



**North Norfolk District
Council**

Audit Results Report

Year ended 31 March 2020

18 March 2022



EY

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Governance, Risk and Audit Committee
North Norfolk District Council

18 March 2022

Dear Governance, Risk and Audit Committee Members

Audit Results Report - 2019/20

We are pleased to attach our Audit Results Report for the forthcoming meeting of the Governance, Risk and Audit Committee. This report summarises our preliminary audit conclusion in relation to the audit of North Norfolk for 2019/20.

We have substantially completed our audit of North Norfolk for 2019/20.

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 in section 3, before the accounts publication date. We also expect to issue a modified Value for Money opinion, following conclusion of our procedures in relation to the previously communicated significant risk, in the form of an 'except for' conclusion on your arrangements to secure economy, efficiency and effectiveness in your use of resources.

This report is intended solely for the use of the Governance, Risk and 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 Governance, Risk and Audit Committee meeting on 30 March 2022.

Yours faithfully

Mark Hodgson

Mark Hodgson

Associate Partner

For and on behalf of Ernst & Young LLP

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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.psa.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

Status of the audit

In our Audit Plan presented to the Governance, Risk and Audit Committee meeting on the 7 December 2021, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We have carried out our audit in accordance with this plan.

We have substantially completed our audit of North Norfolk's financial statements for the year ended 31 March 2020 and have performed the procedures outlined in our Audit planning report. Subject to satisfactory completion of the following outstanding items we expect to issue an unqualified opinion on the Council's financial statements in the form which appears at Section 3. However until all our audit procedures are complete, further amendments may arise.

The following items relating to the completion of our audit procedures remain to be completed after the Governance, Risk and Audit Committee meeting and approval process:

Closing Procedures:

- ▶ Receipt of the Review of the final version of the financial statements;
- ▶ Completion of subsequent events review;
- ▶ Final Manager and Engagement Partner reviews - which may result in additional queries to officers; and
- ▶ Signed Management representation letter.

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

Executive Summary

Audit differences

Adjusted Audit Differences

We have identified five audit differences which are to be adjusted for by management within the revised financial statements.

1. Intangible Assets - In respect of the capitalisation of costs for the 'Better Broadband for Norfolk' scheme of £1.000 million, which have been capitalised as Intangible Assets. This should be classified as REFCUS expenditure, as the Council does not own the relevant asset.
2. Asset under Construction - The fixed asset register included a new entry under 'Asset under construction' for expenditure of £0.170 million which relates to a Care Home which is owned by Norfolk County Council. This should be classified as REFCUS expenditure, as the Council does not own the relevant asset.
3. Property, Plant & Equipment - Two car park assets were erroneously included in the valuation schedule for the External Valuer, and valued at £0.489 million. These were then included in the total of Property, Plant and Equipment. However, the Council no longer own these assets and therefore the total asset value is overstated.
4. Property, Plant & Equipment - This relates to the valuation of Rocket House, which we have deemed to have used an inaccurate Gross Internal Area, causing an overvaluation of the asset of £0.427 million.
5. Business Rate Income - We have identified an adjustment in relation to Business Rates Income totalling £0.350 million, due to incorrect production of the NNDR 3 submission.
6. Capital Adjustment Account - We have also identified £0.567 million included as an adjustment to the Capital Adjustment Account, despite this relating to capital expenditure which had subsequently been derecognised. This is an adjustment between unusable and usable reserves only with no net impact on income or expenditure.

Disclosure adjustments

A small number of disclosure adjustments have also been identified and all are to be corrected in the final Statement of Accounts. This includes an adjustment to ensure the consistency of Note 22 (Officer Remuneration) and Note 23 (Exit Packages).

Unadjusted Audit Differences

At the time of writing this report, we do not have any unadjusted audit differences.

Executive Summary

Areas of audit focus

Our Audit Plan identified key areas of focus for our audit of the 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. We summarise our consideration of these matters, and any others identified, in the "Key Audit Issues" section of this report.

Fraud risk: Misstatements due to fraud and error

- We have completed our work in response to this risk and have no matters to report in respect of misstatements due to fraud or error.

Fraud risk: Incorrect capitalisation of revenue expenditure

- Our work on this area is yet to be fully concluded, but we have no matters to raise to date.

Significant risk: Valuation of Land and Buildings

- We have identified two audit differences, relating to the inclusion of £0.489 million of car park assets in the balance sheet, despite these no longer being owned by the Council, and an overvaluation of the Rocket House asset of £0.427 million due to usage of an incorrect gross internal area.

Inherent risk: Pension liability valuation

- We have completed our work in response to this risk and have no matters to report in respect of the valuation of the Council's Pension Liability.

Inherent risk: Omission or understatement of Non-Domestic Rates (NDR) appeals provision

- We have completed our work in response to this risk and have no matters to report in respect of the omission or understatement of the NDR appeals provision.

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
- ▶ 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 Governance, Risk and Audit Committee.

Executive Summary

Control observations

During the audit, we identified significant deficiencies in internal control. These were highlighted during our procedures performed under our Value for Money Conclusion. For further details, see the Value for Money section below and Section 5 of this report, in relation to the Council maintaining of a sound system of internal control.

We have not identified any further control deficiencies during the course of our external audit procedures.

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. In our Audit Plan we identified the following significant risk:

The Council was the subject of two police investigations relating to issues arising during the 2019/20 financial year as follows:

- ▶ Investigation undertaken by Cambridgeshire Constabulary in the period July 2020 - March 2021 in relation to a “whistle-blower” allegation into a breach of internal controls by members of the senior leadership team relating to a procurement matter in May 2019; and
- ▶ Investigation undertaken by Norfolk Constabulary in November / December 2019 into the loss of £1,000 of cash from the digital mailroom. Internal Audit investigations and additional reviews in respect of these issues have subsequently identified a number of areas for improvement.

Following conclusion of our procedures, we will be issuing a modified ‘except for’ opinion on the Value for Money Conclusion. We have also made a number of recommendations as a result of our work, the details of which are set out in Section 5 of this report.

We have no further matters to report about your arrangements to secure economy efficiency and effectiveness in your use of resources.

Correspondence from the Public

We did not receive any items of correspondence from members of the public during the year. In January 2020, we received notification of a Whistleblowing allegation through the Public Interest Disclosure Act (1998). We have reported our findings in relation to this in Section 5 of this report.

We did not receive any formal objections to the financial statements from members of the public.



Executive Summary

Other reporting issues

Annual Governance Statement

We have reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of the Council. We have the following matter to report as a result of this work. The Annual Governance Statement did not specifically conclude whether there were any governance issues within section 5 of the statement. Given our Value for Money reporting, we deem it appropriate for the Annual Governance Statement to be amended to specifically reference these findings.

Related Party Transactions

Our work on Related Party Transactions identified that a number of Members and Senior Officers had not returned Declaration of Interest forms as at 31 March 2020 as part of the annual process to identify related party transactions. We have performed alternative audit procedures to identify undisclosed or unidentified interests, which has not identified any issues with the Statement of Accounts:

- Searches on Companies House for interests held by Members and officers
- Read minutes of Council and Committees
- Requested and received up to date declarations of interests for all Members.

Whole of Government Accounts

We are not required to carry out any procedures on the Authority's Whole of Governance Accounts (WGA) submission as the Authority falls below the National Audit Office (NAO) threshold of £500 million, and the NAO has formally closed the submission window.

We have no other matters to report.

Independence

Please refer to Section 8 for our update on Independence.



02

Areas of Audit Focus



Areas of Audit Focus

Significant risk

Misstatements due to fraud or error

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. One area susceptible to manipulation is the capitalisation of revenue expenditure on 'Property, Plant and Equipment' and 'Intangible Assets' given the extent of the Council's capital programme (see below).

What judgements are we focused on?

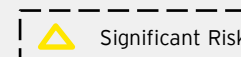
We have considered the risk of management override and the areas of the financial statements that may be most susceptible to this risk.

What did we do?

- ▶ Identified fraud risks during the planning stages;
- ▶ Asked management about risks of fraud and the controls put in place to address those risks;
- ▶ Understood 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;
- ▶ Determined an appropriate strategy to address those identified risks of fraud; and
- ▶ Performed mandatory procedures regardless of specifically identified fraud risks, including testing of journal entries and other adjustments in the preparation of the financial statements and evaluated the business rationale for any significant unusual transactions.

What are our conclusions?

- ▶ We have not identified any material weaknesses in controls or evidence of material management override in respect of financial reporting.
- ▶ We have not identified any instances of inappropriate judgements being applied.
- ▶ We have not identified any other transactions during our audit which appear unusual or outside the Authority's normal course of business.





Areas of Audit Focus

Significant risk

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.

As the Council is more focused on its financial position over medium term, we have considered the risk of manipulation to be more prevalent in the inappropriate capitalisation of revenue expenditure on Property, Plant and Equipment and Intangible Assets given the extent of the Council's capital programme (see above).

What judgements are we focused on?

We have identified a risk of expenditure misstatement due to fraud or error that could affect the income and expenditure accounts. We have focused on the Authority's judgement that an item is capital expenditure in nature.

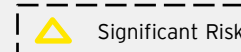
What did we do?

- ▶ Obtained an analysis of capital additions in the year, reconciling to the Fixed Assets Register (FAR), and reviewed the descriptions to identify whether there are any potential items that could be revenue in nature;
- ▶ Performed sample testing on additions to Property, Plant and Equipment and Intangible Assets, ensuring that they have been correctly classified as capital and included at the correct value, to identify any revenue items that have been inappropriately capitalised; and
- ▶ Tested the appropriateness of journal entries recorded in the general ledger moving expenditure items from revenue codes to capital codes.

What are our conclusions?

- ▶ Our sample testing of REFCUS is complete with no issues identified.
- ▶ Our data analytical procedures did not identify any journal entries that incorrectly moved expenditure into capital codes.
- ▶ Our sample testing of additions to Property, Plant and Equipment is complete with the following issues noted:
 1. We note that the 'Better Broadband for Norfolk' scheme costs of £1.000 million was initially classified as an Intangible Asset when they should be properly classified as Revenue Expenditure Funded as Capital Under Statute (REFCUS).
 2. We also note that the fixed asset register included a new entry under 'Asset under construction' for expenditure of £0.170 million which relates to a Care Home which is owned by Norfolk County Council. This should be classified as REFCUS expenditure, as the Council does not own the relevant asset.

Whilst this is an accounting error, our view is that we do not deem this to be as a result of fraudulent misreporting as REFCUS is also funded from capital so there is no significant benefit to the Council of including as an Intangible Asset or Asset under Construction. Management have agreed to correct these audit differences.





Areas of Audit Focus

Significant risk

Valuation of Land and Buildings

What is the risk?

The fair value of Property, Plant and Equipment (PPE) and Investment Properties (IP) represent significant balances (£79.8 million) in the Council's accounts and are estimates which are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgmental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.

For 2019/20 we have increased the risk associated with asset valuations due to issues identified in prior year testing in relation to unposted valuations and adjustments to impairment and depreciation and a change in valuer (Management's expert).

What judgements are we focused on?

We have considered the risk of incorrect valuation of land and buildings based on the detailed method, model and assumptions used by the Council's external property valuer, and the data they are provided.

What did we do?

- ▶ Considered the work performed by the Council's valuers (Wilks Head & Eve), including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- ▶ Sample tested key asset information used by the valuers in performing their valuation (e.g. floor plans to support valuations based on price per square metre, assumptions about the impact of Covid-19);
- ▶ Considered the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code for PPE. Reviewed assets not subject to valuation in 2019/20 to confirm that the remaining asset base is not materially misstated;
- ▶ Considered circumstances that require the use of EY valuation specialists to review any material specialist assets and the underlying assumptions used; and
- ▶ Considered changes to useful economic lives as a result of the most recent valuation; and
- ▶ Ensured that accounting entries have been correctly processed in the financial statements.

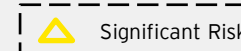
What are our conclusions?

We have identified two errors, firstly relating to the inclusion of £0.489 million of car park assets in the balance sheet, despite these no longer being owned by the Council.

The second relates to an overvaluation of the Rocket House asset of £0.427 million due to usage of an incorrect gross internal area.

These have been adjusted for within the revised financial statements.

We have no other matters to report.





Areas of Audit Focus



Other areas of audit focus

Pension Liability Valuation - Inherent 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 administered by Norfolk 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 2020 this totalled £43.6 million. The information disclosed is based on the IAS 19 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 Covid-19.

Our approach has focused on:

- ▶ Liaising with the auditors of Norfolk Pension Fund, to obtain assurances over the information supplied to the actuary in relation to North Norfolk District Council;
- ▶ Assessing the work of the Pension Fund actuary (Hymans) including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by The National Audit Office for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team; and
- ▶ Reviewing and testing the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.
- ▶ Reviewing the impact of Covid-19 on the value of Pension Fund assets and considering whether there are any risks of material misstatement arising from this.

Given the timing of accounts production, the draft accounts reflected the findings of the Norfolk Pension Fund auditor following their audit of Norfolk Pension Fund, through the receipt of a revised IAS19 report from the Pension Fund actuary. As such the draft accounts reflect the Council's correct Pension Liability. We only identified minor disclosure differences to the Pension Liability note.

Omission or understatement of Non-Domestic Rates (NDR) Appeals Provision - Inherent Risk

We have identified the omission and incorrect valuation of the NDR appeals provisions as a separate inherent risk. The calculation of the provision involves significant judgements and a high level of complexity. Due to the size and nature of the balance there is a risk that the provision could be materially understated. The quantum of the provision has fluctuated over recent financial years.

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

- ▶ Testing the calculation of the NDR provision to ensure all estimates and judgements are fully supported and are agreed to independent sources wherever possible. Where testing has been performed we applied a lower testing threshold to ensure the Appeals Provision is calculated on an appropriate basis and has been correctly valued; and
- ▶ Undertaking procedures such as review of minutes and enquiries of management and those charged with governance to gain assurance over the material completeness of the provision.

Based on the procedures performed, we have not identified any issues with the valuation of the NDR Appeals Provision.



Areas of Audit Focus



Other areas of audit focus (continued)

Going Concern

There is presumption that the Authority will continue as a going concern. However, the current and future uncertainty over government funding and other sources of Authority revenue as a result of Covid-19 increases the need for the Authority to undertake a detailed going concern assessment to support its assertion. In light of the unprecedented nature of Covid-19, its impact on the funding of public sector entities and uncertainty over the form and extent of government support, we requested that management provide a documented consideration to support their assertion regarding the going concern basis. The going concern period should cover 12 months post the opinion signing date, so is to cover up to 31 March 2023, and consider the latest information available to the Council.

Our approach has focused on:

- ▶ Assessing the adequacy of disclosures required in 2019/20;
- ▶ Discussing with management the going concern assessment and challenging management's underlying assumptions;
- ▶ Considering the impact on our audit report, including completing any internal consultation requirements.

We did not identify any events or conditions in the course of our audit that may cast significant doubt on the entity's ability to continue as going concern.

Management have used the basis of their assessment to produce the disclosures included within the draft financial statements.

We are satisfied that the revised disclosure note appropriately sets out the circumstances surrounding the financial implications prevalent at the Balance Sheet date.



03 Audit Report



Our proposed opinion on the financial statements

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF NORTH NORFOLK DISTRICT COUNCIL

Opinion

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

- Movement in Reserves Statement,
- Comprehensive Income and Expenditure Statement,
- Balance Sheet,
- Cash Flow Statement and the related notes 1 to 41,
- the Collection Fund and the related notes 1 to 7.

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 North Norfolk District Council 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 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.

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 Financial Officer's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Chief Financial 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.



Audit Report - continued

Our proposed opinion on the financial statements

Other information

The other information comprises the information included in the 'Statement of Accounts 2019/2020', other than the financial statements and our auditor's report thereon. The Chief Financial 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

Basis for Qualified Conclusion

- ▶ Informed decision making
 - Maintaining a sound system of internal control

1. Procurement of a Capability Review arrangements

In January 2020, we received notification of a Whistleblowing allegation through the Public Interest Disclosure Act (1998). The whistleblowing allegation related to an issue that occurred in May 2019 - the 2019/20 financial year - and respective audit year.

The notified issue was that the Council's financial regulations were not complied with in respect of the procurement of a contract for a Capability Review in May 2019.

Our evidence came from a shadow investigation alongside Cambridgeshire Constabulary, supported by additional investigative audit procedures, and supplemented by a review of Internal Audit reviews and findings.



Audit Report - continued

Our proposed opinion on the financial statements

The key findings of the investigation were:

- ▶ no formal tender process was performed and no other quotes were obtained as required by the Council's financial regulations;
- ▶ the proper procurement exemption process was not followed in the procurement of the Capability Review;
- ▶ no formal contract was in place between the provider of the Capability Review and the Council; and
- ▶ two leading members of the incoming administration were central to the selection of the provider of the Capability Review which the Investigating Officer viewed as being inappropriate due to their role as Councillors; and
- ▶ the Council did not have an Employment and Appeals Committee in place at the commencement of the municipal year.

Not following the Council's stated internal control processes undermines the governance of the whole Council and has the potential to expose the Council to unnecessary risk or financial loss which could not be recovered.

This issue is evidence of a weakness in proper arrangements in how North Norfolk District Council maintain a sound system of internal control.

2. Corporate performance reporting and project management

There were no performance targets to report on at the beginning of the year as the corporate plan was not approved until November 2019. Performance reports are usually presented to Cabinet on a quarterly basis, however there were no such reports relating to 2019/20

Internal Audit work for 2019/20 identified a number of issues with project management including ineffective governance arrangements, lack of input from areas such as finance and legal into project appraisals and project objectives and milestones not being adequately defined or reported on.

This provides evidence of a significant weakness in proper arrangements for maintaining a sound system of internal control.

Our evidence came from a review of Committee reports and minutes and a review of Internal Audit reviews and findings.

Subsequent Internal Audit reviews of project management also identified weaknesses in project management and made a number of recommendations/suggested actions for improvement.

Weak internal control processes undermine the governance of the whole Council and has the potential to expose the Council to unnecessary risk or financial loss which could not be recovered.

This issue is evidence of a weakness in proper arrangements in how North Norfolk District Council maintain a sound system of internal control.

Qualified conclusion - Except For

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, with the exception of the matters reported in the basis for qualified conclusion paragraph above, we are satisfied that, in all significant respects, North Norfolk District 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 Financial Officer

As explained more fully in the 'Statement of the Responsibilities' set out on pages 1 and 2, 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 Financial 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.

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.



Audit Report - continued

Our proposed opinion on the financial statements

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 North Norfolk District 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 North Norfolk District 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, North Norfolk District 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 North Norfolk District 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 North Norfolk District 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 the following misstatements greater than £0.056 million which have been corrected by management that were identified during the course of our audit:

1. **Intangible Assets** - In respect of the capitalisation of costs for the ‘Better Broadband for Norfolk’ scheme of £1.000 million, which have been capitalised as Intangible Assets. This should be classified as REFCUS expenditure, as the Council does not own the relevant asset.
2. **Asset under Construction** - The fixed asset register included a new entry under ‘Asset under construction’ for expenditure of £0.170 million which relates to a Care Home which is owned by Norfolk County Council. This should be classified as REFCUS expenditure, as the Council does not own the relevant asset.
3. **Property, Plant & Equipment** - £0.489 million of car park assets that have been included in the valuation schedule for the external valuer. These have then been included in the total of Property, Plant and Equipment however the Council no longer own these assets and therefore the total asset value is overstated.
4. **Property, Plant & Equipment** - This relates to the valuation of Rocket House, which used an inaccurate Gross Internal Area, causing an overvaluation of the asset of £0.427 million.
5. **Capital Adjustment Account** - £0.567 million of capital financing included within the Capital Adjustment Account in respect of capital expenditure which was later derecognised, which should therefore be adjusted to the Unapplied Capital Receipts Reserve
6. **Business Rate Income** - £0.349 million overstatement of Business Rate Income due to an issue in completion of the NNDR 3, identified through our reconciliation of the financial statements to the underlying business rates system. This has a knock on impact throughout the financial statements that is to be adjusted by the Council.

Disclosure differences

- ▶ Disclosure error in respect of a Senior Officer’s exit package, for which £0.308 million was not included in the Officer’s Remuneration table.

A number of other disclosure differences have been identified and raised to Management. All misstatements are to be adjusted. We do not deem any to be so significant as to merit reporting to you.



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 Unadjusted differences

At the time of writing this report, there are no unadjusted audit differences.

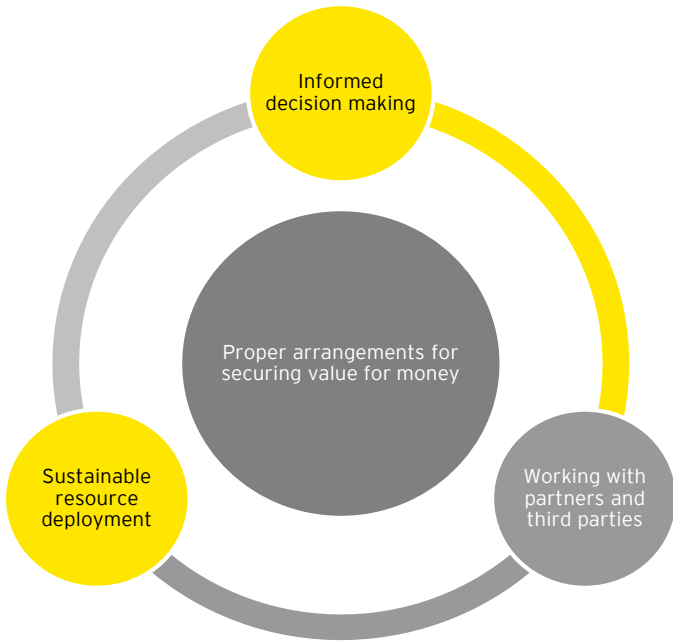


05

Value for Money



Value for Money



Background

We are required to consider whether the Council has put in place ‘proper arrangements’ to secure economy, efficiency and effectiveness on its use of resources. This is known as our value for money conclusion.

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.

Overall conclusion

We identified a significant risk in relation to the Council’s arrangements. The tables on the following pages set out our detailed findings in response to the risks in our Audit Plan and any other significant weaknesses or issues we want to bring to your attention.

We therefore expect having the following matters to report about your arrangements to secure economy, efficiency and effectiveness in your use of resources. This will take the form of an ‘except for’ conclusion of the Council’s value for money arrangements.

Value for Money Risks

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 Plan.

What is the significant value for money risk?	What arrangements did the risk affect?	What are our findings?
<p>The Council was the subject of two police investigations relating to issues arising during the 2019/20 financial year; as follows:</p> <ul style="list-style-type: none"> ▶ Investigation undertaken by Cambridgeshire Constabulary in the period July 2020 - March 2021 in relation to a “whistle-blower” allegation into a breach of internal controls by members of the senior leadership team relating to a procurement matter in May 2019; and ▶ Investigation undertaken by Norfolk Constabulary in November / December 2019 into the loss of £1,000 of cash from the digital mailroom. <p>Internal Audit investigations and additional reviews in respect of these issues have subsequently identified a number of areas for improvement.</p> <p>These issues highlight potential weaknesses with the non-compliance of internal policies and procedures and as such we are categorizing them as a significant risk.</p>	<p>Maintaining a sound system of internal control</p>	<p>In order to address this risk we have:</p> <ul style="list-style-type: none"> ▶ Engaged EY Forensics to examine and review the ‘whistle-blower’ allegation alongside the Cambridgeshire Police investigation’; ▶ Reviewed the EY Forensics report and any governance issues identified, and the Council’s response to those issues; ▶ Reviewed the findings of any Internal Audit reviews and considered the Internal Audit recommendations from these reviews and the status of the implementation of those recommendations; and ▶ Assess whether any additional audit procedures are required and performed them where relevant. <p>Our findings are set out on the following pages.</p>



Value for Money Risks

What are our findings?

Procurement of a Capability Review

Background

In January 2020, we received notification of a Whistleblowing allegation through the Public Interest Disclosure Act (1998). It is important to note that the same PIDA submission had already been made to Norfolk Police - as the primary Proscribed person.

The whistleblowing allegation related to an issue that occurred in May 2019 - the 2019/20 financial year - and respective audit year.

The allegation focussed on the tender process for the procurement of a Capability Review - a review of the corporate structure at the Council - and specifically the use of a tender waiver form for that process, that was alleged to have been back dated by two officers of the Council.

Norfolk Police were the primary proscribed person, but in June 2020 - Norfolk Police handed over the investigation responsibility to Cambridgeshire Police to maintain independence, given the collaborative working between Norfolk Police and the Council.

Cambridgeshire Police's investigation commenced in July 2020 and ran through August and into September 2020. Our EY Forensic team was deployed and were able to shadow that investigation through a Memorandum of Understanding.

The Police case was passed to the Crown Prosecution Service (CPS) on the 16 September 2020. The CPS concluded that it would not pursue a criminal prosecution. Formally, the Police case remained open until 19 March 2021, when it was closed.

The Issue

The crux of the issue is that the Council's financial regulations were not complied with in respect of the procurement of a Capability Review in May 2019.

Following the May 2019 elections, the incoming administration wanted to review the existing corporate management structure. The contracted Capability Review provider are known in the Local Government sector and were recommended by a member of the incoming administration for the review.



Value for Money Risks

What are our findings?

The key findings of the investigation were:

- ▶ no formal tender process was undertaken and no other quotes were obtained as required by the Council's financial regulations;
- ▶ the proper procurement exemption process was not followed in the procurement of a Capability Review;
- ▶ no formal contract was in place between the Capability Review provider and the Council; and
- ▶ two leading members of the incoming administration were central to the selection of the Capability Review provider which the Investigating Officer viewed as being inappropriate due to their role as Councillors.

There are some circumstances when it is not possible to follow the extant procurement policy, and in such cases a procurement exemption form is required, setting out the reasons that the policy could not be followed. The reasons given for not going through the procurement exemption process for the procurement of a Capability Review are not in line with the acceptable rationale within the relevant Council guidance.

The procurement exemption form (PEF) was 'dated' 20 May 2019. However, an internal Council IT investigation identified that the Council proforma was downloaded and printed from the Council's system on the 9 October 2019. The completed PEF was handwritten and signed by two officers of the Council.

The Capability Review provider commenced work in late May 2019. There was no formal contract in place based on the Council's standard terms and conditions between the Council and the Capability Review provider.

Following the Police Investigation and review of the case file by the CPS, criminal proceedings were not pursued against the Council's two officers.

Value for Money Risks

What are our findings?

EY Forensics undertook a review of all PEF forms for 2018/19 and 2019/20. With the exception of the Capability review PEF, the critical factors listed in the PEFs appear to be in line with the Council's procurement exemption guidance. No other forms were handwritten as the Capability Review PEF has been. However, there is one PEF from 2018/19 that has not been signed by anyone - contrary to the approval process for such forms.

Internal Audit undertook a review of procurement and contract management arrangements as part of their annual audit plans for 2019/20 and 2020/21 and, in response to the issue outlined above, an additional review specifically of procurement exemptions granted in 2019/20 and up to the date of their review. These reviews raised many of the same significant weaknesses highlighted above, and a number of recommendations have been made to improve arrangements and ensure compliance with regulations and standing orders. These reviews and recommendations have been reported to the Council's Governance, Risk and Audit Committee

Weaknesses in arrangements

1. The rationale for following the Procurement Exemption policy was not in line with Council guidance.
2. The date that the Procurement Exemption Form was downloaded for use, and the date that it was signed by the two officers is different. The date it is 'signed' is significantly before the date the form itself was downloaded, suggesting that it was 'backdated', which is a clear override of the Council's procurement controls.
3. The Council's standard contract was not used for the engagement with the Capability Review provider. This exposes the Council to potential risk, given the standard terms and conditions of the Council did not form part of the contract.
4. The Council's process for completing and authorising PEF's was not followed on more than one occasion.

Internal Council Investigation

In the Autumn of 2019, the issue became known within the Council by Senior Officers, when a Freedom of Information (FoI) request was made. In responding to the request, it became apparent that there was a potential issue over the process in which the Capability Review contract was awarded. Some investigative work was undertaken, including a review by the Council's IT department.



Value for Money Risks

What are our findings?

Other considerations

As part of our wider audit responsibilities:

1. We have reviewed the contract from an accounting transaction perspective. The Council can contract with a consultancy firm for a review of this nature. The cost of the contract with the Capability Review provider at c£30,000 is not out of line with what we would expect to see for a review of this type. We are therefore satisfied that the transaction was not unlawful and was not so unreasonable in value that wider value for money or public interest reporting considerations are required.
2. We reviewed the Council's disciplinary procedures and identified that the Council did not have an Employment and Appeals Committee in place at the commencement of the municipal year, as required with appropriate membership, training and support.

The action required by North Norfolk District Council to address the weakness:

The Council's Internal Control environment, including financial regulations and standing orders need to be adhered to in full for each and every transaction.

This issue is evidence of a weakness in proper arrangements in how North Norfolk District Council maintain a sound system of internal control.

Recommendations

1. The Council should ensure that the recommendations made by Internal Audit with respect to procurement exemptions are completed in line with the agreed timeframe.
2. The Council should ensure that all Procurement Exemptions Forms are subject to robust review for adherence to Council policy.
3. All Procurement Exemption Form's should be summarised and reported to the Governance, Risk and Audit Committee on a regular reporting cycle.
4. The Council should establish a standing Employment and Appeals Committee, which is in place at the commencement of each municipal year.
5. The Membership of the Employment and Appeals Committee should be provided with appropriate training to allow them to fulfil their responsibilities in a timely manner.
6. Any Employment and Appeals Committee meeting should be formally recorded and those minutes agreed as an accurate record of the meeting.



Value for Money Risks

What are our findings?

Cash Loss from the Digital Mail Room

Background

We have also been made aware through Internal Audit and media coverage of a cash loss of £1,000 from the Council's digital mail room in October 2019.

Following a report to Internal Audit on 17 October 2019, an investigation was undertaken into the missing cash from the digital mail room. This investigation was unable to establish whether the cash had been lost or stolen.

This matter was subsequently reported to, and subject to an investigation by, Norfolk Constabulary, who concluded that there was insufficient evidence to continue with the investigation.

The Issue

Whilst the amount is clearly immaterial (in terms of the Council's financial statements) and covered by insurance, it is clear that the processes surrounding the Council's standard procedures have been undermined, which would suggest a weak control environment and financial control arrangements.

Both the investigations undertaken by Internal Audit and Norfolk Constabulary were inconclusive and unable to identify whether the cash was lost or stolen. The Internal Audit Report included 5 recommendations to strengthen cash handling procedures and prevent any reoccurrence of cash loss. A follow-up report to Governance, Risk and Audit Committee in August 2020 confirms that all recommendations have been implemented.

Conclusion

This issue does not form part of our 'except for' modified Value for Money Conclusion, as the impact of the weakness in arrangements are not deemed to be quantitatively significant and we recognise that the Internal Audit recommendations have been implemented in full.



Value for Money Risks

What are our findings?

Other Matters

Background

As part of our VFM work we undertake a number of standard procedures to inform our assessment of the Council's arrangements, including reviews of Committee reports and minutes, media and internal audit reports made during the year.

The Issue

Performance reports are usually presented to Cabinet on a quarterly basis, however there were no such reports during 2019/20.

Following Council elections and a change in administration in May 2019, the new Corporate Plan 2019 - 2023 was not approved until November 2019. With no Corporate Plan in place and no performance targets or measures to report on, there were no performance reports presented to Cabinet during the 2019/20 financial year.

Internal Audit's programme of work for 2019/20 included a review of project management which identified a number of issues including ineffective governance arrangements, lack of input from areas such as finance and legal into project appraisals and project objectives and milestones not being adequately defined or reported on. As a result of this, two individual projects were subsequently selected for further review, with further suggested actions for implementation. In 2020/21 internal audit undertook an additional review of the Cromer Sports Hub Project which resulted in a no assurance rating and six urgent recommendations being made due to inadequate project governance arrangements.

Weaknesses in arrangements

1. There were no performance reports presented to Cabinet during the 2019/20 financial year.
2. Inadequate governance arrangements were in place in relation to project management.

The action required by North Norfolk District Council to address the weakness:

The Council's Internal Control environment needs to be strengthened in relation to performance reporting and project management arrangements. This issue is evidence of a weakness in proper arrangements in how North Norfolk District Council maintain a sound system of internal control.

Recommendation

1. The Council should ensure that the recommendations made by Internal Audit are implemented in line with the agreed timeframe.



06 Other reporting issues

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.

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

We have reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of the Council. We have the following matter to report as a result of this work. The Annual Governance Statement did not specifically conclude whether there were any governance issues within Section 5 of the statement. Given our Value for Money reporting, we deem it appropriate for the Annual Governance Statement be amended to specifically reference these findings.

Whole of Government Accounts

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

We are not required to carry out any procedures on the Authority's Whole of Governance Accounts (WGA) submission, as the Authority falls below the National Audit Office (NAO) threshold, and the NAO has formally closed the submission window.

Other reporting issues

Other reporting issues

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 consider the matters identified in our Value for Money work (Section 5) against this criteria. While the matters identified are clearly significant, the key issues were procedural in nature and as we have reported the issue, findings and recommendations within this Audit Results Report, and reported it to the Governance, Risk and Audit Committee in the public domain, we have, on balance, concluded that we are not minded 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. Whilst we have made a number of recommendations within this report, in relation to the Value for Money Conclusion (Section 5) we have not deemed these to be formal written recommendations under the Local Audit and Accountability Act 2014.

We did not identify any other issues.

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 Council’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;
- Findings and issues around the opening balance on initial audits (if applicable);
- Related parties;
- External confirmations;
- Going concern; and
- Consideration of laws and regulations.

We have no matters to report on the above.

Continued on next page.

Other reporting issues (continued)

Other matters

We have matters to report in relation to the following:

Related Party Transactions

Our work on Related Party Transactions identified that a number of Members and Senior Officers had not returned Declaration of Interest forms as at 31 March 2020 as part of the annual process to identify related party transactions.

We have performed alternative audit procedures to identify undisclosed or unidentified interests, which has not identified any issues with the Statement of Accounts:

- Searches on Companies House for interests held by members and officers
- Read minutes of Council and Committees
- Requested up to date declarations of interests for all members.

We note that one member declaration remains outstanding at the time of this report.

Recommendation: The Council must ensure that it has adequate processes in place to identify and record declarations of interest.



07

Assessment of Control Environment



Assessment of Control Environment

Financial controls

It is the responsibility of the Council to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the Council has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

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, other than those raised and communicated within section 5 of this report as part of reaching our conclusion on Value for Money.

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/details of issues noted.



08

Independence

Independence

Confirmation

We confirm that there are no changes in our assessment of independence since our confirmation in our Audit Plan dated 4 October 2021.

We complied with the FRC 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 you should review, as well as us. It is important that you and your Governance, Audit and Risk Committee consider the facts known to you and come to a view. If you would like to discuss any matters concerning our independence, we will be pleased to do this at the meeting of the Governance, Risk and Audit Committee on 30 March 2022.

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 01 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 in 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 in respect of the audi year ended 31 March 2020. We confirm that we have not undertaken any non-audit work.

	Proposed Final Fee 2019/20	Scale Fee 2019/20	Final Fee 2018/19
	£'s	£'s	£'s
Total Audit Fee - Code work	41,667	41,667	41,667
Variations to the 2018/19 scale fee	-	-	8,702
Changes in work required to address professional and regulatory requirements and scope associated with risk (See Note 1)	28,238	-	-
Revised Proposed Scale Fee	69,905	-	-
Additional procedures required in relation to the significant VFM risk, including engagement of EY Forensics (Note 2)	To be confirmed	-	-
Additional procedures in respect of Valuation of Land and Buildings Risk and in respect of Covid-19 financial reporting considerations (Note 2)	To be confirmed	-	-
Total Fees	To be confirmed	41,667	50,369
Housing Benefit Certification (Agreed upon Procedures)	11,708	-	13,800

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 the Council: £13,932
- Additional work to address increase in Regulatory standards: £13,020
- Client readiness and IT support for Data Analytics: £1,285

This revised scale fee has been discussed with management and is subject to review and determination 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 an associated audit risks pertaining to Covid-19, other additional audit risks and for the risks associated to our Value for Money arrangements work and investigations. 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 in vestees/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 do not provide any non-audit services which would be prohibited under the new standard.

Other communications



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 2021:

https://www.ey.com/en_uk/about-us/transparency-report-2021







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 Governance, Risk and 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 - October 2021
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit Plan - October 2021
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 ▶ Findings and issues regarding the opening balance on initial audits 	Audit Results Report - March 2022




Appendix A

		 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 - March 2022
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 - March 2022
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 - March 2022
Fraud	<ul style="list-style-type: none"> ▶ Enquiries of the Governance, Audit and Risk 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: <ol 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 Governance, Audit and Risk committee responsibility. 	Audit Results Report - March 2022

Appendix A

		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 - March 2022
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 - October 2021 and Audit Results Report - March 2022</p>

Appendix A

		 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 - March 2022
Consideration of laws and regulations	<ul style="list-style-type: none"> ▶ Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur ▶ 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 - March 2022
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> ▶ Significant deficiencies in internal controls identified during the audit. 	Audit Results Report - March 2022




Appendix A

		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 - March 2022
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 - March 2022
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 - March 2022
Fee Reporting	<ul style="list-style-type: none"> ▶ Breakdown of fee information when the audit planning report is agreed ▶ Breakdown of fee information at the completion of the audit ▶ Any non-audit work 	Audit Plan - October 2021 Audit Results Report - March 2022

Appendix B

Outstanding matters


The following items relating to the completion of our audit procedures are outstanding at the date of the release of this report:

Item 	Actions to resolve 	Responsibility 
Receipt of investment confirmations	Receive third party confirmations for 2 remaining investment balances	EY and management
Receipt of Management representation letter	Management to prepare and provide us with their representation letter for the 2020/21 audit	Management
Subsequent Events procedures	Extension of some audit procedures like review of minutes and consideration of unrecorded liabilities and provisions up to the date of our auditor's report	EY and management
Checks to the final amended set of accounts	EY to receive final set of accounts with all audit adjustments, and review it for consistency with our schedule of misstatements	EY and management




Appendix C – Request for a Management Representation Letter

Request for a Management Representation Letter



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INVESTOR IN PEOPLE

Duncan Ellis
Head of Finance and Assets
North Norfolk District Council
Council Offices
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Norfolk
NR27 9EN

9 March 2022

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

Dear Duncan,

**North Norfolk District Council – 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 Council.


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

General statement

The letter of representations is provided in connection with our audit of the financial statements of North Norfolk District Council ("the Authority") 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 Authority financial position of the North Norfolk District 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.

The UK firm Ernst & Young LLP is a limited liability partnership registered in England and Wales with registered number OC300001 and is a member firm of Ernst & Young Global Limited. A list of member firm names is available for inspection at 1 More London Place, London SE1 2AF, the firm's principal place of business and registered office.



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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, 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 Authority, your responsibility for the fair presentation of the Authority's financial statements. We believe the Authority 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 Authority 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. We have approved the Authority 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 Authority, we believe that the Authority 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 our 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 that there are no unadjusted audit differences to the financial statements.



Appendix C – Request for a Management Representation Letter (continued)

Request for a Management Representation Letter



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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 Authority'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 our 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 Authority (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 Authority'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 Authority'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.
3. That you have made available to us all minutes of the meetings of the Authority 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: 30 March 2022.



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4. That you confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Authority 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 Authority 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 Authority'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.

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:



Appendix C – Request for a Management Representation Letter (continued)

Request for a Management Representation Letter



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- 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 Authority.

H. Going Concern

1. That the Authority has prepared the financial statements on a going concern basis and that Note X (insert note) to the financial statements discloses all of the matters of which you are aware that are relevant to the Authority'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 Authority has satisfactory title to all assets appearing in the balance sheet(s), and there are no liens or encumbrances on the Authority's assets, nor has any asset been pledged as collateral. All assets to which the Authority has satisfactory title appear in the balance sheet(s).

J. Reserves

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

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 Authority's land and buildings and have adequately considered the qualifications of the experts in determining the amounts and disclosures included within the Authority'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.



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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 Authority 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 Authority 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 Authority 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.
4. You confirm that the significant assumptions used in making the valuation of the pension liability appropriately reflect our 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 Authority 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 Authority financial statements due to subsequent events.



Appendix C – Request for a Management Representation Letter (continued)

Request for a Management Representation Letter



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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. 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

Appendix D

Accounting and regulatory update

Future accounting developments

Since the date of our last report to the Governance, Audit and Risk Committee, there have been a number of exposure drafts, discussion papers and other projects issues. The following table provides a high level summary of those that have the potential to have the most significant impact on you:

Name	Summary of key measures 
IFRS 16	The adoption of IFRS 16 by CIPFA/LASAAC as the basis for preparation of Local Authority Financial Statements has been deferred until 1 April 2022. The Authority will therefore no longer be required to undertake an impact assessment, and disclosure of the impact of the standard in the financial statements does not now need to be financially quantified in 2020/21.

Future auditing developments



Since the date of our last report to the Governance, Audit and Risk Committee, there have been changes to Auditing Standards which will impact future audits. The following table provides a high level summary of those that have the potential to have the most significant impact on you:

Name	Summary of key measures
ISA 540 (Revised) - Auditing Accounting Estimates and Related Disclosures	<p>This revised ISA responds to changes in financial reporting standards and a more complex business environment which together have increased the importance of accounting estimates to the users of financial statements and introduced new challenges for preparers and auditors.</p> <p>The revised ISA requires auditors to consider inherent risks associated with the production of accounting estimates. These could relate, for example, to the complexity of the method applied, subjectivity in the choice of data or assumptions or a high degree of estimation uncertainty. As part of this, auditors consider risk on a spectrum (from low to high inherent risk) rather than a simplified classification of whether there is a significant risk or not. At the same time, we expect the number of significant risks we report in respect of accounting estimates to increase as a result of the revised guidance in this area.</p> <p>The changes to the standard may affect the nature and extent of information that we may request and will likely increase the level of audit work required, particularly in cases where an accounting estimate and related disclosures are higher on the spectrum of inherent risk.</p>

Appendix D

Regulatory update

Since the date of our last report to the Audit Committee, there have been a number of regulatory developments. The following table provides a high level summary of those that have the potential to have the most significant impact on you:

Name	Summary of key measures 	Impact on North Norfolk District Council 
Code of Audit Practice 2020	<ul style="list-style-type: none"> ▶ The updated Code of Audit Practice issued by the National Audit Office has introduced some significant changes to the requirements regarding auditors' work on the value for money conclusion, which will be applicable from 2020/21. 	<ul style="list-style-type: none"> ▶ The NAO have updated the Auditor Guidance Notes which sets out how the new Code of Audit Practice should be applied when carrying out value for money work. The most notable impact will be that our 2020/21 work will be reported as a Value for Money commentary, included in a new Annual Auditor's Report.
Going Concern - ISA (UK) 570 (Revised September 2019)	<ul style="list-style-type: none"> ▶ The standard is effective for audits of financial statements for periods commencing on or after 15 December 2019, however EY expects to early-adopt the revised standard for all of our audits of periods ending on or after 30 June 2020. ▶ This auditing standard has been revised in response to enforcement cases and well-publicised corporate failures where the auditor's report failed to highlight concerns about the prospects of entities which collapsed shortly after. 	<ul style="list-style-type: none"> ▶ Practice Note 10, which sets out how the auditing standards are applied in a public sector context, is currently being revised, including in light of the updated standard for Going Concern. As such, the impact is not clear at this stage. ▶ Further updates will be provided when possible.
Independence	<ul style="list-style-type: none"> ▶ The Financial Reporting Council (FRC) published the Revised Ethical Standard 2019 in December and will be effective from 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 companies that are UK Public Interest Entities (PIEs). This prohibition will also extend to any UK parent and apply to all worldwide subsidiaries. A narrow list of permitted services will continue to be allowed. 	<ul style="list-style-type: none"> ▶ We will continue to monitor and assess all ongoing and proposed non-audit services and relationships to ensure they are permitted under the FRC Revised Ethical Standard 2019 which will be effective from 15 March 2020. Non-audit services which are in progress as at 15 March 2020 and are permitted under the existing ethical standard will be allowed to continue under the existing engagement terms until completed. We will work with you to ensure orderly completion of the services or where required, transition to another service provider within mutually agreed timescales.

EY | Assurance | Tax | Transactions | Advisory

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