

The Audit Findings for Nottinghamshire County Council

Year ended 31 March 2022

22 March 2023



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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 as part of our audit planning process. 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.

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260. Its contents have been discussed with management.

Andrew Smith

Andrew Smith

For Grant Thornton UK LLP

22 March 2023

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1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of Nottinghamshire County Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2022 for those charged with governance.

Financial Statements

Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:

- the Council's financial statements give a true and fair view of the financial position of the Council and the Council's income and expenditure for the year; and
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS), Narrative Report and Pension Fund Financial Statements, is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Our audit work was completed mainly remotely during July 2022- February 2023.

Our findings are summarised on pages 7 to 23. We have identified seven adjusted misstatements to the financial statements that have resulted in an increase of £5.240m to the net expenditure reported in the Comprehensive Income and Expenditure Statement (CIES). We have also identified three unadjusted misstatements, which have an opposing net impact on the CIES – a decrease of £5.851m to net expenditure. Our work on creditors testing is still underway and these totals may change as a result.

We identified several disclosure and presentational issues – some of which have been adjusted by management and some which have not. Adjusted and unadjusted audit misstatements are detailed in Appendix C.

We have raised five new recommendations for management as a result of our audit work in Appendix A.

Our follow up of recommendations from the prior year's audit are detailed in Appendix B. We note that of the four recommendations previously raised: two have been fully implemented; one has been partially implemented; and one has not yet been implemented.

Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion (included in Appendix E) or material changes to the financial statements, subject to the following outstanding matters;

- resolution of final queries on creditors sample testing.
- resolution of final queries on payroll reconciling item testing.
- receipt of signed management representation letter – see appendix F; and
- review of the final set of financial statements.

We have concluded that the other information to be published with the financial statements, is consistent with our knowledge of your organisation and the financial statements we have audited.

Our anticipated audit report opinion will be unqualified.

1. Headlines

Value for Money (VFM) arrangements

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are now required to report in more detail on the Council's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

Auditors are required to report their commentary on the Council's arrangements under the following specified criteria:

- Improving economy, efficiency and effectiveness;
- Financial sustainability; and
- Governance

Whilst well progressed, we have not yet completed all of our VFM work and so are not in a position to issue our Auditor's Annual Report at this time. An audit letter explaining the reasons for the delay is attached in the Appendix G to this report. We expect to issue our Auditor's Annual Report by 3 May 2023. This is in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements.

As part of our 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. We identified a risk in respect of financial planning (medium term financial sustainability) as reported in our Audit Plan on 9 June 2022. Our work on this risk is underway and an update is set out in the value for money arrangements section of this report.

Statutory duties

The Local Audit and Accountability Act 2014 ('the Act') also requires us to:

- report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and
- to certify the closure of the audit.

We have not exercised any of our additional statutory powers or duties.

We expect to certify the completion of the audit upon the completion of our work on the Council's VFM arrangements, which will be reported in our Annual Auditor's report in May 2023.

Significant Matters

The audit has taken much longer to reach completion stage than in previous years. This is due to a combination of factors including:

- late resolution of a national issue in the accounting for infrastructure assets;
- increased complexity of Local Government Accounts; and
- increased regulator focus on audit quality across the board and in specific very complex estimates including the valuation of property, plant and equipment. In particular, finance teams and property valuers are less equipped than ever to handle the increased level of audit scrutiny and challenge demanded by the audit regulator.
- Auditors are also having to adapt quickly to new ways of conducting audits remotely to match the way many Councils are operating.

We aim to hold a debrief and work closely with the Council to identify areas of improvement in time for the 2022/23 audit.

2. Financial Statements

Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management and will be discussed the Governance and Ethics Committee at its meeting on 22 March 2023.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Audit approach

Our audit approach was based on a thorough understanding of the Council's business and is risk based, and in particular included:

- An evaluation of the Council's internal controls environment, including its IT systems and controls;
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Governance and Ethics Committee meeting on 22 March 2023, as detailed in Appendix E. These outstanding items include:

- resolution of final queries on creditors sample testing.
- resolution of final queries on payroll reconciling item testing.
- receipt of signed management representation letter – see appendix F; and
- review of the final set of financial statements.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff. As highlighted on the previous page, and as detailed in our report: both your finance team and our audit team faced audit challenges again this year. This resulted in us having to carry out additional audit procedures to gain sufficient audit assurance in respect of our auditor's opinion on the financial statements. The audit has been a long process and we extend special thanks to the finance team for their perseverance and resilience in handling the increased volume of audit queries.

2. Financial Statements



Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Materiality levels remain the same as reported in our audit plan on 9 June 2022. We detail in the table below our determination of materiality for Nottinghamshire County Council.



Amount (£'000) Qualitative factors considered

Materiality for the financial statements	18,500	We determined materiality for the audit of the Council's financial statements as a whole to be £18.5m in our audit plan which equated to approximately 1.5% of the Council's 2020-21 gross operating expenses. Gross expenditure is considered the most appropriate benchmark because we consider the users of the financial statements to be most interested in how the Council has expended its revenue and other funding. As a firm we cap materiality at 1.5% for large and complex authorities such as Nottinghamshire County Council to reflect the risk and regulatory expectation of audit firms.
Performance materiality	12,950	<p>Performance materiality drives the extent of our testing and this was set at 70% of financial statement materiality. Our consideration of performance materiality is based upon a number of factors:</p> <ul style="list-style-type: none">• We are not aware of a history of significant deficiencies in the control environment.• There has not historically been a large number of significant misstatements arising.• Senior management and key reporting personnel have remained stable from the prior year audit.
Trivial matters	925	Triviality is the threshold at which we will communicate misstatements to the Governance and Ethics Committee.
Materiality for senior officer remuneration disclosures	20	Lower materiality applied to senior officer remuneration disclosures due to heightened public interest in this area of the accounts.

2. Financial Statements - Significant risks

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

This section provides commentary on the significant audit risks communicated in the Audit Plan.

Risks identified in our Audit Plan	Commentary
<p>Fraud in revenue recognition (rebutted)</p> <p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p> <p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none">• there is little incentive to manipulate revenue recognition• opportunities to manipulate revenue recognition are very limited• the culture and ethical frameworks of local authorities, including Nottinghamshire County Council, mean that all forms of fraud are seen as unacceptable <p>Therefore we do not consider this to be a significant risk for Nottinghamshire County Council.</p>	<p>No changes noted from the risk assessment performed at the audit planning stage. Our rebuttal of the risk therefore stands.</p>
<p>Fraud in expenditure recognition – Practice Note 10 (rebutted)</p> <p>In line with the Public Audit Forum Practice Note 10, in the public sector auditors must also consider the risk that material misstatements due to fraudulent financial reporting may arise from the manipulation of expenditure recognition (for instance by deferring expenditure to a later period)</p> <p>We have considered this risk for the Council and have determined it to be appropriate to rebut this risk based on limited incentive and opportunity to manipulate expenditure.</p>	<p>No changes noted from the risk assessment performed at the audit planning stage. Our rebuttal of the risk therefore stands.</p>

2. Financial Statements - Significant risks

Risks identified in our Audit Plan

Commentary

Management over-ride of controls

Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.

The Authority faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance.

We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.

We have:

- evaluated the design effectiveness of management controls over journals
- analysed the journals listing and determined the criteria for selecting high risk unusual journals
- tested unusual journals recorded during the year and after the draft accounts stage for appropriateness
- gained an understanding of the accounting estimates and critical judgements made by management and considered their reasonableness with regard to evidence
- evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.

Conclusion

In our prior year audit findings, we reported two issues which we consider to be control deficiencies in the journal entry process. These relate to:

- the ability of senior finance officers' ability to post journals; and
- a user's ability to both post and approve their own journal.

Upon further investigation this year we confirmed with management that the ability for senior officers to post journals was removed in 2018. We did not identify any instances of senior officers posting journals in the year.

We confirmed that users were still able to post and approve their own journal during 2021/22. We did note some mitigation to the risk because management have strengthened a detective control to ensure self-approved journals are retrospectively identified and approved. We do however roll-forward our recommendation in relation to introducing an automated preventative control in Appendix B.

Due to this matter existing we performed focused testing. We noted four instances of self-approved journals in 2021/22. These were individually and cumulatively not material by value. We tested each with no matters to report.

No issues have been identified as a result of our journals work to address the significant risk of management override of control, in addition to this, we have concluded that there are no indications of management bias in estimates included in the financial statements.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan

Commentary

Valuation of land and buildings, surplus assets and investment property (value £808.9m – prior year £770.5m) – *specifically for assets where valuation movements fall outside of auditor expectation*

The Authority revalues its land and buildings and surplus assets on a rolling five year basis as per its interpretation of the Code. Investment properties are valued on an annual basis in line with the accounting Code.

To ensure the five year valuation programme for land & buildings and surplus assets does not lead to material differences in carrying values, the Authority carries out a desktop valuation or requests a desktop valuation from its valuation expert. Valuations represent a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions.

Within the valuation of the Authority's land and buildings and investment properties, the valuer's estimation of the value has several key inputs, which the valuation is sensitive to. For land and buildings, these include but are not limited to build cost indices, the size and location of the building and any judgements that have impacted this assessment and the condition of the buildings. For investment properties, these include yields used in the valuation and estimated future rentals from the investment properties.

We therefore have identified that the accuracy of the key inputs and assumptions used in the valuation of land and buildings and investment properties as a significant risk, which was one of the most significant assessed risks of material misstatement.

We have:

- evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work
- evaluated the competence, capabilities and objectivity of the valuation expert
- written to the valuer to confirm the basis on which the valuation was carried out
- tested revaluations made during the year, including the assumptions and source data on which they are based, and to see if they had been input correctly into the Authority's asset register.
- engaged our own valuer to assess the instructions to the Authority's valuer, the Authority's valuer's report and the assumptions that underpin the valuation.
- evaluated the assumptions made by management for any assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end

Conclusion

Our audit work on the valuation of the Council's land and buildings and investment properties is complete and we have the following matters to report to you.

Assets not revalued in year – The CIPFA Code requires that revaluations of other land and buildings and surplus assets are scheduled sufficiently regularly so that the carrying value of the assets are not materially different to their current value. The Council adopts a rolling 5-year programme of valuations. To assess whether a material difference may exist, the Council ask the professional valuer to provide an opinion. We corroborate this opinion by forming an expectation of current values using published market indices. This year we identified a potential material difference in the carrying values of assets not revalued in year. Management (in conjunction with the valuer) agreed and five further valuations were carried out to ensure the rolling programme issue was no longer material. The assets revalued moved from a value of £29.036m to £27.955m (a £1.081m decrease). Management adjusted the accounts for these valuations for in the PPE balance and supporting disclosure note. Refer to Appendix C.

Also refer to the detailed assessment of the estimation process as described on pages 14-16 of the report

2. Financial Statements - Significant risks

Risks identified in our Audit Plan

Commentary

Valuation of the net defined benefit pension fund liability- (value £1,317.0m – prior year £1,524.7m)

specifically with regard to the appropriateness of assumptions used to determine the valuation

The Authority's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.

We do not believe there is a significant risk of material misstatement in the IAS 19 estimate due to the methods and models used in their calculation or due to the source data used in their calculation.

However, we have concluded that there is a significant risk of material misstatement in the IAS 19 estimate due to the assumptions used in their calculation. The actuarial assumptions used are the responsibility of the entity but should be set on the advice given by the actuary. As noted above, the appropriateness of the assumptions proposed by the actuary is covered by the TAS actuarial standards. However, the Council may choose to use different assumptions than those proposed by their actuary. A small change in the key assumptions (discount rate, inflation rate, salary increase and life expectancy) can have a significant impact on the estimated IAS 19 liability. In particular the discount and inflation rates, where our consulting actuary has indicated that a 0.1% change in these two assumptions would have approximately 2% effect on the liability.

We therefore identified the assumptions used to determine the valuation of the Authority's pension fund net liability as a significant risk.

We have:

- updated our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluated the design of the associated controls;
- evaluated the instructions issued by management to their management expert (the actuary) for this estimate and the scope of the actuary's work;
- assessed the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation;
- assessed the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability;
- tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary;
- undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report
- agreed the advance payment made to the pension fund to the expected accounting treatment and relevant financial disclosures.
- obtained assurances from the auditor of Nottinghamshire Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.

Conclusion

Our audit work on the valuation of the Council's net pensions liability is complete and we have the following matters to report to you.

We were informed by the auditor of the Pension Fund of two audit findings relating to an understatement of fund assets which impacted the Council's share of net assets by £14.97m. The two issues were: 1) the auditor found that the actuary had not been notified of a balance of investments held by the Fund so consequently these assets weren't included in the actuary's report; 2) timing differences impacting the valuation of pension assets.

Management have been advised by the Pension Fund finance team the adjustment required is £13.258m. Management have amended the net pension liability and note 21 in the accounts, by increasing the valuation of their equities by £13.258m. This is reported as an adjusted misstatement in Appendix C.

This leaves a further maximum potential overstatement of £1.712m of the Total Net Pensions Liability. This being the difference between the amount advised to us by the Pension Fund auditor and the amount advised to the Council by the Pension Fund. This is reported as an unadjusted misstatement in Appendix C.

Also refer to the detailed assessment of the estimation process as described on page 17 of the report

2. Financial Statements - Other risks

Risks identified in our Audit Plan

Value of Infrastructure assets (value £651.5m – prior year £599.1m) and the presentation of the gross cost and accumulated depreciation in the PPE note

Infrastructure assets include roads, bridges, highways and streetlighting. Each year the Council spends circa £35m on Infrastructure capital additions. As at 31 March 2021, the net book value of infrastructure assets was £599m which is over 32 times materiality.

In accordance with the LG Code, Infrastructure assets are measured using the historical cost basis, and carried at depreciated historical cost. With respect to the financial statements, there are two risks which we plan to address:

The risk that the value of infrastructure assets is materially misstated as a result of applying an inappropriate Useful Economic Life (UEL) to components of infrastructure assets.

The risk that the presentation of the PPE note is materially misstated insofar as the gross cost and accumulated depreciation of Infrastructure assets is overstated. It will be overstated if management do not derecognise components of Infrastructure when they are replaced.

These two risks have not been assessed as a significant risk at this stage, but we have assessed that there is some risk of material misstatement that requires an audit response.

Commentary

On 29 November 2022, CIPFA issued a Code update which removes the requirement for the disclosure of gross cost and gross accumulated depreciation for infrastructure assets. On 30 November, the Department of Levelling Up, Housing and Communities issued an update to the Capital Finance and Accounting Regulations for England under Statutory Instrument (SI). The SI included two key elements:

- A local authority is not required to make any prior period adjustments (PPAs) in respect of infrastructure assets
- Where a local authority replaces a component of an infrastructure asset the carrying amount to be derecognised can be determined as nil or calculated in accordance with normal accounting practices specified in the CIPFA Code.

The majority of the initial risks we identified in relation to infrastructure asset balances and disclosures have been resolved following the issue of the CIPFA Code update and the new SI issued under the Capital Finance and Accounting Regulations which the authority have decided to adopt, (as outlined above).

As a result, the only inherent risk that required further consideration related to the risk of material misstatement of the Net Book Value of infrastructure assets due to under/overstatement of the depreciation charge for the year due to the application of unreasonable asset lives.

We have:

- reconciled the Fixed Asset Register to the Financial Statements
- using our own point estimate, considered the reasonableness of depreciation charge to Infrastructure assets
- obtained assurance that the useful economic lives applied to each category of infrastructure assets is reasonable
- documented our understanding of management's process for derecognising Infrastructure assets on replacement and obtain assurances that the disclosure in the PPE note is not materially misstated.

Conclusion

Management have made amendments to the infrastructure asset disclosures to make use of the provisions of the Code and SI. – referred to in Appendix C

The audit team are satisfied that the useful economic life assumptions and depreciation estimate for infrastructure assets are not materially misstated and as such the closing net book value is also free of material misstatement given the new provisions of the Code and SI.

2. Financial Statements – new issues and risks

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan and a summary of any significant deficiencies identified during the year.

Issue	Commentary	Auditor view
Academy school transfers – land and building derecognitions not accounted for- £21.629m	After the production of the draft accounts, management identified that they had not accounted for the derecognition of school land and buildings totalling £21.629m relating to five schools which had become Academies before the period end.	Management agreed to adjust the value of Other Land and Buildings downwards by £21.629m to account for the derecognitions. – Refer to Appendix C. We recommend that management strengthen the process around the identification of academy transfers and the resulting disposal accounting required. Refer to Appendix A.
Fully depreciated vehicles, plant, furniture and equipment not disposed- £15.6m	We identified a balance of £18.8m of fully depreciated assets within the £92.4m reported total gross cost of vehicles, plant furniture and equipment. Of this balance we were unable to gain assurance that 114 of these assets with gross cost £15.6m were still in existence and operational at the Council.	As the value is not material and impacts gross reported values only (i.e. doesn't impact the value reported on the balance sheet) we recommend management addresses this issue going forwards. We recommend that management review its fully depreciated assets listing routinely to identify assets which should be disposed of. Should it be identified that a high balance of fully depreciated assets are in continuing use, we recommend the Council reviews its useful economic lives and depreciation accounting policies. – Refer to Appendix A.
Debtors & Creditors- various key item audit adjustments £ 27.047m net understatement of debtors £17.727m net understatement of creditors	Our testing of the debtor and creditor balances reported in the balance sheet identified several issues which management have agreed to adjust the accounts for: 1) Upfront pension contribution payment adjustment incorrect, meaning debtors and creditors were overstated by an equal amount (£7.169m) 2) NDR pool adjustment incorrect, meaning debtors and debtors were understated by an equal amount (£8.113m) 3) Cash received around the year end adjustment incorrect, meaning debtors were understated by £10.594m with corresponding understatements of capital grants received in advance (£5.108m); capital grants unapplied (£4.212m); and short term creditors (£1.274m) 4) Adjustment for BACS payments not cleared incorrect meaning debtors and creditors were understated by the same amount (£16.994m) We confirmed there were also similar issues in the prior year debtor and creditor balances, however the net impact on each balance was confirmed to be £12.909m. This is not material, and as such a prior period adjustment is not required under IAS 8.	We have reported for the last two years that the Council's supporting analyses for its debtors and creditors do not allow ready comparison of outstanding balances by customer or supplier. The supporting analyses contain transactions and reversals, and batch total postings such that designing an audit testing strategy is made very difficult. We have raised this again as a prior year action to be addressed for management in Appendix B. The errors identified this year demonstrate a weakness in the Council's overall accounting for debtors and creditors, and this should be strengthened for the year ahead. Management agreed to adjust for these errors- Refer to Appendix C.

2. Financial Statements – new issues and risks

Issue	Commentary	Auditor view
<p>Debtor accruals – estimate overstated compared to actual income due to timing of available information</p> <p>Value of error identified: £205k (overstatement of debtors and income).</p> <p>This projects to an auditor expected error of £2.122m</p>	<p>A balance tested as part of a sample of manually accrued debtors was found to have been over-estimated by £205k. Officers accrued an amount based on available information at the time, however it later became clear the amount was overestimated. Our estimate for errors of this type is projected to be £2.122m. This is reported as an unadjusted misstatement in Appendix C.</p>	<p>The factual error in the sample is trivial, the projected error is not material. The projected error is reported as an unadjusted misstatement in Appendix C. We do not expect that management should adjust for this projection.</p>
<p>Creditor accruals- various sample errors</p> <p>These errors project to an auditor expected error of £5.852m.</p>	<p>In addition to the errors in creditors reported on the previous page, further errors were identified in our sample testing. The value of errors in our sample testing required us to extend the size of the sample twice. Testing is not yet finalised.</p>	<p>The factual error in the sample is trivial, the projected error is not material. The projected error is reported as an unadjusted misstatement in Appendix C. We do not expect that management should adjust for this projection.</p> <p>The errors identified this year demonstrate a weakness in the Council’s overall accounting for debtors and creditors, and this should be strengthened for the year ahead.</p>
<p>Internal recharges not separately identifiable</p>	<p>Costs recharged between council committee areas amounted to some £76m in 2021/22. These recharges should be identifiable from the general ledger and should net to nil across the Council. Management were unable to provide a listing of internal recharges included within their expenditure codes. As a consequence the transaction reports obtained by the audit team to support the expenditure population was overstated and larger samples were selected than would be required had we been able to identify and exclude recharge transactions</p>	<p>Recharge transactions should be coded in such a way that they can be separately reported on for management and auditor information. We have included this as a recommendation in Appendix A.</p>

2. Financial Statements – key judgements and estimates

This section provides commentary on key estimates and judgements inline with the enhanced requirements for auditors.

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Land and Building valuations – £615.0m Of which: <ul style="list-style-type: none"> revalued in year £219.0 (36%) not revalued in year £396.0m (64%) 	<p>Land and buildings comprise specialised assets such as schools and libraries, which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service potential. The remainder of other land and buildings are not specialised in nature and are required to be valued at existing use value (EUV) at year end.</p> <p>The Council engaged its internal RICS-registered valuer to complete the valuation of its land and buildings as at 31 March 2022 on a five yearly cyclical basis. By value, one third of the Council's total land & buildings were revalued during 2021/22 (one third in 2020/21). The five yearly cyclical basis is allowable under the CIPFA Code, providing the carrying amount of non-valued assets is not materially different from the current value at the year-end.</p> <p>Management have considered the year end value of non-valued land and buildings by consulting with the valuer for his professional opinion on the matter and by applying relevant indices to determine whether there has been a material change in the total value of these properties. After audit challenge in this area and additional valuations being obtained (see page 9), management's updated assessment of assets not revalued has identified no material change to the properties' value.</p> <p>In reporting a valuation for land and buildings, the valuer has considered a range of relevant sources of information, including, for EUV assets: relevant market data; current and prospective lease terms and income; for DRC assets: build costs indices; internal floor areas; site areas; and for both EUV and DRC assets: condition assessments from inspections carried out and RICS and other relevant industry guidance. Management review alternative site and building configuration assumptions to address the modern equivalent asset accounting requirement. Management maintain regular dialogue with the valuer and review the valuation certificates provided and challenge where required.</p> <p>The total year end valuation of land and buildings in the accounts was £615.0, a net decrease of £29.3m from 2020/21 (£644.3m).</p>	<ul style="list-style-type: none"> We are satisfied that management's expert, is competent, capable and objective We have documented and are satisfied with our understanding of the Council's processes and controls over property valuations We have validated sources of information used by management and the valuer for a selection of assets – relevant findings are set out on page 9 We have analysed the method, data and assumptions used by management to derive the estimate- relevant findings are set out on page 9 We have reviewed and are satisfied with management's updated assessment that assets not valued are not materially misstated The estimate is adequately disclosed in the financial statements. 	We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Assessment

- [Purple] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- [Blue] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- [Grey] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- [Light Purple] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
<p>Surplus Assets valuations – £132.8m</p> <p>Of which:</p> <ul style="list-style-type: none"> revalued in year £109.4m (82%) not revalued in year £23.4m (18%) 	<p>Surplus assets comprise land and building assets which are: not being used to deliver services; nor currently being held for sale; nor held as an investment property. They must be reported at their Fair Value as at the reporting date in accordance with IFRS 13.</p> <p>The Council makes an assessment each year as to which of its properties meet the definition of surplus assets to ensure the appropriate valuation technique and accounting is applied.</p> <p>The Council engaged its internal RICS registered valuer to complete the valuation of surplus assets as at 31 March 2022. By value, just under three quarters of the Council's total surplus assets were revalued during 2021/22.</p> <p>Management have considered the year end value of non-valued surplus assets by consulting with the valuer for his professional opinion on the matter and by applying relevant indices to determine whether there has been a material change in the total value of these properties. After audit challenge in this area and additional valuations being obtained (see page 9), management's updated assessment of assets not revalued has identified no material change to the properties' value.</p> <p>The total year end valuation of surplus assets was £132.8m, a net increase of £58.5m from 2020/21 (£74.3m). The significant increase in value was largely due to the highest and best use of one land asset improving due to the earmarking of the land on a Local Plan as development land; readying the land for sale; and testing the market.</p>	<ul style="list-style-type: none"> We are satisfied that management's expert, is competent, capable and objective We have documented and are satisfied with our understanding of the Council's processes and controls over property valuations We have validated sources of information used by management and the valuer for a selection of assets – relevant findings are set out on page 9 We have analysed the method, data and assumptions used by management to derive the estimate- relevant findings are set out on page 9 We have reviewed and are satisfied with management's updated assessment that assets not valued are not materially misstated The estimate is adequately disclosed in the financial statements. 	<p>We consider management's process is appropriate and key assumptions are neither optimistic or cautious</p>

Assessment

- **Dark Purple** We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- **Blue** We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- **Grey** We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- **Light Purple** We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Investment Property Valuation - £61.1m Of which: <ul style="list-style-type: none"> revalued in year £61.1m (100%) 	<p>Investment properties comprise those assets held by the Council which are held solely to earn rental income or for capital appreciation or both. They must be reported at their Fair Value as at the reporting date in accordance with IFRS 13.</p> <p>The Council makes an assessment each year as to which of its properties meet the definition of investment properties to ensure the appropriate valuation technique and accounting is applied.</p> <p>The Council engaged its internal RICS registered valuer to complete the valuation of investment properties as at 31 March 2022. All investment properties were revalued as at the reporting date.</p> <p>In reporting a valuation for investment properties, the valuer considers a range of relevant sources of information, including relevant market data; current and prospective lease terms and rental income; condition assessments from inspections carried out; RICS and other relevant industry guidance. Management maintain regular dialogue with the valuer and review the valuation certificates provided by the valuer and challenge where required.</p> <p>The total year end valuation of investment properties was £61.1m, a net increase of £9.3m from 2020/21 (£51.8m).</p>	<ul style="list-style-type: none"> We are satisfied that management's expert, is competent, capable and objective We have documented and are satisfied with our understanding of the Council's processes and controls over property valuations We have validated sources of information used by management and the valuer for a selection of assets We have analysed and are satisfied with the method, data and assumptions used by management to derive the estimate The estimate is adequately disclosed in the financial statements. 	We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Assessment

- Dark Purple** We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
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2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment																								
Net pension liability – £1,317.1m	<p>The Council's net pension liability at 31 March 2022 is £1,317.1m (PY £1,524.7m) comprising both the Nottinghamshire Pension Fund Local Government Pension Scheme ('LGPS' - £1,256.4m) and the Teachers Unfunded Defined Benefit Pension Scheme ('unfunded scheme' - £73.9m) obligations. The Council uses Barnett Waddingham to provide actuarial valuations of the Council's assets and liabilities derived from these schemes. A full actuarial valuation is required every three years.</p> <p>The latest full actuarial valuation was completed as at 31 March 2019. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £294.5m net actuarial gain in 2021/22 (£350.8m net actuarial loss during prior year).</p>	<ul style="list-style-type: none"> We are satisfied that management's expert, Barnett Waddingham is competent, capable and objective We have reviewed and assessed the actuary's roll forward approach taken. We have used an auditors expert (PwC) to assess the actuary and assumptions made by the actuary for the LGPS: <table> <tr> <th>Assumption</th><th>Actuary Value</th><th>PwC range</th><th>Assessment</th></tr> <tr> <td>Discount rate</td><td>2.60%</td><td>2.55% to 2.60% p.a.</td><td>Light purple</td></tr> <tr> <td>Pension increase rate (CPI)</td><td>3.20%</td><td>3.05% to 3.45% p.a.</td><td>Light purple</td></tr> <tr> <td>Salary growth</td><td>4.20%</td><td>1.0% p.a. above CPI inflation</td><td>Light purple</td></tr> <tr> <td>Life expectancy – Males currently aged 45 / 65</td><td>23.0/ 21.6</td><td>21.9 – 24.4/ 20.5 – 23.1</td><td>Light purple</td></tr> <tr> <td>Life expectancy – Females currently aged 45 / 65</td><td>25.8/ 24.3</td><td>24.9 – 26.4/ 23.4 – 25.0</td><td>Light purple</td></tr> </table> <p>We have considered:</p> <ul style="list-style-type: none"> The completeness and accuracy of the underlying information used to determine the estimate The impact of any changes to the valuation method The reasonableness of the Council's share of LGPS pension assets. The reasonableness of the decrease in the estimate The adequacy of disclosures of the estimate in the financial statements 	Assumption	Actuary Value	PwC range	Assessment	Discount rate	2.60%	2.55% to 2.60% p.a.	Light purple	Pension increase rate (CPI)	3.20%	3.05% to 3.45% p.a.	Light purple	Salary growth	4.20%	1.0% p.a. above CPI inflation	Light purple	Life expectancy – Males currently aged 45 / 65	23.0/ 21.6	21.9 – 24.4/ 20.5 – 23.1	Light purple	Life expectancy – Females currently aged 45 / 65	25.8/ 24.3	24.9 – 26.4/ 23.4 – 25.0	Light purple	We consider management's process is appropriate and key assumptions are neither optimistic or cautious
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- **Light Purple** We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - Internal Control

Assessment	Issue and risk	Recommendations
 (significant deficiency)	<p>IT audit:</p> <p>The following controls issue was identified in prior year audits and remained to be an issue for the 2021/22 year. The issue was remediated by management in July 2022.</p> <p><u>SAP Support staff and vendors with DEBUG access in SAP.</u> 5 users still had debug access in the production client. These were DL44, EW36, HB37, MW244, NN4. Access was live until July 2022 at which point management removed the access in response to our audit findings.</p>	<p>We consider that the level of access afforded is an enabler for fraud.</p> <p>We considered the risks for 2021/22 and designed audit procedures to enable us to conclude that the risk of a material misstatement due to fraud in the Council's accounts was suitably low. These procedures included:</p> <ul style="list-style-type: none"> - Testing all journals posted by the identified users for validity - Testing the validity of all other journal posters to confirm they were valid employees of the Council - Documenting and assessing system controls which ensure the validity of suppliers and employees who receive payments from the Council. <p>We have no issues to bring to your attention as a result of this testing.</p> <p>Our recommendation in Appendix A was actioned by management in July 2022. We have no further recommendations to make.</p>

Assessment

- Significant deficiency – risk of significant misstatement
- Deficiency – risk of inconsequential misstatement

2. Financial Statements - other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.



Issue	Commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Governance and Ethics Committee. We have not been made aware of any incidents in the period and no issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We routinely cross-check the completeness of Member and Officer declarations of interests against Companies House records. We noted several undisclosed company interests and queried these with management. We identified three related parties which were not previously disclosed in the draft accounts where transactions had occurred in year. Management have agreed to amend the accounts for these related party transactions. We report this in Appendix C. We have raised a recommendation that the Council strengthens its declaration of interest process in Appendix A.
Matters in relation to laws and regulations	You have not made us aware of any significant incidents of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Written representations	A letter of representation has been requested from the Council, which is appended.
Confirmation requests from third parties	We requested from management permission to send confirmation requests to bodies with which the Council holds cash and cash equivalent balances, investments and borrowings. This permission was granted and the requests were sent. All requests were returned with positive confirmation.
Accounting practices	We have evaluated the appropriateness of the Council's accounting policies, accounting estimates and financial statement disclosures. Our review found no material omissions in the financial statements, see appendix C for disclosure changes proposed.
Audit evidence and explanations/ significant difficulties	All information and explanations requested from management was provided.

2. Financial Statements - other communication requirements



Our responsibility

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK) 570).

Issue	Commentary
Going concern	<p>In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies.</p> <p>Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities:</p> <ul style="list-style-type: none">• the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities• for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Our consideration of the Council's financial sustainability is addressed by our value for money work, which is covered elsewhere in this report. <p>Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Council meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated:</p> <ul style="list-style-type: none">• the nature of the Council and the environment in which it operates• the Council's financial reporting framework• the Council's system of internal control for identifying events or conditions relevant to going concern• management's going concern assessment. <p>On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that:</p> <ul style="list-style-type: none">• a material uncertainty related to going concern has not been identified• management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Other information	<p>We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p> <p>No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect – refer to appendix E</p>
Matters on which we report by exception	<p>We are required to report on a number of matters by exception in a number of areas:</p> <ul style="list-style-type: none">• if the Annual Governance Statement does not comply with disclosure requirements set out in CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit,• if we have applied any of our statutory powers or duties.• where we are not satisfied in respect of arrangements to secure value for money and have reported [a] significant weakness/es. <p>We have nothing to report on these matters.</p>
Specified procedures for Whole of Government Accounts	<p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.</p> <p>This work is not required for 2021/22 as the Council does not exceed the threshold set by the NAO;</p>
Certification of the closure of the audit	<p>We intend to delay the certification of the closure of the 2021/22 audit of Nottinghamshire County Council in the audit report, as detailed in Appendix E, due to incomplete VFM work, and incomplete WGA work.</p>

3. Value for Money arrangements

Approach to Value for Money work for 2021/22

The National Audit Office issued its guidance for auditors in April 2020. The Code requires auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under the three specified reporting criteria.



Improving economy, efficiency and effectiveness

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



Financial Sustainability

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

Potential types of recommendations

A range of different recommendations could be made following the completion of work on the body's arrangements to secure economy, efficiency and effectiveness in its use of resources, which are as follows:



Statutory recommendation

Written recommendations to the body under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the body to discuss and respond publicly to the report.



Key recommendation

The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the body. We have defined these recommendations as 'key recommendations'.



Improvement recommendation

These recommendations, if implemented should improve the arrangements in place at the body, but are not made as a result of identifying significant weaknesses in the body's arrangements

3. VFM - our procedures and conclusions

We have not yet completed all of our VFM work and so are not in a position to issue our Auditor's Annual Report. An audit letter explaining the reasons for the delay is attached in the Appendix G to this report. We expect to issue our Auditor's Annual Report by 3 May 2023. This is in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements.

As part of our 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. We identified the risk set out in the table below. Our work on this risk is underway and an update is set out below.

Risk of significant weakness	Work performed to date
<p>Financial Planning (Medium Term Financial Sustainability)</p> <p>Wording from our Audit Plan:</p> <p>Although the council expects to have sufficient resources in the immediate term (FY2022/23), it has identified a need to deliver significant year on year savings to achieve a balanced budget in the medium term. The council has identified estimated savings requirements of £29.1m from 2023-2026. There remain significant uncertainties in the position going forward, due to uncertainty over future funding decisions and the performance of the wider economy and market factors - the Council's plans for medium term financial sustainability need to remain flexible and be robust.</p>	<p>We have:</p> <ul style="list-style-type: none">• conducted interviews with senior officers and Service Directors;• examined minutes and relevant papers of Council, Cabinet and Committee meetings; <p>We will:</p> <ul style="list-style-type: none">• commence a review of the medium term financial planning and cost saving schemes;• examine minutes of further meetings and relevant papers; <p>With a view to:</p> <ul style="list-style-type: none">• document an understanding of the arrangements the body has in place in respect of financial sustainability• make an assessment of those arrangements• gather sufficient evidence to support the commentary on the body's arrangements in the Auditor's Annual Report• identify any further risks of significant weaknesses in arrangements that weren't identified at the initial planning stage• draft the commentary to be included in the Auditor's Annual Report

4. Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D.

Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see [Transparency report 2020 \(grantthornton.co.uk\)](https://www.grantthornton.co.uk/transparency-report-2020)

4. Independence and ethics

Audit and non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council and Pension Fund. The following non-audit services were identified which were charged from the beginning of the financial year to the current date, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

Service	Fees £	Threats	Safeguards
Audit related			
Certification of Teachers' Pensions return (County Council)	7,500	Self Interest	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £7,500 in comparison to the total fee for the audit of £133,774 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
		Self review	We have not prepared the form which we review and do not expect material misstatements to the financial statements to arise from this service.
		Management	Changes to the return and the factual accuracy of our report will be agreed with informed management.
IAS19 Assurance letters for Admitted Bodies (Pension Fund)	8,750	Self-Interest	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £8,750 in comparison to the total fee for the audit of £133,774 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Non-audit related			
CFO Insights subscription (County Council)	16,000	Self-Interest	<p>The Council renewed its subscription to CFO insights for 12 months from July 2021. The cost of the service over the 12 month term is £16,000. Brought forward fees at that time relating to the previous subscription were £4,000.</p> <p>The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work in comparison to the total fee for the audit of £133,774 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.</p>

These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. All services have been approved by the Governance and Ethics Committee. None of the services provided are subject to contingent fees.

Appendices

A. Action plan – Audit of Financial Statements

We have identified five recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2022/23 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
High	Academy school transfers – land and buildings not derecognised Management did not account for the derecognition of school land and buildings totalling £21.629m relating to five schools which had become Academies before the period end.	We recommend that management strengthen the process around the identification of academy transfers and the resulting derecognition accounting required Management response Data is derived from the DfE website for Academy conversions and used to update the asset register. A spreadsheet issue led to the oversight. This was a self-identified isolated issue and additional checks have been put in place for 22/23.
High	Declaration of interests – undeclared interests We routinely cross-check the completeness of Member and Officer declarations of interests against Companies House records. We noted several undisclosed company interests and queried these with management. We identified three related parties which were not previously disclosed in the draft accounts, where transactions had occurred in year. Management have agreed to amend the accounts for these related party transactions.	We recommend that the Council strengthens its declaration of interest process. Management response The declaration process will be reviewed in conjunction with a revised Members Code of Conduct which is currently being developed.
High	IT system We identified the following controls issue in security and access of Nottinghamshire County Council's SAP system: SAP Support staff and vendors with DEBUG access in SAP. The 5 users that still had debug access in the production client were DL44, EW36, HB37, MW244, NN4	Management should ensure that DEBUG access is removed from all dialog users. The access was terminated in July 2022 The issue is now remediated Management response DEBUG access has now been removed from the above users

Controls

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

A. Action plan – Audit of Financial Statements

Assessment	Issue and risk	Recommendations
Medium	<p>Internal recharges not separately identifiable</p> <p>Costs recharged between council committee areas amounted to some £76m in 2021/22. These recharges should be identifiable from the general ledger and should net to nil across the Council. Management were unable to provide a listing of internal recharges included within their expenditure codes. As a consequence the transaction reports obtained by the audit team to support the expenditure population was overstated and larger samples were selected than would be required had we been able to identify and exclude recharge transactions</p>	<p>Recharge transactions should be coded in such a way that they can be separately reported on for management and auditor information.</p> <p>Management response</p> <p>We have introduced a new document type for internal recharges (SI) to isolate internal transactions for 2022/23.</p>
Low	<p>Fully depreciated vehicles, plant, furniture and equipment not disposed</p> <p>We identified a balance of £18.8m of fully depreciated assets within the £92.4m reported total gross cost of vehicles, plant furniture and equipment. Of this balance we were unable to gain assurance that 114 of these assets with gross cost £15.6m were still in existence and operational at the Council.</p>	<p>We recommend that management review its fully depreciated assets listing routinely to identify assets which should be disposed of. Should it be identified that a high balance of fully depreciated assets are in continuing use, we recommend the Council reviews its useful economic lives and depreciation accounting policies.</p> <p>Management response</p> <p>Fully depreciated assets are reviewed annually. Useful lives are an estimate and it is not uncommon to hold on to assets for longer than was anticipated at the outset. We acknowledge there are historic data deficits on older assets. A thorough housekeeping exercise is being undertaken for 2022/23 to improve assurance in relation to continued use of assets.</p>

Controls

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

B. Follow up of prior year recommendations

We identified the following issues in the audit of Nottinghamshire County Council's 2020/21 financial statements, which resulted in four recommendations being reported in our 2020/21 Audit Findings report. We have followed up on the implementation of our recommendations and note two have been fully addressed; one partially addressed; and one not yet addressed.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
X	<p>Journals controls- self authorisation</p> <p>The finance system currently allows journals to be posted and approved by the same user. This acts as an enabler for fraudulent financial misreporting and error. The Council and Pension Fund have a mitigating control in place, in that all such self- approved journals undergo retrospective approval. The control was found not to be operating effectively during 2020/21.</p> <p>We recommend automated preventative segregation of duty controls are built in to the finance system to prevent transactions being posted and approved by the same user.</p> <p>We recommend in the meantime that the control around reviewing self-approved journals with retrospective authorisation should be strengthened.</p>	<p>Automated preventative controls have not been put in place however a retrospective review of self-approved journals was found to be in place. Increased audit testing was required again this year due to no automated preventative control being in place.</p> <p>Management response</p> <p>The Senior Practitioner - Accounting and Income Team produces a monthly report which details any self-approved journals. If any are identified retrospective approval is sought from the manager.</p>
✓	<p>Journals controls- senior officers</p> <p>Senior officers have access privileges built into the finance system which allow them to be able to post journals. As senior officers, this privilege is considered to be incompatible with role, and is an enabler of management override of control.</p> <p>We recommend journal posting privileges are removed for senior officers.</p> <p>Upon further investigation this year, evidence was obtained that the access was successfully removed in 2018.</p>	<p>Management response</p> <p>The Section 151 Officer and Deputy 151 Officer do not have park or post access which was removed from the SAP production system in 2018.</p>

Assessment

- ✓ Action completed
- X Not fully addressed

B. Follow up of prior year recommendations- continued

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
X	<p>Payables and Receivables reports- first reported in 2019/20</p> <p>Reports provided for Payable and Receivable sample selection were transaction listings not a report showing actual balances at the year end. This has led to delays in getting breakdowns from the cost centres reported to select samples at a unit level and also samples selected that have been reversed so not representing debts to the Council or monies owed at year end.</p>	<p>The improvement in payable & receivable reports are still to be addressed by officers. This led to delays again during the 20/21 audit and 21/22 audit.</p> <p>Management response</p> <p>We acknowledge the system constraints which exist and will work collaboratively to improve processes where possible.</p>
✓	<p>IT system</p> <p>We identified a number of control issues in security and access of NCC's SAP system. These weaknesses include</p> <ul style="list-style-type: none">• SAP Support staff and vendors with DEBUG access• SAP developers with access to modify the ledgers• Change developer and implementation segregation of duties conflicts• Inadequate password security for SAP; and• IT security policies not acknowledges by staff	<p>Actions taken for each item identified are detailed below</p> <ul style="list-style-type: none">• Five dialogue users still had DEBUG access in the production client for the year, however access was terminated in July 2022.• Nottinghamshire County Council locked the six accounts which had access to development keys and ability to modify ledgers in SAP production environment• Developers no longer have access to migrate changes• While the majority of the SAP password policy remains unchanged, we noted that users are now mandated to adopt the SSO passwords for SAP• A new e-learning module was added to Nottinghamshire County Council's Learning Portal. All users were auto-enrolled and required to confirm that they had read the acceptable use standard. The learning is mandatory and will be issued annually

Assessment

- ✓ Action completed
- X Not fully addressed

C. Audit Adjustments

We are required to report all non-trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2022.

Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £' 000	Impact on total net expenditure £'000
Additional asset valuations to address potential material difference between carrying value and current value	Dr Other Comprehensive Income 1,081	Dr Other Land & Buildings 187 Cr Surplus assets (1,268)	£1,081 increase
Academy school transfers – land and buildings not derecognised	Dr Surplus/Deficit on Provision of Services 16,358 Dr Other Comprehensive Income 5,271	Cr Other Land & Buildings (21,629)	£21,629 increase
Upfront pension contribution payment adjustment incorrect	Nil	Dr Debtors 7,169 Cr Creditors 7,169	Nil
NDR pool adjustment incorrect	Nil	Dr Creditors 8,113 Cr Debtors (8,113)	Nil
Cash received around the year end adjustment incorrect	Cr Capital Grants (unapplied) (4,212)	Dr Debtors 10,594 Cr Cap grants received in advance (5,108) Cr Creditors (1,274)	(£4,212) decrease
Adjustment for BACS payments not cleared incorrect	Nil	Dr Debtors 16,994 Cr Creditors 16,994	Nil
Pension assets understated – (Pension Fund audit findings)	Cr Other Comprehensive Income (13,258)	Dr IAS 19 Net Pensions Liability 13,258	(13,258) decrease
Overall impact	Dr CIES £5,240	Cr Net assets £5,240	£5,240 increase

C. Audit Adjustments

Misclassification and disclosure changes - adjusted

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure area	Auditor recommendations	Adjusted?
Related Party Transactions	We routinely cross-check the completeness of Member and Officer declarations of interests against Companies House records. We noted several undisclosed company interests and queried these with management. We identified three related parties which were not previously disclosed in the draft accounts, where transactions had occurred in year. Management have agreed to amend the accounts for these related party transactions.	✓
Movement on usable reserves	£22.346m 2020/21 Covid Reserve line in the Movement on Usable Reserves note was incorrectly omitted in 21/22 the draft accounts.	✓
Critical Judgements disclosure	The critical judgements note should detail those judgements made by management which have a critical impact on a user's understanding of the accounts. It should explain the basis of the judgements made. The critical judgement in relation to school non-current assets was not adequately explained.	✓
Infrastructure Assets	Management have made amendments to the infrastructure asset disclosures to make use of the new provisions of the Code and SI	✓
Pensions	The £343m value disclosed for 20/21 actuarial gains/(losses) in note 21 was reported as gain but should have been reported as a loss. This and the related cumulative actuarial gain/loss subtotals required amending.	✓
Financial Instruments	Trade debtor financial assets reported in note 27 were found to be understated due to double counting of a £10.4m impairment allowance.	✓
Narrative Report	LOBO balance disclosed £70m was inconsistent with the audited accounts which state £90m.	✓
Various minor	Minor disclosure adjustments and presentational adjustments made following discussions with management.	✓

C. Audit Adjustments

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2021/22 audit which have not been made within the final set of financial statements. The Governance and Ethics Committee is required to approve management's proposed treatment of all items recorded within the table below.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
Debtor accruals – estimate overstated compared to actual income due- timing of available information	Dr Surplus/Deficit on Provision of Services 2,122	Cr Debtors (2,122)	2,122 increase	Factual error is trivial and auditor projection is not material
Creditor accruals- various sample errors Testing is not yet finalised	Cr Surplus/Deficit on Provision of Services (6,261)	Dr Creditors 6,261	(6,261) decrease	Factual error is trivial and auditor projection is not material
Pension assets understated – (Pension Fund audit findings)	Cr Other Comprehensive Income (1,712)	Dr IAS 19 Net Pensions Liability 1,712	(1,712) decrease	Auditor projection , not material
Overall impact	Cr CIES £5,851	Dr Net Assets £5,851	£5,851 decrease	

C. Audit Adjustments

Misclassification and disclosure changes- unadjusted

The table below provides details of misclassification and disclosure changes identified during the audit which have been not been made in the final set of financial statements, and management's comments thereon.

Disclosure area	Auditor recommendations	Adjusted?	Management comment
Movement in Reserves Statement (MiRS), Balance Sheet and EFA	<p>General Fund balance not clearly disclosed</p> <p>The 'usable revenue reserves balance' on the face of the MiRS and balance sheet should be broken down into the 'general fund balance' and other usable reserves as required by the Code. The General Fund is a statutory reserve and the balance on it should be made clear in the accounts. The current presentation does not readily assist comparison by the reader when referencing multiple Local Authority Accounts. We have reported this issue in previous years. Management did not amend.</p>	No	<p>We are satisfied that the current format and wording gives the reader a sufficient insight into our usable revenue reserves and is consistent with our Annual Budget Reports and monthly monitoring reports.</p> <p>The General Fund balance is clearly identifiable on the Balance Sheet and other notes throughout the accounts.</p>
Movement in Reserves Statement (MiRS),	<p>£63.915m capital grants unapplied movements – presentation not in line with Code</p> <p>Per the Code, where a capital grant or contribution (or part thereof) has been recognised as income in the Comprehensive Income and Expenditure Statement, and the expenditure to be financed from that grant or contribution has been incurred at the Balance Sheet date, the grant or contribution shall be transferred from the General Fund to the capital adjustment account. It would only be transferred to the CGU reserve if expenditure was not incurred by the balance sheet date. The Council transferred £63.915m, contrary to this guidance. Management chose not to amend. A similar error is present in the prior year comparators.</p>	No	<p>The mechanics of the adopted NCC capital grant process, whilst acknowledged to be elaborate, ultimately delivers the same net result. The CAA receives the grant income when utilised via capital financing and the MiRS balances to that effect.</p>
Expenditure and Funding Analysis (EFA)	<p>EFA presentation not in line with IAS 8 requirements</p> <p>IAS8 requires that this note should reconcile the financial information routinely reported to management with the income and expenditure disclosed in the statutory accounts. The table presented in the draft accounts does not use the management accounts as a starting position. Consequently, there is a £48.9m unexplained difference between the management accounts and the first column in the EFA note.</p> <p>We recommended that management should increase the number of columns in the table to five such that this material difference can be adequately explained. Management have chosen instead to insert a footnote to the table. Our view is that the adjustments should be broken down by service and by adjustment type and the disclosure should be further improved.</p>	Partially	<p>We have partially adjusted to explain that our format differs in order to mirror the manner in which our decision makers see depreciation in the management accounts. This note therefore reflects the budget arrangements of the Authority as is our discretion. We believe that adding another column would add confusion / clutter which, on the basis of queries received from the reader to date, will add no benefit.</p>

C. Audit Adjustments

Misclassification and disclosure changes- unadjusted (continued)

Disclosure area	Auditor recommendations	Adjusted?	Management comment
Estimation uncertainty disclosure	<p>Estimation uncertainty disclosure requirements not met</p> <p>For each relevant asset/liability identified as having material estimation uncertainty the Code requires disclosure in this note of: the carrying amount of the asset/liability in the accounts; the nature of the assumption/other estimation uncertainty, i.e. which assumptions used in the calculation are most uncertain; the sensitivity of each assumption underlying the calculation; and the range of reasonably possible outcomes within the next financial year. Management did not amend the note to meet all the criteria required.</p>	No	The code is clear in that judgement is required regarding the extent of supporting disclosures that are appropriate for a specific item. We are of a view that we should only include disclosures that are material to the presentation of a 'true and fair' view of the financial position and to ensuring that the understanding of users of the financial statements is not obscured by excessive detail. Our view is that the existing disclosures are proportionate.
Level 3 surplus asset and investment property fair value disclosures	<p>Level 3 fair value disclosure requirements not fully met</p> <p>The Code requires extensive disclosure requirements in particular for Level 3 fair value valuations and these do not appear to have been fully met in either the surplus asset or investment properties note - for example quantitative information about significant unobservable inputs, and a sensitivity analysis. Management did not amend.</p>	No	The Code sets out the reporting requirements for materiality that applies to information recognised in the financial statements and the associated disclosures. The code is clear in that judgement is required regarding the extent of supporting disclosures that are appropriate for a specific item and we are of a view that we should only include disclosures that are material to the presentation of a 'true and fair' view of the financial position . Our view is that the Fair Value disclosures in relation to Surplus assets and Investment property are proportionate.
Financial Instruments	<p>Money market funds inappropriately classified as 'held at amortised cost'</p> <p>As the cashflows in these arrangements are not solely payment of principal and interest, the most appropriate classification would be 'held at fair value through profit and loss'. Given changes in fair value are not material on these short-maturity funds, any resultant accounting errors are likely to be highly trivial, however the presentation of these financial assets as 'held at amortised cost' is not in line with the accounting standards. Management did not amend.</p>	No	These deposits are in funds that in turn invest in the money markets and the interest rate is variable and changes daily. Funds are deposited/withdrawn 'on the day' and we consider them to be cash or equivalent in nature. We believe that showing these assets at cost plus the interest accrual is a correct and accurate way of valuing them and reflecting them in our financial statements. We also note that the impact of difference to the amount is trivial.

C. Audit Adjustments

Misclassification and disclosure changes- unadjusted (continued)

Disclosure area	Auditor recommendations	Adjusted?	Management comment
Related parties	The related party transactions note sets out the value of in-year transactions and year-end balances that the Council had with its group companies. Non- material differences were noted when comparing some of these values to the audited accounts of the group companies. Differences ranged from £1.4m to £2.9m and were applicable to related party transactions and balances with ARC Property Partnership and Via East Midlands. We report this matter as an uncertainty rather than an error given the conflicting evidence obtained. Management have not amended the note.	No	We will continue to work to ensure the related party disclosures are synchronised as per expectations.
Narrative Report	The Code requires that: “The Narrative Report should provide a description of the agreed medium and long term strategies of the authority, including its medium term financial strategy and plans to address any future resource shortfalls.” We identified that medium and long term strategies to address the shortfall were not sufficiently detailed. Management have not amended the Narrative Report.	No	The outcome of the Authority's MTFS which was approved at Full Council in February 2022 is noted along with the funding gap across the period. It was too premature to set out any meaningful information with regard to plans to address the shortfall. Other subsequent Council documents address this point. The long term vision, ambitions and commitments of the Council are set out from paragraph 26 and 27
Narrative Report	The Code requires that: “The Narrative Report should contain sufficient information to allow the user to assess the future sustainability of the organisation and its impact on service provision including: <ul style="list-style-type: none"> information on an authority’s key commitments, commentary on significant matters covered in the budget report and any significant assets or liabilities earned or incurred, details of known future budget pressures or changes in resources and the authority’s plans for dealing with any shortfalls.” We identified a number of deficiencies in the draft narrative report including a lack of commentary on the pension fund liability, the overall balance sheet position and savings plans and other plans for dealing with shortfalls. Management have not amended the Narrative Report.	No	We will consider your comments when putting the Narrative Report for 2022/23 together.

C. Audit Adjustments



Impact of prior year unadjusted misstatements

The table below provides details of adjustments identified during the prior year audit which had not been made within the final set of 2020/21 financial statements

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
Projected misstatement due to inappropriate fixed asset valuation assumptions/ mistakes in calculation	Dr Surplus on revaluation of non current assets £1,995	Cr Property Plant & Equipment £1,995	Nil impact on net cost of services	Audit projection, not material, no impact on general fund
Overall impact	£1,995	£1,995	£1,995	

D. Fees

We confirm below our final fees charged for the audit and provision of non-audit services.

Audit fees	Proposed fee	Final fee
Nottinghamshire County Council Audit	£133,774*	£146,274**
Total audit fees (excluding VAT)	£133,774	£146,274

Non-audit fees for other services	Proposed fee	Final fee
Audit Related Services		
Certification of Teachers' Pensions return	£7,500	£7,500
Non-audit related services		
CFO Insights subscription	£16,000	£16,000
Total non-audit fees (excluding VAT)	£23,500	£23,500

*The proposed audit fee for 2021/22 included an estimated recharge of £7,500 for additional costs related to remote working. We have waived this recharge following mutual agreement with management to carry out the audit remotely following a trial hybrid approach.

** The final audit fee for 2021/22 has increased by £20,000 as agreed with the Service Director – Finance, Infrastructure and Improvement. This reflects the prolonged audit period and specific challenges this year including infrastructure asset accounting; increased work on PPE e.g. for non-revalued assets; additional testing required due to the debug IT control deficiency; extended testing of creditors and the misstatements in relation to debtors and creditors; inefficiencies in testing of debtors, creditors and expenditure due to limitations in transactional reports. The fee increase will be submitted to Public Sector Auditor Appointments (PSAA) for approval.

The audit fee reconciles to the fee disclosed in the financial statements as follows:

Proposed fee: £133,774

Less recharge for remote working (£7,500)

Add additional fee £20,000

Audit fee per the accounts: £146,274

E. Audit opinion

Our audit opinion is included below. We anticipate we will provide the Council with an unmodified audit report

Independent auditor's report to the members of Nottinghamshire County Council

Report on the Audit of the Financial Statements

Opinion on financial statements

We have audited the financial statements of Nottinghamshire County Council (the 'Authority') for the year ended 31 March 2022, which comprise the Statement of Accounting Policies, the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement and the Notes to the Statement of Accounts. 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 2021/22.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2022 and of its expenditure and income for the year then ended;
- have been properly prepared in accordance with the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law, as required by the Code of Audit Practice (2020) ("the Code of Audit Practice") approved by the Comptroller and Auditor General. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. 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 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 are responsible for concluding on the appropriateness of the Service Director - Finance, Infrastructure & Improvement's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Authority to cease to continue as a going concern.

In our evaluation of the Service Director - Finance, Infrastructure & Improvement's conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22 that the Authority's financial statements shall be prepared on a going concern basis, we considered the inherent risks associated with the continuation of services provided by the Authority. In doing so we had regard to the guidance provided in Practice Note 10 Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020) on the application of ISA (UK) 570 Going Concern to public sector entities. We assessed the reasonableness of the basis of preparation used by the Authority and the Authority's disclosures over the going concern period.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Authority's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the Service Director - Finance, Infrastructure & Improvement's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

The responsibilities of the Service Director - Finance, Infrastructure & Improvement's with respect to going concern are described in the 'Responsibilities of the Authority, the Service Director - Finance, Infrastructure & Improvement and Those Charged with Governance for the financial statements' section of this report.

Other information

The Service Director - Finance, Infrastructure & Improvement is responsible for the other information. The other information comprises the information included in the Annual Governance Statement and the Statement of Accounts, other than the financial statements, our auditor's report thereon and our auditor's report on the pension fund financial statements. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our 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.

E. Audit opinion

Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office in April 2020 on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with 'delivering good governance in Local Government Framework 2016 Edition' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

Opinion on other matters required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority, the other information published together with the financial statements in the Statement of Accounts and the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- 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 in the course of, or at the conclusion of the audit; or
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters.

Responsibilities of the Authority, the Service Director - Finance, Infrastructure & Improvement and Those Charged with Governance for the financial statements

As explained in the Statement of Responsibilities for the Statement of Accounts, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the

Service Director - Finance, Infrastructure & Improvement. The Service Director - Finance, Infrastructure & Improvement 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 2021/22, for being satisfied that they give a true and fair view, and for such internal control as the Service Director - Finance, Infrastructure & Improvement determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Service Director - Finance, Infrastructure & Improvement 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 there is an intention by government that the services provided by the Authority will no longer be provided.

The Governance and Ethics Committee is Those Charged with Governance. Those Charged with Governance are responsible for overseeing the Authority's financial reporting process.

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: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Authority and determined that the most significant, which are directly relevant to specific assertions in the financial statements, are those related to the reporting frameworks (international accounting standards as interpreted and adapted by the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22, and the Local Government Act 1972.
- We enquired of senior officers and the Governance and Ethics Committee, concerning the Authority's policies and procedures relating to:

E. Audit opinion

- the identification, evaluation and compliance with laws and regulations;
- the detection and response to the risks of fraud; and
- the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.
- We enquired of senior officers, internal audit and the Governance and Ethics Committee whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.
- We assessed the susceptibility of the Authority's financial statements to material misstatement, including how fraud might occur, by evaluating officers' incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls, misstatement of significant estimates due to fraud and related party transactions. We determined that the principal risks were in relation to:
 - The use of manual journal entries.
 - Estimates and the use of unsupported or favourable assumptions which demonstrate indications of potential management bias.
 - Related party transactions undertaken outside the normal course of business.
- Our audit procedures involved:
 - evaluation of the design effectiveness of controls that the Service Director - Finance, Infrastructure & Improvement has in place to prevent and detect fraud;
 - journal entry testing, with a focus on large and manual postings; entries containing key words or blank descriptions; entries posted after the year end; and entries which were self-approved.
 - challenging assumptions and judgements made by management in its significant accounting estimates in respect of income and expenditure accruals; and valuations of: land and buildings, surplus assets, investment properties and the net defined benefit pensions liability.
 - assessing the extent of compliance with the relevant laws and regulations as part of our procedures on the related financial statement item.
- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error and detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.
- The team communications in respect of potential non-compliance with relevant laws and regulations, including the potential for fraud in revenue and expenditure recognition, and the significant accounting estimates related to valuations of: land and buildings, surplus assets, investment property and defined benefit pensions liability valuations.
- Our assessment of the appropriateness of the collective competence and capabilities of the engagement team included consideration of the engagement team's:
 - understanding of, and practical experience with audit engagements of a similar nature and complexity through appropriate training and participation
 - knowledge of the local government sector
 - understanding of the legal and regulatory requirements specific to the Authority including:
 - the provisions of the applicable legislation
 - guidance issued by CIPFA/LASAAC and SOLACE
 - the applicable statutory provisions.
- In assessing the potential risks of material misstatement, we obtained an understanding of:
 - the Authority's operations, including the nature of its income and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.
 - the Authority's control environment, including the policies and procedures implemented by the Authority to ensure compliance with the requirements of the financial reporting framework.

Report on other legal and regulatory requirements – the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Matter on which we are required to report by exception – the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Under the Code of Audit Practice, we are required to report to you if, in our opinion, we have not been able to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2022.

Our work on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources is not yet complete. The outcome of our work will be reported in our commentary on the Authority's arrangements in our Auditor's Annual Report. If we identify any significant weaknesses in these arrangements, these will be reported by exception in a further auditor's report. We are satisfied that this work does not have a material effect on our opinion on the financial statements for the year ended 31 March 2022.

Responsibilities of the Authority

The Authority is responsible for putting in place proper arrangements for securing 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.

E. Audit opinion

Auditor's responsibilities for the review of the Authority's arrangements for securing 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 be satisfied that the Authority has made 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.

We undertake our review in accordance with the Code of Audit Practice, having regard to the guidance issued by the Comptroller and Auditor General in December 2021. This guidance sets out the arrangements that fall within the scope of 'proper arrangements'. When reporting on these arrangements, the Code of Audit Practice requires auditors to structure their commentary on arrangements under three specified reporting criteria:

- Financial sustainability: how the Authority plans and manages its resources to ensure it can continue to deliver its services;
- Governance: how the Authority ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness: how the Authority uses information about its costs and performance to improve the way it manages and delivers its services.

We document our understanding of the arrangements the Authority has in place for each of these three specified reporting criteria, gathering sufficient evidence to support our risk assessment and commentary in our Auditor's Annual Report. In undertaking our work, we consider whether there is evidence to suggest that there are significant weaknesses in arrangements.

Report on other legal and regulatory requirements – Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate for Nottinghamshire County Council for the year ended 31 March 2022 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed:

- our work on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources and issued our Auditor's Annual Report
- the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the Authority for the year ended 31 March 2022.

We are satisfied that this work does not have a material effect on the financial statements for the year ended 31 March 2022.

Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. 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.

Signature:

F. Management Letter of Representation

Grant Thornton UK LLP
17th Floor
103 Colmore Row
Birmingham
B3 3AG

[Date] – {TO BE DATED SAME DATE AS DATE OF AUDIT OPINION}

Dear Sirs

Nottinghamshire County Council Financial Statements for the year ended 31 March 2022

This representation letter is provided in connection with the audit of the financial statements of Nottinghamshire County Council for the year ended 31 March 2022 for the purpose of expressing an opinion as to whether the Council financial statements are presented fairly, in all material respects in accordance with International Financial Reporting Standards, and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 and applicable law.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial Statements

- i. We have fulfilled our responsibilities for the preparation of the Council's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.
- ii. We have complied with the requirements of all statutory directions affecting the Council and these matters have been appropriately reflected and disclosed in the financial statements.
- iii. The Council has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of any regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.
- iv. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

- v. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. Such accounting estimates include the valuation of land, buildings, surplus assets and investment properties; the valuation of the net pension liability; the fair value of financial instruments; the completeness and accuracy of accruals and provisions. We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements. We understand our responsibilities includes identifying and considering alternative methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the estimate used. We are satisfied that the methods, the data and the significant assumptions used by us in making accounting estimates and their related disclosures are appropriate to achieve recognition, measurement or disclosure that is reasonable in accordance with the Code and adequately disclosed in the financial statements.
- vi. We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme assets and liabilities for IAS19 Employee Benefits disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant post-employment benefits have been identified and properly accounted for.
- vii. Except as disclosed in the financial statements:
 - a. there are no unrecorded liabilities, actual or contingent
 - b. none of the assets of the Council has been assigned, pledged or mortgaged
 - c. there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.
- viii. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.
- ix. All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.
- x. We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The Council's financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.
- xi. We have considered the unadjusted misstatements schedule included in your Audit Findings Report and attached. We have not adjusted the financial statements for these misstatements brought to our attention as they are immaterial to the results of the Council and its financial position at the year-end. The financial statements are free of material misstatements, including omissions.

F. Management Letter of Representation

- xii. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.
- xiii. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.
- xiv. There are no prior period errors to bring to your attention.
- xv. We have updated our going concern assessment. We continue to believe that the Council's financial statements should be prepared on a going concern basis and have not identified any material uncertainties related to going concern on the grounds that :
- a. the nature of the Council means that, notwithstanding any intention to cease its operations in their current form, it will continue to be appropriate to adopt the going concern basis of accounting because, in such an event, services it performs can be expected to continue to be delivered by related public authorities and preparing the financial statements on a going concern basis will still provide a faithful representation of the items in the financial statements
 - b. the financial reporting framework permits the entry to prepare its financial statements on the basis of the presumption set out under a) above; and
 - c. the Council's system of internal control has not identified any events or conditions relevant to going concern.
- We believe that no further disclosures relating to the Council's ability to continue as a going concern need to be made in the financial statements
- xvi. The Council has complied with all aspects of ring-fenced grants that could have a material effect on the Council's financial statements in the event of non-compliance.
- xvii. In relation to the land at Top Wighay Farm, we confirm that there were no indications prior to 1 April 2021 that the fair value of the land was significantly higher than the carrying value of the asset in the financial statements as at 31 March 2021. We confirm therefore that no material prior period error exists in relation to the carrying value of this land on balance sheet.
- xix. We have communicated to you all deficiencies in internal control of which management is aware.
- xx. All transactions have been recorded in the accounting records and are reflected in the financial statements.
- xxi. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- xxii. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Council and involves:
- a. management;
 - b. employees who have significant roles in internal control; or
 - c. others where the fraud could have a material effect on the financial statements.
- xxiii. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.
- xxiv. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.
- xxv. We have disclosed to you the identity of the Council's related parties and all the related party relationships and transactions of which we are aware.
- xxvi. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

Information Provided

- xviii. We have provided you with:
- a. access to all information of which we are aware that is relevant to the preparation of the Council's financial statements such as records, documentation and other matters;
 - b. additional information that you have requested from us for the purpose of your audit; and
 - c. access to persons within the Council via remote arrangements from whom you determined it necessary to obtain audit evidence.

Annual Governance Statement

- xxvii. We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance and governance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS.

Narrative Report

- xxviii. The disclosures within the Narrative Report fairly reflect our understanding of the Council's financial and operating performance over the period covered by the Council's financial statements.

Approval

The approval of this letter of representation was minuted by the Council's Governance and Ethics Committee at its meeting on 22 March 2023.

G. Audit letter in respect of delayed VFM work

Cllr Philip Owen
Chair of Governance and Ethics Committee
Nottinghamshire County Council
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Nottingham
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6 October 2022

Dear Cllr Owen

The original expectation under the approach to VFM arrangements work set out in the 2020 Code of Audit Practice was that auditors would follow an annual cycle of work, with more timely reporting on VFM arrangements, including issuing their commentary on VFM arrangements for local government by 30 September each year at the latest.

Unfortunately, due to the on-going challenges impacting on the local audit market, including the need to meet regulatory and other professional requirements, we have been unable to complete our work as quickly as would normally be expected. The National Audit Office has updated its guidance to auditors to allow us to postpone completion of our work on arrangements to secure value for money and focus our resources firstly on the delivery of our opinions on the financial statements. This is intended to help ensure as many as possible could be issued in line with national timetables and legislation.

As a result, we have therefore not yet issued our 2021/22 Auditor's Annual Report, including our commentary on arrangements to secure value for money. We now expect to publish our report no later than 22 February 2023.

For the purposes of compliance with the 2020 Code, this letter constitutes the required audit letter explaining the reasons for delay.

Yours sincerely



Andrew J Smith

Director, Grant Thornton UK LLP

