

Auditor's Annual Report on Nottinghamshire County Council

2020-21

8 April 2022



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We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Council 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 commentary relating to proper arrangements.

We report if significant matters have come to our attention. We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.



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Appendices

- A – The responsibilities of the Council
- B – Risks of significant weaknesses – our procedures and findings
- C – An explanatory note on recommendations
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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Executive summary



Value for money arrangements and key recommendations

We presented our Audit Plan to the Governance and Ethics Committee on 23 June 2021. In this we set out the revised approach to Value for Money work for 2020/21 onwards. We noted there are three main changes arising from the NAO's new approach:

- A new set of key criteria, covering financial sustainability, governance and improvements in economy, efficiency and effectiveness
- More extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria, rather than the current 'reporting by exception' approach
- The replacement of the binary (qualified / unqualified) approach to VFM conclusions, with far more sophisticated judgements on performance, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

We reported at that time that we had identified a risk of significant weakness in terms of financial planning and the medium term financial sustainability of the Council, and that we would carry out appropriate work to establish whether there is evidence of a significant weakness in the Council's arrangements.



Financial sustainability

We did not identify any significant weaknesses in the Council's arrangements for financial sustainability.

We have made three improvement recommendations as set out on pages 18 to 20.



Governance

We did not identify any significant weaknesses in the Council's arrangements for governance.

We have made three improvement recommendations as set out on pages 21 to 23.



Improving economy, efficiency and effectiveness

We did not identify any significant weaknesses in the Council's arrangements for improving economy, efficiency and effectiveness.

We have made three improvement recommendations as set out on pages 24 to 26.



Opinion on the financial statements

We have completed our audit of your financial statements and issued an unqualified audit opinion on 8 November 2021, following the Governance and Ethics Committee meeting on 30 September 2021 and as further reported at the 11 November 2021 meeting. Our findings are set out in further detail on page 4.

Opinion on the financial statements



Audit opinion on the financial statements

We gave an unqualified opinion on the financial statements on 8 November 2021.

Other opinion/key findings

We issued unmodified opinions in respect of other information.

We did not report any matters by exception.

Audit Findings Report

More detailed findings can be found in our AFR, which was published and reported to the Council's Governance and Ethics Committee on 11 November 2021.

Whole of Government Accounts

To support the audit of the Whole of Government Accounts (WGA), we are required to review and report on the WGA return prepared by the Council. This work includes performing specified procedures under group audit instructions issued by the National Audit Office.

We are not able to complete the work required to issue the WGA Component Assurance until guidance is available from HM Treasury. We therefore continue to be unable to certify the completion of the audit for 2020-21.

Preparation of the accounts

The Council provided draft accounts in line with the national deadline and provided a generally good set of working papers to support it.

Issues arising from the accounts:

The key issues were:

- Recommendations raised in relation to the journals control environment
- Recommendations raised in relation to control issues with the IT system, specifically relating to the security and access of the SAP system
- A £4.064m adjustment between reported debtor and creditors
- A projected unadjusted misstatement of £1.995m due to inappropriate fixed asset valuation assumptions and mistakes in valuation calculations.

Grant Thornton provides an independent opinion on whether the accounts are:

- True and fair
- Prepared in accordance with relevant accounting standards
- Prepared in accordance with relevant UK legislation.



Commentary on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources

All Councils are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. The Council's responsibilities are set out in Appendix A.

Councils report on their arrangements, and the effectiveness of these arrangements as part of their annual governance statement.

Under the Local Audit and Accountability Act 2014, we are required to be satisfied whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

The National Audit Office's Auditor Guidance Note (AGN) 03, requires us to assess arrangements under three areas:



Financial sustainability

Arrangements for ensuring the Council can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years).



Governance

Arrangements for ensuring that the Council makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the Council makes decisions based on appropriate information.



Improving economy, efficiency and effectiveness

Arrangements for improving the way the Council delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.



Our commentary on each of these three areas, as well as the impact of Covid-19, is set out on pages 6 to 17. Further detail on how we approached our work is included in Appendix B.

Financial sustainability



We considered how the Council:

- identifies all the significant financial pressures it is facing and builds these into its plans
- plans to bridge its funding gaps and identify achievable savings
- plans its finances to support the sustainable delivery of services in accordance with strategic and statutory priorities
- ensures its financial plan is consistent with other plans such as workforce, capital, investment and other operational planning
- identifies and manages risk to financial resilience, such as unplanned changes in demand and assumptions underlying its plans.

2020/21 and ongoing financial pressures

In its 2020/21 budget the Council set out the challenging financial landscape already in existence prior to the onset of COVID-19. It had previously been expected for 2020/21 that the Revenue Support Grant (RSG) would have been replaced by the outcomes of the Fair Funding Review and Business Rates Retention Scheme and this would have given certainty and stability regarding longer term funding. However, from the Chancellor of the Exchequer's one year funding announcement in the 2019 Spending Review it was clear that there would be delays in these reforms. This lack of certainty, coupled with increasing demand on Council services, especially in the areas of adult and children's social care, meant a challenging year for financial planning from the outset.

The Council's budget requirement for 2020/21 was £512.5m compared with £487.4m in 2019/20.

The monthly financial monitoring reports and November 2020 budget update report reflected on the further unprecedented challenges experienced by the Council in responding to the COVID-19 pandemic, and the resultant changed priorities. Extreme uncertainty was reported in the funding for 2021/22 and beyond due to the cancellation of the Autumn Budget, the awaited outcome of the Spending Review, the ongoing financial impact of the pandemic, the delayed Adult Social Care Green Paper and any Brexit implications not yet known. The Council carried out significant reviews throughout the pandemic on variables such as:

- additional costs
- lost income
- impact on savings plans
- use of reserves
- cash flow
- the capital programme
- receipts
- additional grants to assess the impact on the Medium-Term Financial Strategy (MTFS).

In the November 2020 budget update, the Council reported a forecast net underspend of £2.5m due to the significant COVID-19 funding made available from Central Government but increased the previously reported £28.3m gap to £50.8m, phasing across the three years 2021/22 to 2023/24 and factoring in the deployment of £15m of reserves over the following two years to match the potential reduction in council tax and business rates base, subject to further reviews of the position

In June 2021, the Council reported a much-improved outturn for 2020/21. An overall underspend (including services, corporate and schools) was reported of £52.0m. This included a net service underspend of £21.5m (3.8% of Council budget), predominantly made up of £16.1m in Adult Social Care services and £2.0m in Children & Young People services. The remaining underspend on Central Items of £30.5m was mainly due to £25.3m of unallocated unringfenced grants set aside for future pandemic related issues and £2.3m of unused contingencies.

The favourable outturn in 2020/21 culminated in the Council approving an increase to the General Fund Reserve of £10.2m to give a balance of £32.1m as at 31 March 2021. In our opinion, we consider that the additional funding received by the Council as a result of the COVID-19 pandemic has enabled the Council to strengthen its usable reserves position in comparison to the trend over the previous three years (see table below).

Year ending	General Fund £m	Other Usable Reserves £m	Total Usable Reserves £m
31 March 2021	32.1	209.3	241.4
31 March 2020	22.0	171.7	193.7
31 March 2019	24.1	167.2	191.3
31 March 2018	30.9	161.0	191.9

£32.1m is the Council's current risk-assessed minimum balance on its General Fund Reserve and the Council's MTFS currently forecasts balances at each year end to 31 March 2023 of £32.2m. Total usable reserves are forecast to decrease from £241.4m to £212.1m over the same period. The current MTFS proposes £19.9m use of reserves to meet one off transformation costs, with £3.9m being used to deliver a balanced budget over the medium term.

Based on our audit work on the Council's minimum revenue provision (MRP) charge for 2020/21, we are satisfied that the overall MRP charge in-year was prudent, and we have not identified any significant issues or concerns for future years based on the Council's historic policy decisions.

As at 31 December 2021 the Council is forecasting a net revenue underspend of £0.1m against its 2021/22 £530.3m budget, which included a £2.9m underspend in Adult Social Care services and a £1.7m overspend in Children and Young People.

We are satisfied that the Council managed its financial pressures effectively during 2020/21. We consider that the Council needs to focus its attention in the areas of Adult Social Care and Children & Young People where deviations from plan are more prevalent. The Council will also need to focus on emerging external factors in the trajectory of the COVID-19 pandemic and funding announcements whilst ensuring that it manages its reserves position going forwards.

The Council has majority shareholdings and joint shareholdings in several companies which have a financial impact on its financial position and performance. However, we identified this is not clearly set out in the Annual Budget or financial monitoring reports. The Council works in partnership with these organisations in delivering Council services. While the financial impact of these companies may not be significant to the Council's overall finances, this should be clearly set out in financial plans and monitoring reports.

Improvement Recommendation #01 (p18)

The Council should include financial information for its subsidiaries, associates and joint ventures in its financial plans and monitoring reports.

Savings plan

The Council monitored the delivery of planned savings regularly during 2020/21 through the Improvement and Change Sub-Committee. Savings were identified at budget-setting stage and removed from departmental budgets in the final approved 2020/21 budget. Any issues with achievement of savings were identified and addressed as part of the monthly budget monitoring exercise which was reported to Finance Committee.

Over the previous ten years, 2010/11 to 2019/20, the Council successfully delivered average annual savings of £28m. For 2020/21 the savings requirement included in the budget was £7.9m, compared with £15.2m in 2019/20. For 2021/22 the savings requirement reduced to £1.9m. Looking ahead, the Council has identified a funding gap to 2025/26 of £29.1m, which includes a savings requirement of £11.7m in the 2022/23 budget.

Through its Annual Budget process, the Council identifies and mitigates funding gaps for the twelve months ahead through measures including the identification of appropriate savings plans. However, measures to address the medium-term funding gap are not fully formed at that stage.

Further actions need to be taken to identify appropriate savings schemes or other measures to ensure that the Council can continue to deliver balanced budgets in the medium term.

Improvement Recommendation #02 (p19)

The Council needs to fully identify and develop saving plans across the medium term to address the identified funding gap.

Financial planning

The Council issued a 10-year plan "The Nottinghamshire Plan 2021-31 Healthy, Prosperous, Green" which features in the MTFS. The Plan was approved by Council on 25 Nov 2021 and highlights nine ambitions which will act as the framework for all Council activity:

- Helping our people live healthier, more independent lives
- Supporting communities and families
- Keeping children, vulnerable adults and communities safe
- Building skills that help people to get good local jobs
- Strengthening businesses and creating more good-quality jobs
- Making Nottinghamshire somewhere people love to live, work and visit
- Attracting investment in infrastructure, the economy and green growth
- Improving transport and digital connections
- Protecting the environment and reducing our carbon footprint.

The Plan sets out what the Council will do over the next four years to achieve these ambitions as well as how it will measure progress and success. This will have a particular focus on supporting Nottinghamshire's communities and businesses to recover from the socio-economic impacts of the COVID-19 pandemic.

The MTFS has clear links to the 10-year plan and the capital strategy is also clearly aligned. The identified capital schemes link in with the Council's ambitions and link in with the MTFS in terms of increasing capacity and thereby reducing pressures on services.

The Council's actual capital spend was £104.2m in 2020/21, an outturn of 89% against revised budget.

For 2021/22 the capital programme was revised to £129.0m in-year. The forecast at 31 December 2021 was an outturn of 93% with 51% achieved at that point. The variance on forecast outturn is largely due to slippage of spend into future years and a £4.5m overspend on the Gedling Access Road scheme.

Discretionary spending is subject to close scrutiny when spending and savings plans are being considered. However, statutory spending (mandated areas of core services that the

Council has to deliver) and discretionary spending (optional areas of services that the Council may choose to deliver) are not clearly differentiated in the financial planning reports which underlie the budget and the MTFS. We have identified this as an improvement recommendation.

Improvement Recommendation #03 (p20)

Consideration should be given to making a clear distinction between statutory and discretionary spending in the budgetary information provided to Members and published on the web.

Managing risks to financial resilience

The Council has incorporated uncertainty into its planning and incorporated budget risks and financial pressures into the MTFS. The Council has identified the following key financial risks:

- Ongoing financial impact of COVID-19 pandemic and implications of the delivery of council services
- Insufficient cost pressures to meet underlying cost and demand pressures e.g. Increased demand for Adults and Children's Social Care Services
- 2021/22 Settlement reflects one year settlement only resulting to future uncertainty
- Outcome of the Fair Funding Review and move to higher retention of business rates delayed by one year to 2022/23
- Implications and uncertainty surrounding the new Brexit deal.

The Council manages these risks through regular financial monitoring at Finance Committee and further scrutiny by Members at relevant service committees. In addition, the Council has risk-assessed the minimum level required on the General Fund to cover the key financial risks, considering both likelihood of risk materialising and financial impact. The amount approved is £32.1m and the MTFS ensures this level is maintained. The Council also has a COVID-19 earmarked reserve.

There are significant risks and uncertainties associated with the current financial environment in which the Council operates within both the short and medium term. It is essential that the Council takes appropriate measures to mitigate against these risks whilst acknowledging that, given the uncertainty overall, contingency plans may not be sufficient.

A balanced budget for 2021/22 was set by utilising the carry forward of COVID-19 funding from 2020/21. At the 31 March 2021 the Council had an earmarked COVID-19 reserve of £19.3m.

Overall, we are satisfied that the Council is well managed and has a good understanding of its budgetary position, budgetary pressures and savings requirement. There is an established process by which the budget is reviewed regularly, and issues are reported on a timely basis to TCWG.

Medium term financial planning

The MTFS is updated annually as part of the Council's financial planning process for setting its budget. However, during 2020/21 an additional review of the MTFS was undertaken in November 2020 to address the impact of COVID-19 and implement financial measures to enable the Council to reset a balanced budget for 2020/21 despite the financial pressures caused by COVID-19.

A further review of the MTFS and the assumptions that underpin it was undertaken in early 2021 as part of the annual financial planning process which resulted in the approval of the Council's 2021-2025 MTFS in February 2021. The Council put in place a series of proposals which forecast a balanced budget for 2021/22 but included funding gaps of £17.6m in 2022/23 and £14.6m in 2023/24. In February 2022, the Council issued its 2022-26 MTFS which included a balanced budget for 2022/23 and a reduced gap of £8.2m for 2023/24. The cumulative funding gap to 31 March 2026 is £29.1m. Plans to address this gap are not yet fully developed due to ongoing uncertainties in respect of the Council's key financial risks. We have raised an improvement recommendation relating to this matter on page 19.

We are satisfied that the Council identifies and manages risks to financial resilience and challenges the assumptions underlying its plans.

Summary of findings for financial sustainability

Overall, we are satisfied that the Council has appropriate arrangements in place to ensure it manages risks to its financial sustainability. We have raised three improvement recommendations as set out above.

Governance



We considered how the Council:

- monitors and assesses risk and gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud
- approaches and carries out its annual budget setting process
- ensures effective processes and systems are in place to ensure budgetary control
- ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency
- monitors and ensures appropriate standards.

Monitoring and assessing risk

The Council's current Risk Management Strategy and Risk Management Policy was approved by Governance and Ethics Committee in March 2018, following its development by the Risk, Safety & Emergency Management Board (RSEMB) and approval from the Corporate Leadership Team (CLT). The RSEMB maintains the Strategy under continual review, and a full refresh is made on a four-year cycle, following the establishment of a new strategic plan. The refresh is due in March 2022 following the adoption of the 10-year Nottinghamshire Plan. The RSEMB is responsible for reviewing and updating the Corporate Risk Register (CRR) at regular intervals and this is reported to CLT.

Each department has a 'Risk, Safety and Emergency Management Group' (RSEMG). The RSEMGs are responsible for having an overview of risk management in the department and maintaining a departmental risk register and/or Divisional Risk Registers where these are deemed appropriate. Risks identified as 'high' or 'very high' from service level risk assessments are reported to the departmental RSEMG for possible inclusion on the departmental risk register. Risks identified as 'medium' or 'low' will be treated or tolerated by the department, following the Risk Assessment Procedure that accompanies the Risk Management Strategy. Progress on actions is monitored routinely (in line with above) as part of the regular meetings of the RSEMB, and a thorough review of the Register is undertaken annually.

The Corporate Risk Register is monitored by CLT and an annual report is taken to the Governance and Ethics Committee. Operational risk activities are coordinated across all departments (and with key external partners) through the work of Departmental RSEMG's. This process is led by the Risk and Insurance Manager, who is a member of the RSEMB.

In addition to his role in Internal Audit, the Head of Internal Audit is also responsible for the Council's Business Intelligence Unit and Risk and Insurance processes. The Head of Internal Audit makes reference in the Internal Audit Annual Report to the potential independence issues arising as a result of these multiple responsibilities. Mitigations are in place, such that internal audit reviews of these two areas are provided by external providers when they become due. We are satisfied those mitigations are in place and are effective.

The Council appointed Zurich Municipal to undertake an independent review of its risk management arrangements. This was reported at the September 2021 Governance and Ethics Committee. This highlighted eight key findings which the Council committed to improve upon. The Council reported on actions taken against these eight findings to the March 2022 Governance and Ethics committee. Progress has been made and work remains underway to fully address the findings.

Improvement Recommendation #04 (p21)

The Council should continue to progress the actions required as a result of the key findings reported by Zurich Municipal on the Council's risk management arrangements.

Budget setting process

The budget setting process is multi-layered and extremely thorough in our opinion, with several stages including a sensitivity analysis of the impact of high-level assumptions on key areas of the MTFS. This analysis was presented to Members and CLT for consideration. This informed the setting of the Annual Budget which was presented to the Finance Committee and Full Council for approval in February 2020. There is also a monthly review of budget to outturn position undertaken by the Finance Committee.

The budget and the MTFS are considered concurrently and incorporated into the Council's annual budget, which includes a four-year MTFS. The longer-term projections and any risks to the medium term are also incorporated into the annual budget and financial monitoring reports are considered by the Finance Committee monthly.

This high level of scrutiny together with the Council's track record of achieving the majority of its planned savings and balancing its budget confirm the strength and validity of the budget setting processes in place.

Budgetary control

There are good systems in place for oversight of the budget. Monthly financial monitoring reports are presented to Finance Committee. There is stringent in-year oversight of the budget at a high level, which includes Full Council, Finance Committee, relevant service committees and CLT reviewing and assessing the actual outturn and future risks to the budget. The monthly budget monitoring reports detail variances at a department level demonstrating a regular identification of in-year variances. A good example of the Council's proactivity with regards to budgetary control was the additional MTFS review undertaken in November 2020 to address the impact of COVID-19 and implementation of financial measures to enable the Council to reset a balanced budget for 2020/21.

We noted that the Council reported a net service underspend of £21.2m (3.8% of Council budget) for 2020/21, compared with a £12.5m underspend forecast in month 11. The overall variance to budget was explained and was mainly attributable to an underspend in Adult Social Care and Public Health, but the significant movement between month 11 and the year-end was not. We have discussed this movement with management who explained this was reflective of the difficulties experienced by managers during the year in monitoring the budget due to COVID-19 particularly in Adult Social Care and Public Health. We note that this issue is not evident in previous years' forecasting to the same extent, which corroborates management's explanation. We do not therefore consider this to be an indicator of a weakness in the reliability of the Council's financial forecasting arrangements.

Leadership and committee effectiveness / decision making

Appropriate leadership is in place. The Council operates a Full Council and Committee structure supported by the CLT. There are twelve key committees which include Finance Committee, Governance and Ethics Committee and committees aligned to the Council's services.

The work of the Council's committees is governed by its constitution. The constitution is regularly reviewed and updated. The constitution is shared with all staff members on joining and is openly available on the Council's website. The Annual Governance Statement (AGS) needs to be read alongside the Council's constitution, which sets out how the Council operates, how decisions are made and the policies which are followed to ensure that these are efficient, transparent, and accountable to local people.

There is a good suite of policies in place, covering anti-fraud and corruption, declarations of interests and gifts and hospitality.

Monitoring and ensuring appropriate standards

The Council has both an employee and a Members' code of conduct which are up-to-date to communicate its expected behaviours.

The Council has published its Constitution on its website for public use, this includes the financial regulations, officers' code of conduct, protocols for registering and declaring interests, scheme of delegation etc.

Conflicts of interests declared by Members can be found in their individual biographies on the Council's website, but the Council does not currently hold all this information in one easily accessible place. We have identified an opportunity to strengthen the Council's arrangements by introducing a central register of Members' conflicts of interests.

Improvement Recommendation #05 (p22)

Whilst interests declared by Members are available on their individual biographies on the website, the Council should consider the creation of a central, online register of Members' interests. This would enable a review of the interests of specific Committees as a whole.

While there were no serious data security breaches identified by the Council and reported to the Information Commissioner's Office (ICO) throughout 2020/21, there have been five instances reported to the ICO during 2021/22.

Improvement Recommendation #06 (p23)

The Council should consider providing training to its employees to reduce the risk of significant data breaches occurring.

Summary of findings for governance

Overall, we are satisfied the Council has appropriate arrangements in place to ensure it manages risks to its governance. We have raised three improvement recommendations as set out above.

Improving economy, efficiency and effectiveness



We considered how the Council:

- uses financial and performance information to assess performance to identify areas for improvement
- evaluates the services it provides to assess performance and identify areas for improvement
- ensures it delivers its role within significant partnerships, engages with stakeholders, monitors performance against expectations and ensures action is taken where necessary to improve
- ensures that it commissions or procures services in accordance with relevant legislation, professional standards and internal policies, and assesses whether it is realising the expected benefits.

Performance review, monitoring & assessment

The Council's constitution requires consideration of key performance indicators by elected Members through the Committees of the Council. The Council's principal Committee – the Policy Committee – has agreed an approach to performance management across the Council and this is set out in the Planning and Performance Management Framework.

The Council's largest departments (by spend) each has its own Committee, and each has an agreed core dataset of key performance indicators (KPIs) for the services it provides. These measures are reported to departmental senior leadership teams using Business Intelligence Reports and dynamic dashboards on a regular basis. For key care services, these are reported monthly to senior leadership teams and quarterly to Committee.

A detailed and explanatory performance scorecard is included within these reports. In 2020/21:

- The Adult Social Care & Public Health performance report contained over 30 KPIs and included a RAG rating for each one.
- The Children & Young People performance report contained 70 KPIs and included direction of travel of performance
- The Communities and Place performance report contained 14 KPIs and included a RAG rating for each one.

Each quarterly performance report also included an update on financial performance, providing Members with timely oversight of both financial and service performance relevant to their individual portfolios. Performance reports set out the Council's performance against target for each KPI.

Based on our review we are satisfied that the Council has put in place adequate arrangements for performance review, monitoring and assessment.

Internal Audit has not undertaken an internal audit review of KPIs in either 2020/21 or 2021/22. We consider that Internal Audit should undertake a review of the data quality of KPIs as part of its 2022/23 Internal Audit plan. This would provide the Council with assurance over the accuracy of the performance data that underpins the KPIs in its performance reports.

Improvement Recommendation #07 (p24)

We recommend that Internal Audit should undertake a review of the data quality of KPIs as part of its 2022/23 Internal Audit plan.

There is not a clear or consistent use of benchmarking against other councils to assess the Council's performance or to identify areas for improvement. Other councils are developing plans for future budget processes to utilise the LGA Plus benchmarking tool. The tool provides subscribers with a suite of diverse online services to help understand customers, improve service provision and reduce costs, all in one accessible place. This would represent an opportunity for the Council to improve its arrangements to benchmark costs and performance.

Improvement Recommendation #08 (p25)

The Council should consider utilising the LGA Plus benchmarking tool to inform its budget processes.

Working with partnerships

The Nottinghamshire Plan 2021-31 sets out how the Council intends to work in partnership to achieve its nine ambitions (which we have listed in full on page 8).

The Council has established separate committees to deal with the following partnership arrangements:

- The Health and Wellbeing Board
- The Joint Committee on Strategic Planning and Transport
- The Greater Nottingham Light Rapid Transit Advisory Committee
- The Economic Prosperity Committee.

The Communities and Place Committee has oversight of related services including the highways and PFI arrangements and this covers the companies the Council works in partnership within this area, for example Via East Midlands Limited, Veolia Environmental Services Limited, Inspire Nottingham and ARC Partnership Consultants Limited. This can be seen in the quarter three performance report to Communities and Place Committee where relevant KPIs are established and monitored, and resulting actions required agreed.

We consider the Council has established appropriate oversight of its significant partnerships.

The number of partners with whom the Council works has increased as a result of the COVID-19 pandemic, with more third sector and voluntary organisations working in partnership with the Council.

The Council's updated Nottinghamshire Plan 2021-31 includes partnership working across its nine ambitions. However, how the Council works with its partners is not explicitly set out in this document or on the accompanying website. We have identified this as an improvement recommendation.

Improvement Recommendation #09 (p26)

Working with partners is a key theme in a number of ambitions in the Nottinghamshire Plan 2021-31. However, the plan and its dedicated website is not explicit in setting out how the Council works with partners, the outcomes delivered, and any improvements required. We recommend that the Council updates the website regularly to provide greater clarity with regards to partnership working.

Procurement

The Council's Procurement Strategy 2019-2023 sets out the following six principles which underpin all its procurement activity:

- Place Nottinghamshire residents at the centre of all commissioning and procurement decisions
- Drive best value for public money
- Commercially focused procurement and sourcing aligned with strategic, business and operational plans, and operating a competitive approach in line with internal and external regulations
- Compliance with procurement legislation and the key principles of equal treatment, transparency and proportionality
- Innovation in Performance Management to ensure we are getting the most from all our commissioning and contracting arrangements
- Enhance Sustainability – environmental, economic, and social for the ongoing wellbeing of the people of Nottinghamshire.

The Council measures its success by using the following performance metrics:

- Documented supplier performance against KPIs and targets to identify ongoing improvements in contract management
- A comprehensive and up-to-date contracts register with a list of all contract managers
- Reduction in off-contract spend
- Percentage of procurement administered through the e-tendering portal.

The Council also published its Procurement and Equality of Opportunity document which sets out the guidance for external providers of services to the Council.

Based on our review we are satisfied that the Council has put in place adequate arrangements for procurement.

A robust, monthly capital monitoring process is in place for all lines of the capital budget. Budget holders are asked to review capital expenditure to date and submit forecasting information on a regular basis. This information is circulated to Senior Finance Business Partners, the Corporate Leadership Team, and Members prior to being reported to the Finance and Major Contracts Management Committee as part of the monthly Financial Monitoring Report. Any issues regarding budgets, slippage / acceleration of projects and reasons for variations are picked up as part of this process.

We consider that the Council has adequate arrangements in place to monitor, control and report on the costs of major capital projects.

Summary of findings for improving economy, efficiency and effectiveness

Overall, we are satisfied the Council has appropriate arrangements in place to ensure it manages risks to its oversight in ensuring economy, efficiency and effectiveness in its use of resources. We have raised three improvement recommendations as set out above.

COVID-19 arrangements



Since March 2020 COVID-19 has had a significant impact on the population as a whole and how Council services are delivered.

We have considered how the Council's arrangements have adapted to respond to the new risks it is facing.

Summary

We found that the Council adapted well to the COVID-19 pandemic, and we have not identified any significant weaknesses in the Council's arrangements.

The Council established the COVID-19 Resilience, Recovery and Renewal Committee in response to the COVID-19 pandemic which met six times between July 2020 and March 2021. In July 2020 the Committee considered a COVID-19 update report and approved the Council's COVID-19 Economic Recovery Framework which includes the following five themes as the basis for rebuilding Nottinghamshire's economy: People, Place, Infrastructure, Visitor Economy, and Business.

The Council's Corporate Leadership Team (CLT) took overall responsibility for overseeing the Council's response to COVID-19. From the start of the COVID-19 pandemic, CLT were meeting daily to receive updates from the Chair of the Risk Safety and Emergency Management Board (RSEMB) and Corporate Directors on their services, providing leadership to protect critical services, addressing urgent issues, and overseeing communication with Members and staff. Data dashboards were developed to allow CLT to monitor the impact of COVID-19 on Council activity and inform operational decision-making.

Risk Safety and Emergency Management Groups (RSEMGs) reported on the response, escalated issues of a strategic nature and received actions to be undertaken departmentally. RSEMGs were responsible for managing the continuity of critical services within departments in line with established business continuity plans.

All groups involved in the response to COVID-19 kept records of all key operational decisions and actions and the Corporate Risk Register was updated accordingly.

Financial sustainability

The Council's monthly financial monitoring reports reported to the Finance Committee set out the implications of COVID-19 and its response. Significant reviews have taken place, and continue to take place, looking at variables such as additional costs, lost income, impact on savings plans, use of reserves, cash flow, capital programme, capital receipts as well as additional grants received from Government to assess the impact upon the Medium-Term Financial Strategy. This work then feeds into the budget setting process and reporting to the committee.

In 2020/21 Local Authorities were required by the Ministry for Housing, Communities and Local Government to report their forecast financial impact of the COVID-19 emergency each month. The Council's year-end DELTA12 submission identified a total gross forecast financial impact of £82.9m in 2020/21. These costs were offset by several COVID-19 specific grants that the Council received from Central Government.

In February 2022, the Council forecast additional costs and lost income due to COVID-19 of £138m for 2021/22. This has been funded by a combination of central government support, expenditure controls and re-prioritisation of discretionary spend. The impact of the COVID-19 pandemic is expected to continue into 2022/23.

We consider that Council had effective arrangements in place to identify and monitor additional costs arising from responding to the COVID-19 pandemic.

COVID-19 reserve

On 19 March 2020, the Government announced £1.6bn of additional funding for Local Government to help respond to coronavirus pressures across all services. Nottinghamshire County Council's share of this emergency fund totalled £22.3m. This funding was received on

27 March 2020 and, given its non-ringfenced nature, was transferred to a COVID-19 reserve to fund emergency costs in the next financial year. This funding was utilised in full during 2020/21 as part of the Council's immediate response to the pandemic.

COVID-19 recovery reserve

In 2020/21, the Council received three further tranches of non-ringfenced COVID-19 core funding totalling £24.8m. The unspent element of this funding has been appropriated to a specific COVID-19 Recovery Reserve. This reserve will assist the Council in its continued response to the pandemic by helping to mitigate against significant uncertainty in relation to both service demand and the economic impact on Council funding. The closing balance on this reserve at 31 March 2021 was £19.3m.

In our view the Council had appropriate arrangements in place to identify and monitor additional costs and lost income arising from responding to the COVID-19 pandemic.

Governance

While the Council generally maintained a business-as-usual approach to its governance arrangements during the pandemic, some adjustments were required. As a result of the lockdown restrictions announced on 16 March 2020, the Council adjusted some of its internal control processes to support effective governance throughout the pandemic. As soon as these were lawful, the Council started holding members' meetings online.

All committees, but especially the Policy Committee, the Finance Committee, the Governance and Ethics Committee and the service level Committees have maintained a keen interest in the Council's response to the pandemic.

Internal Audit reported that it carried out comprehensive reviews into the Council's response to the pandemic and that these have delivered positive assurance that the Council has mounted an effective response, having due regard to the speed of delivery and proportionate control. Internal Audit also had input to the roll-out of the Council's Covid Community Fund, the Emergency Assistance Fund and transport operator payments.

In our view, Internal Audit demonstrated it can offer a responsive service, adapting its annual plan to accommodate new reviews required as a result of the change in circumstances caused by COVID-19.

All office-based staff were provided with the necessary equipment to work from home, enabling a smooth transition to remote working where this was possible. Home-based working has continued throughout the pandemic and there has been a good level of continuity of service. Enabling staff to work from home also supported the Council in protecting its frontline staff and residents by reducing the risk of virus transmission. Personal protective equipment (PPE) was also sourced and provided to all Council staff where this was deemed necessary.

In our view the Council adapted its governance and internal controls appropriately to meet the challenges of the COVID-19 pandemic.

Improving economy, efficiency and effectiveness

The Council has been mindful of the impact on the pandemic on its most important resource, its staff. Actions have been put in place to support staff wellbeing and supporting staff remains a key priority for the Council. In aiming to maintain staff wellbeing, the Council has been able to maintain an efficient and effective delivery of its statutory services.

The Finance Committee, Policy Committee, Adult Social and Public Health Committee, Children and Young People Committee, Communities and Place Committee and other service committees have all played a significant role in ensuring that the Council maintained effective controls around expenditure and procurement during the COVID-19 pandemic. One example of this was the introduction of the Adult Social Care and Public Health Recovery Plan which included five key areas: financial position; day centres, carers, mental health and workforce. Another example was the urgent approval given by the Chief Executive on 1 April 2020 to secure emergency funding of £300,000 to support private, voluntary and independent childcare sector during the early stages of the COVID-19 pandemic.

We are satisfied that the Council maintained effective controls around expenditure and procurement during the pandemic.

Summary of findings for COVID-19

Our review has not identified any significant weaknesses in the Council's VFM arrangements for responding to the COVID-19 pandemic. The Council and its Members and officers have demonstrated their commitment to protecting the services provided to the residents of Nottinghamshire through working hard and effectively during the unparalleled times during the COVID-19 pandemic.

Improvement recommendations

The range of recommendations that external auditors can make is explained in Appendix C.



Improvement Recommendation #01

Financial sustainability

Recommendation	The Council should include financial information for its subsidiaries, associates and joint ventures in its financial plans and monitoring reports.
Impact	It is important that the Council makes the financial impact of its group relationships transparent to Members and the public.
Auditor judgement	We consider that the transparency of the financial impact of group relationships should be improved in financial plans and monitoring reports.
Summary findings	The Council has majority shareholdings and joint shareholdings in several companies which have a financial impact on its financial position and performance. However, we identified this is not clearly set out in the Annual Budget or financial monitoring reports.
Management comments	The Council delivers some of its services through the companies it has holdings with. These are reflected in the Council's budget and capital programme and a judgement of the financial sustainability of the companies is undertaken by the Section 151 Officer. It is recognised that this assessment is not brought into the information provided in the budget planning and monitoring reporting and an appraisal of how this can be brought meaningfully reports will be undertaken.

Improvement recommendations

The range of recommendations that external auditors can make is explained in Appendix C.



Improvement Recommendation #02

Financial sustainability

Recommendation	The Council needs to fully identify and develop saving plans across the medium term to address the identified funding gap.
Impact	The future funding gaps indicate a risk that the Council will not be able to set a balanced budget in future years.
Auditor judgement	<p>We are satisfied that the Council identifies and manages funding gaps for each year ahead in the Annual Budget through the effective identification and delivery of savings plans.</p> <p>Further actions need to be taken to identify appropriate savings schemes or other measures to ensure that the Council can continue to deliver balanced budgets in the medium term.</p>
Summary findings	Historically the Council has successfully delivered planned savings to ensure that balanced budgets have been delivered. The Council has identified a funding gap to 2025/26 of £29.1m, which includes a savings requirement of £11.7m in the 2022/23 budget.
Management comments	The Council has a proven track record of managing its finances which was recognised in its LGA Peer Review in 2019. The significant financial risks are set out in monitoring and budget planning documents and is supported by the assessment of general fund balances and reserves. The Council's budget report(s) set out the long-term aim is to balance its budget by cross-cutting long-term transformation programmes. To set out savings programmes without an assessment of the implications on its services and upon residents would be considered premature.

Improvement recommendations

The range of recommendations that external auditors can make is explained in Appendix C.



Improvement Recommendation #03

Financial sustainability

Recommendation	Consideration should be given to making a clear distinction between statutory and discretionary spending in the budgetary information provided to members and published on the web.
Impact	This would help Members and residents to understand the difference between these types of spending and would help inform them as to any spending which is made as a result of manifesto pledges or following a decision by the Council to undertake a specific project outside of or in addition to its statutory obligations.
Auditor judgement	The different categories of spending could be made clearer. Currently it is not apparent whether any of the Council's spending is discretionary.
Summary findings	No distinction is made in the financial information reported to those charged with governance (TCWG) between statutory and discretionary spending.
Management comments	Some years ago, the Council undertook an exercise to identify such categorisation. This was a costly exercise to perform and led to significant debate on the categorisation of spend and income and resulted in information that was of little or no use. It became a nice to know rather than a need to know when considering the significant financial challenges and decision making that was needed to balance the budget.

Improvement recommendations

The range of recommendations that external auditors can make is explained in Appendix C.



Improvement Recommendation #04

Governance

Recommendation	The Council should continue to progress the actions required as a result of the key findings reported by Zurich Municipal on the Council's risk management arrangements.
Impact	Zurich Municipal's report highlighted eight key areas where improvement was required to the Council's risk management arrangements.
Auditor judgement	Full implementation of Zurich Municipal's recommendations is required on a timely basis to strengthen the Council's risk management arrangements.
Summary findings	The Council reported on actions taken against these eight findings to the March 2022 Governance and Ethics committee. Progress has been made and work remains underway to fully address the findings.
Management comments	The Council will continue to progress the actions from this work and report on progress.

Improvement recommendations

The range of recommendations that external auditors can make is explained in Appendix C.



Improvement Recommendation #05

Governance

Recommendation	Whilst interests declared by Members are available on their individual biographies on the website, the Council should consider the creation of a central, online register of Members' interests. This would enable a review of the interests of specific Committees as a whole.
Impact	Having to check each Member separately is piecemeal and makes it difficult to confirm the overall complexion of interests held.
Auditor judgement	It is not immediately apparent if there are a number of interests or similar interests held by any particular committee or political grouping.
Summary findings	Whilst there is a full register of Members interests made available at the library, this is not available online as a single document. Transparency could be improved by making this information available in a single place online.
Management comments	The requirement to have a register of interests is currently met by a physical copy of the register being available for inspection at County Hall and the information comprised in the register is also available on the Council's website via each Councillor's personal register of interests section on their individual page on the website. This approach is replicated in the same way across many Councils and reflects the fact that each Councillor makes a personal declaration of disclosable pecuniary interests in accordance with the law. These personal declarations are unlikely to show themes across Committees or political groups (as they are by their nature specific to each individual) and there is no requirement for the register to identify such issues. However, through the Council's Committee Management Information System (CMIS) where this information is stored, it is easy to access information by political party or by Division or by Committee as required, should those inspecting the information wish to do so. There is also a risk that by having a secondary form of online register, issues of consistency and errors in updating may arise and a single location for the information is therefore preferred. As a result the Council does not intend to change the current arrangements relating to the register.

Improvement recommendations

The range of recommendations that external auditors can make is explained in Appendix C.



Improvement Recommendation #06

Governance

Recommendation	The Council should consider providing training to its employees to reduce the risk of significant data breaches occurring.
Impact	Significant data breaches can result in members of the public gaining access to confidential information.
Auditor judgement	The Council should be proactively reducing the risk of any further significant data breaches.
Summary findings	This could result in either financial, legal or reputational damage to the Council.
Management comments	The Council requires all employees to undertake Data Protection and Information Governance training on an annual basis. Training covers a broad range of data protection matters including a focus on data breaches and their potential impact. This has been augmented by face-to-face targeted training for specific staffing cohorts including social care and Children's Centre staff. The Council continuously reviews its Data Protection training offer, considering any identified trends in data incident metrics which are indicative of a need to focus additional training resources on a particular area of work or staffing group.

Improvement recommendations

The range of recommendations that external auditors can make is explained in Appendix C.



Improvement Recommendation #07

Improving economy, efficiency and effectiveness

Recommendation	We recommend that Internal Audit should undertake a review of the data quality of KPIs as part of its 2022/23 Internal Audit plan.
Impact	This would provide the Council with assurance over the accuracy of the performance data that underpins its range of key performance reports.
Auditor judgement	There is a risk of inaccuracies in the data supporting the Council's KPIs.
Summary findings	We found that the Council did not have sufficient arrangements in place to provide adequate assurance for the data quality of the information that underpins its KPIs.
Management comments	The Internal Audit Plan is compiled using agile audit methodology and risk assessment to determine a resultant risk based termly internal audit plan. The risks from data quality in relation to KPIs will be captured within the risk intelligence hub for 2022/23 and subject to risk assessment for consideration of the most appropriate timing for completion capturing the needs of The Nottinghamshire Plan.

Improvement recommendations

The range of recommendations that external auditors can make is explained in Appendix C.



Improvement Recommendation #08

Improving economy, efficiency and effectiveness

Recommendation	The Council should consider utilising the LGA Plus benchmarking tool to inform its budget processes.
Impact	This would provide the Council and the public with a greater understanding of how its financial and performance KPIs compare to other councils.
Auditor judgement	We consider that the Council should strengthen its use of benchmarking to identify opportunities to improve financial and service performance.
Summary findings	We found that there is not a clear or consistent use of benchmarking against other councils as a tool to assess the Council's performance or to identify areas for improvement.
Management comments	<p>As part of the ongoing development of the Council's Strategic Insight Unit (SIU), we are committed to making greater use of a full range of comparator and benchmarking tools, including LG Inform Plus. Comparator analysis is now being utilised to inform our portfolio of corporate transformation and change programmes and to identify potential areas for further exploration and analysis to deliver financial benefits and non-financial benefits.</p> <p>The SIU is also promoting the use of available tools to support wider comparator analysis across the Council, recently developing an intranet space to publicise and encourage wider access and usage to support service and practice improvement.</p>

Improvement recommendations

The range of recommendations that external auditors can make is explained in Appendix C.



Improvement Recommendation #09

Improving economy, efficiency and effectiveness

Recommendation	Working with partners is a key theme in a number of ambitions in the Nottinghamshire Plan 2021-31. However, the plan and its dedicated website is not explicit in setting out how the Council works with partners, the outcomes delivered, and any improvements required. We recommend that the Council updates the website regularly to provide greater clarity with regards to partnership working.
Impact	It might not be clear to residents on reading the Nottinghamshire Plan 2021-31 what partnership arrangements are in place and whether those are effective. The provision of more explicit references to the partners the Council works with would provide more context for residents.
Auditor judgement	Transparency could be improved if the work being undertaken by partners is set out explicitly in reporting provided to residents on the Council's dedicated website.
Summary findings	It is not immediately apparent what the outcomes of partnership working are and what planned improvements are required.
Management comments	<p>In May 2022, the Council will publish an Annual Delivery Plan to outline the key actions in 2022-23 to deliver the Council Plan. This Plan will provide greater detail about the specific deliverables and will provide information about how the Council will work with partners to achieve our ambitions for Nottinghamshire. This will be available on the Council's website.</p> <p>We also intend to publish an Annual Report each year, which will provide more information to the public regarding progress against the Council Plan and Annual Delivery Plan. This report will include more explicit reference to the impact of our partnership activity and the outcomes achieved by working with key partner agencies. This will also be made available on the Council's website.</p>

Appendices

Appendix A - Responsibilities of the Council



Role of the Chief Financial Officer (or equivalent):

- Preparation of the statement of accounts
- Assessing the Council's ability to continue to operate as a going concern

Public bodies spending taxpayers' money are accountable for their stewardship of the resources entrusted to them. They should account properly for their use of resources and manage themselves well so that the public can be confident.

Financial statements are the main way in which local public bodies account for how they use their resources. Local public bodies are required to prepare and publish financial statements setting out their financial performance for the year. To do this, bodies need to maintain proper accounting records and ensure they have effective systems of internal control.

All local public bodies are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. Local public bodies report on their arrangements, and the effectiveness with which the arrangements are operating, as part of their annual governance statement.

The Chief Financial Officer (or equivalent) is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Chief Financial Officer (or equivalent) determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Chief Financial Officer (or equivalent) is required to prepare 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. In preparing the financial statements, the Chief Financial Officer (or equivalent) is responsible for assessing the Council's ability to continue as a going concern and use the going concern basis of accounting unless there is an intention by government that the services provided by the Council will no longer be provided.

The Council 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.



Appendix B - Risks of significant weaknesses - our procedures and findings

As part of our planning and assessment work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources that we needed to perform further procedures on. The risks we identified are detailed in the table below, along with the further procedures we performed, our findings and the final outcome of our work:

Risk of significant weakness	Procedures undertaken	Findings	Outcome
Financial sustainability was identified as a potential significant weakness, see page 3 for more details.	<p>We considered how the Council:</p> <ul style="list-style-type: none">identifies all the significant financial pressures it is facing and builds these into its plansplans to bridge its funding gaps and identify achievable savingsplans its finances to support the sustainable delivery of services in accordance with strategic and statutory prioritiesensures its financial plan is consistent with other plans such as workforce, capital, investment and other operational planningidentifies and manages risk to financial resilience, such as unplanned changes in demand and assumptions underlying its plans.	<p>Summary of findings for financial sustainability</p> <p>Overall, we are satisfied that the Council has appropriate arrangements in place to ensure it manages risks to its financial sustainability (see pages 6-8). We have not identified a significant weakness in the Council's arrangements for financial sustainability but we have raised three improvement recommendations (see pages 18-20).</p>	<p>The Council has got appropriate arrangements in place for financial sustainability and, as a result, we have not made any key recommendations.</p>

Appendix C - An explanatory note on recommendations

A range of different recommendations can be raised by the Council's auditors as follows:

Type of recommendation	Background	Raised within this report	Page reference
Statutory	Written recommendations to the Council under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the Council to discuss and respond publicly to the report.	No	Not applicable
Key	The NAO Code of Audit Practice requires that where auditors identify significant weaknesses as part of their arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the Council. We have defined these recommendations as 'key recommendations'.	No	Not applicable
Improvement	These recommendations, if implemented should improve the arrangements in place at the Council, but are not a result of identifying significant weaknesses in the Council's arrangements.	Yes	Pages 18-26

Appendix D - Use of formal auditor's powers

Statutory recommendations

Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors can make written recommendations to the audited body which need to be considered by the body and responded to publicly

We did not issue any statutory recommendations.

Public interest report

Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors have the power to make a report if they consider a matter is sufficiently important to be brought to the attention of the audited body or the public as a matter of urgency, including matters which may already be known to the public, but where it is in the public interest for the auditor to publish their independent view.

We did not issue any public interest reports.

Application to the Court

Under Section 28 of the Local Audit and Accountability Act 2014, if auditors think that an item of account is contrary to law, they may apply to the court for a declaration to that effect.

We did not issue any applications to the Court.

Advisory notice

Under Section 29 of the Local Audit and Accountability Act 2014, auditors may issue an advisory notice if the auditor thinks that the authority or an officer of the authority:

- is about to make or has made a decision which involves or would involve the authority incurring unlawful expenditure,
- is about to take or has begun to take a course of action which, if followed to its conclusion, would be unlawful and likely to cause a loss or deficiency, or
- is about to enter an item of account, the entry of which is unlawful.

We did not issue any advisory notices.

Judicial review

Under Section 31 of the Local Audit and Accountability Act 2014, auditors may make an application for judicial review of a decision of an authority, or of a failure by an authority to act, which it is reasonable to believe would have an effect on the accounts of that body.

We did not issues any judicial reviews.

