identified additional related parties, this has been updated to say £407,681 and 17 members for works and services, and £52,905 and eight members for grants.

Appendix 3: Letter of representation

PricewaterhouseCoopers LLP
Savannah House
3 Ocean Way
Ocean Village
Southampton
SO14 3TJ

Dear Sirs

Representation letter – audit of North Norfolk District Council's (the Authority) Statement of Accounts for the year ended 31 March 2015

Your audit is conducted for the purpose of expressing an opinion as to whether the Statement of Accounts of the Authority give a true and fair view of the affairs of the Authority as at 31 March 2015 and of its surplus and cash flows for the year then ended and have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 supported by the Service Reporting Code of Practice 2014/15.

I acknowledge my responsibilities as Chief Financial Officer for preparing the Statement of Accounts as set out in the Statement of Responsibilities for the Statement of Accounts. I also acknowledge my responsibility for the administration of the financial affairs of the authority and that I am responsible for making accurate representations to you.

I confirm that the following representations are made on the basis of enquiries of other chief officers and members of the Authority with relevant knowledge and experience and, where appropriate, of inspection of supporting documentation sufficient to satisfy myself that I can properly make each of the following representations to you.

I confirm, to the best of my knowledge and belief, and having made the appropriate enquiries, the following representations:

Statement of Accounts

- I have fulfilled my responsibilities for the preparation of the Statement of Accounts in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 supported by the Service Reporting Code of Practice 2014/15; in particular the Statement of Accounts give a true and fair view in accordance therewith.

- All transactions have been recorded in the accounting records and are reflected in the Statement of Accounts.

- Significant assumptions used by the Authority in making accounting estimates, including those surrounding measurement at fair value, are reasonable.

- All events subsequent to the date of the Statement of Accounts for which the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 requires adjustment or disclosure have been adjusted or disclosed.

- The effects of uncorrected misstatements are immaterial, both individually and in the aggregate, to the Statement of Accounts as a whole. A list of the uncorrected misstatements, grouped by category, is included in Schedule 1, attached to this letter.

Information Provided

- I have taken all the steps that I ought to have taken in order to make myself aware of any relevant audit information and to establish that you, the authority's auditors, are aware of that information.

- I have provided you with:
  - access to all information of which I am aware that is relevant to the preparation of the Statement of Accounts such as records, documentation and other matters, including minutes of the Authority and its committees, and relevant management meetings;
  - additional information that you have requested from us for the purpose of the audit; and
  - unrestricted access to persons within the Authority from whom you determined it necessary to obtain audit evidence.

- So far as I am aware, there is no relevant audit information of which you are unaware.

Accounting policies

I confirm that I have reviewed the Authority’s accounting policies and estimation techniques and, having regard to the possible alternative policies and techniques, the accounting policies and estimation techniques selected for use in the preparation of Statement of Accounts are appropriate to give a true and fair view for the authority's particular circumstances.

Fraud and non-compliance with laws and regulations

I acknowledge responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

I have disclosed to you:

- the results of our assessment of the risk that the Statement of Accounts may be materially misstated as a result of fraud.
- all information in relation to fraud or suspected fraud that we are aware of and that affects the Authority and involves:
  - management;
  - employees who have significant roles in internal control; or
  - others where the fraud could have a material effect on the Statement of Accounts.

- all information in relation to allegations of fraud, or suspected fraud, affecting the Authority's Statement of Accounts communicated by employees, former employees, analysts, regulators or others.

- all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the Statement of Accounts.

I am not aware of any instances of actual or potential breaches of or non-compliance with laws and regulations which provide a legal framework within which the Authority conducts its business and which are central to the authority's ability to conduct its business or that could have a material effect on the Statement of Accounts.

I am not aware of any irregularities, or allegations of irregularities including fraud, involving members, management or employees who have a significant role in the accounting and internal control systems, or that could have a material effect on the Statement of Accounts.

Related party transactions

I confirm that the attached Schedule 2 to this letter is a complete list of the Authority's related parties. All transfer of resources, services or obligations between the Authority and these parties have been disclosed to you, regardless of whether a price is charged. We are unaware of any other related parties, or transactions between disclosed related parties.

Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of Section 3.9 of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

We confirm that we have identified to you all senior officers, as defined by the Accounts and Audit Regulations 2011, and included their remuneration in the disclosures of senior officer remuneration.

Employee Benefits

I confirm that we have made you aware of all employee benefit schemes in which employees of the authority participate.

Contractual arrangements/agreements

All contractual arrangements (including side-letters to agreements) entered into by the Authority have been properly reflected in the accounting records or, where material (or potentially material) to the statement of accounts, have been disclosed to you.

Litigation and claims

I have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the statement of accounts and such matters have been appropriately accounted for and disclosed in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

Taxation

I have complied with UK taxation requirements and have brought to account all liabilities for taxation due to the relevant tax authorities whether in respect of any direct tax or any indirect taxes. I am not aware of any non-compliance that would give rise to additional liabilities by way of penalty or interest and I have made full disclosure regarding any Revenue Authority queries or investigations that we are aware of or that are ongoing.

In particular:

- In connection with any tax accounting requirements, I am satisfied that our systems are capable of identifying all material tax liabilities and transactions subject to tax and have maintained all documents and records required to be kept by the relevant tax authorities in accordance with UK law or in accordance with any agreement reached with such authorities.
- I have submitted all returns and made all payments that were required to be made (within the relevant time limits) to the relevant tax authorities including any return requiring us to disclose any tax planning transactions that have been undertaken for the authority's benefit or any other party's benefit.
- I am not aware of any taxation, penalties or interest that are yet to be assessed relating to either the authority or any associated company for whose taxation liabilities the authority may be responsible.

Bank accounts

I confirm that I have disclosed all bank accounts to you.

Subsequent events

There have been no circumstances or events subsequent to the period end which require adjustment of or disclosure in the statement of accounts or in the notes thereto.

Using the work of experts

I agree with the findings of our Internal Valuer, expert in evaluating the value of our non-current assets and have adequately considered the competence and capabilities of the experts in determining the amounts and disclosures used in the preparation of the Statement of Accounts and underlying accounting records. The Authority did not give or cause any instructions to be given to experts with respect to the values or amounts derived in an attempt to bias their work, and I am not otherwise aware of any matters that have had an impact on the objectivity of the experts.

Assets and liabilities

- The Authority has no plans or intentions that may materially alter the carrying value and where relevant the fair value measurements or classification of assets and liabilities reflected in the Statement of Accounts.
- In my opinion, on realisation in the ordinary course of the business the current assets in the balance sheet are expected to produce no less than the net book amounts at which they are stated.
- The Authority has no plans or intentions that will result in any excess or obsolete inventory, and no inventory is stated at an amount in excess of net realisable value.
- The Authority has satisfactory title to all assets and there are no liens or encumbrances on the Authority's assets, except for those that are disclosed in the Statement of Accounts.
- I confirm that we have carried out impairment reviews appropriately, including an assessment of when such reviews are required, where they are not mandatory. I confirm that we have used the appropriate assumptions with those reviews.
- Details of all financial instruments, including derivatives, entered into during the year have been made available to you. Any such instruments open at the year-end have been properly valued and that valuation incorporated into the statement of accounts. When appropriate, open positions in off-balance sheet financial instruments have also been properly disclosed in the Statement of Accounts.
- Regarding the revaluation of land and buildings, an accounting estimate that was recognised in the Statement of Accounts:
    - We used appropriate measurement processes, including related assumptions and models, in determining the accounting estimate in the context of the CIPFA Code of Practice on Local Authority Accounting 2014/15. Measurement processes were consistently applied from year to year.
    - The assumptions appropriately reflect our intent and ability to carry out specific courses of action on behalf of the District Council, where relevant to the accounting estimates and disclosures.
    - Disclosures related to accounting estimates are complete and appropriate under the CIPFA Code of Practice on Local Authority Accounting 2014/15.
- No subsequent event requires adjustment to the accounting estimates and disclosures included in the financial statements.

Retirement benefits

- All retirement benefits that the Authority is committed to providing, including any arrangements that are statutory, contractual or implicit in the Authority's actions, wherever they arise, whether funded or unfunded, approved or unapproved, have been identified and properly accounted for and/or disclosed.
- All settlements and curtailments in respect of retirement benefit schemes have been identified and properly accounted for.
- The following actuarial assumptions underlying the valuation of retirement benefit scheme liabilities are consistent with my knowledge of the business and in my view would lead to the best estimate of the future cash flows that will arise under the scheme liabilities:

Pension Increase Rate	2.4%	
Salary Increase Rate	3.3%	
Discount Rate	3.2%	
Average future life expectancies at age 65		
	Men	**Women**
Current pensioners	22.1	24.3
Future pensioners	24.5	26.9

Items specific to Local Government

- I confirm that the Authority does not have plans to implement any redundancy/early retirement programmes for which we should have made provision in the Statement of Accounts.
- I confirm that the Authority has determined a proper application of the statutory provisions for the neutralisation of the impact of Single Status provisions on the General Fund balance.
- I confirm that the Authority has determined a proper application of the statutory provisions for the treatment of leases that have changed status on transition to IFRS.
- I confirm that the Authority has determined a proper application of the statutory provisions for the neutralisation of the impact of accumulating compensated absences on the General Fund balance.

....

Chief Financial Officer

For and on behalf of North Norfolk District Council

Date ....

Schedule 1 – Unadjusted misstatements

No	Description of misstatement (factual, judgemental, projected)		Income statement £k		Balance sheet £k	
			Dr	Cr	Dr	Cr
1	Reserves Property, plant and equipment	J			242	242
2	Grant income Operating expenses	P	133	133		
Total uncorrected misstatements			**133**	**133**	**242**	**242**

Disclosure

Note 25, Leases: in the Authority as Lessor section, under "The future minimum lease payments receivable under non-cancellable leases in future years", the balance for "operating leases later than five years" should read £301k not £474k.

The difference of £172k was due to an error made when copying the value from the working papers to the draft accounts. This was agreed with management but has not been corrected in the final version of the accounts.

Schedule 2 – List of Related Parties

Arts Council	Griffon Area Partnership
Big Lottery	HM Revenue and Customs
Broads Authority	Kings Lynn and West Norfolk Borough Council
Broads Internal Drainage Board	Local Authority Mutual Investment Fund
Cabinet Office	Local Government Pension Scheme
Community Rail, Norfolk	Merchants Place, Cromer
Cromer Hall Estate and Farms	Natural England
CT Baker Building Merchants	Norfolk Citizens Advice Bureau
Department for Communities and Local Government	Norfolk County Council
Department for Environment, Food and Rural Affairs	Norfolk Police and Crime Commissioner and Chief Constable
Department for Work and Pensions	Norfolk Rivers Internal Drainage Board
Department of Energy and Climate Change	North Norfolk Business Forum
Dereham, Watton and Holt Citizens Advice Bureau	North Norfolk Community Transport Association
Environment Agency	Sport England
Food Standards Agency	Victory Housing Trust
Forestry Commission	Wells Maltings Trust

Parish Councils

Alby with Thwaite	Hickling	Scottow
Aldborough and Thurgarton	High Kelling	Sculthorpe
Antingham	Hindolveston	Sea Palling
Ashmanhaugh	Hindringham	Sheringham
Aylmerton	Holkham	Sidestrand
Baconsthorpe	Holt	Skeyton
Bacton	Honing	Sloley
Barsham	Horning	Smallburgh
Barton Turf	Horsey	Southrepps
Beckham East/West	Hoveton	Stalham
Beeston Regis	Ingham	Stibbard
Binham	Ingworth	Stiffkey
Blakeney	Itteringham	Stody
Bodham	Kelling	Suffield
Brinton	Kettlestone	Sustead
Briston	Knapton	Sutton
Catfield	Langham	Swafield
Cley	Lessingham	Swanton Abbott
Colby	Letheringsett with Glandford	Swanton Novers
Corpusty and Saxthorpe	Little Barningham	Tattersett
Cromer	Little Snoring	Thornage
Dilham	Ludham	Thorpe Market
East Ruston	Matlaske	Thursford
Edgefield	Melton Constable	Trimingham
Erpingham	Morston	Trunch
Fakenham	Mundesley	Tunstead
Felbrigg	Neatishead	Upper Sheringham
Felmingham	North Walsham	Walcott
Field Dalling	Northrepps	Walsingham
Fulmodeston	Overstrand	Warham
Gimingham	Paston	Wells-next-the-Sea
Great Snoring	Plumstead	Weybourne
Gresham	Potter Heigham	Wickmere
Gunthorpe	Pudding Norton	Wighton
Hanworth	Raynham	Witton
Happisburgh	Roughton	Wiveton

Helhoughton	Runton	Wood Norton
Hempstead	Ryburgh	Worstead
Hempton	Salthouse	

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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