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# Informing the audit risk assessment for Nottinghamshire County Council 2019/20

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# Table of Contents

Section	Page
Purpose	4
General Enquiries of Management	6
Fraud	7
Fraud Risk Assessment	8
Laws and Regulations	13
Impact of Laws and Regulations	14
Going Concern	16
Going Concern Considerations	17
Related Parties	21
Accounting Estimates	23
Appendix A Accounting Estimates	25

## Purpose

The purpose of this report is to contribute towards the effective two-way communication between Nottinghamshire County Council's external auditors and Nottinghamshire County Council's Nottinghamshire County Council Committee, as 'those charged with governance'. The report covers some important areas of the auditor risk assessment where we are required to make inquiries of the Nottinghamshire County Council Committee under auditing standards.

## Background

Under International Standards on Auditing (UK) (ISA(UK)) auditors have specific responsibilities to communicate with Nottinghamshire County Council Committee. ISA(UK) emphasise the importance of two-way communication between the auditor and the Nottinghamshire County Council Committee and also specify matters that should be communicated.

This two-way communication assists both the auditor and the Nottinghamshire County Council Committee in understanding matters relating to the audit and developing a constructive working relationship. It also enables the auditor to obtain information relevant to the audit from the Nottinghamshire County Council Committee and supports the Nottinghamshire County Council Committee in fulfilling its responsibilities in relation to the financial reporting process.

## Communication

As part of our risk assessment procedures we are required to obtain an understanding of management processes and the Nottinghamshire County Council's oversight of the following areas:

- General Enquiries of Management
- Fraud,
- Laws and Regulations,
- Going Concern,
- Related Parties, and
- Accounting Estimates.

## Purpose

This report includes a series of questions on each of these areas and the response we have received from Nottinghamshire County Council's management. The Nottinghamshire County Council Committee should consider whether these responses are consistent with its understanding and whether there are any further comments it wishes to make.

## General Enquiries of Management

Question	Management response
1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2019/20?	<p>The statement of accounts contains estimated figures that are based on assumptions made by the Council about the future that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. The estimates that have the most significant impact on the accounts relate to non-current asset valuations and the pension liability and these are being reviewed in the light of COVID19 to assess their impact on the financial statements.</p> <p>PF Two material transitions/investments in LGPS Central funds will have taken place by the end of the year.</p>
2. Have you considered the appropriateness of the accounting policies adopted by Nottinghamshire County Council? Have there been any events or transactions that may cause you to change or adopt new accounting policies?	<p>The accounting policies which set out the specific principles, rules and practices applied by the Authority in preparing and presenting the financial statements are approved each year by the Governance and Ethics Committee. It is not proposed that any accounting policies will be changed in preparation of the 2019/29 Statement of Accounts.</p>
3. Is there any use of financial instruments, including derivatives?	<p>We do not have any financial instruments that involve embedded derivatives.</p> <p>PF We do not have any financial instruments that involve embedded derivatives. However the Pension Fund has previously had FX contracts, and some of our investment funds include derivatives within them.</p>
4. Is Are you aware of any significant transaction outside the normal course of business?	<p>We are not aware of any significant transactions that are outside of the normal course of business.</p>

## General Enquiries of Management

Question	Management response
5. Are you aware of any changes in circumstances that would lead to impairment of non-current assets?	It is the view of our internal valuers that the property market remained generally stable throughout 2019/20. However, current insight in relation to the outbreak of Covid-19 indicates that many markets can be defined as uncertain in the weeks leading up to the effective valuation date of 31st March 2020. The potential impact of this is yet to be understood in terms of severity and longevity. In this regard, the absence of direct observable market data does not give rise to a general market impairment at this stage. Any specific impairment of assets will be factored into the revaluation process.
6. Are you aware of any guarantee contracts?	We are not aware of any material financial guarantee contracts.  PF Nottinghamshire Pension Fund has guaranteed a share of the pension liability relating to employees of LGPS Central Ltd that transferred into the company on creation. It is unlikely that this is a material sum, but it is disclosed in the accounts and will be reviewed at year end.
7. Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements?	Any contingent assets or liabilities arising as a result of litigation, claims or assessments are notified annually in the annual statement of accounts following a request by colleagues in Financial Services.
8. Other than in house solicitors, can you provide details of those solicitors utilised by Nottinghamshire County Council during the year. Please indicate where they are working on open litigation or contingencies from prior years?	The Council uses external legal advisors where appropriate for a broad range of advice and assistance with cases and has a tendered framework agreement (the EM Lawshare Framework) which it uses for much of this. The Framework appoints 7 partner firms for a 4 year term which runs from 2018 to 2022. In addition, Legal Services has used additional private sector firms for statutory child protection litigation work which it was unable to contain in-house last year and which is not covered by the above framework. I am not aware of external solicitors working on open litigation (other than child protection as above) or contingencies from prior years save for external advice provided via the Local Government Association in respect of group legal action which are often on a "no win no fee" basis. The Council generally manages work on Judicial Review and Employment cases internally with advice as required from Counsel but where there may be capacity issues this can result in outsourcing through the EM Lawshare Framework.



## General Enquiries of Management

Question	Management response
9. Have any of the Nottinghamshire County Council's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements?	Not that I am aware of, however where advice on any matters might reveal shortcomings in the Council's practice and procedures these will be identified as part of effective management of the legal case and will be drawn to the attention of the relevant management within service areas to address.
10. Can you provide details of other advisors consulted during the year and the issue on which they were consulted?	<p>Barristers advice is sought as and when required on a variety of matters which it would be too detailed to set out. They range from simple hearings to advice on statutory responsibilities and actual or potential litigation and such advice is used as a mechanism to manage risks and cases effectively.</p> <p>PF We have an Independent Adviser who advises on a range of investment and asset allocation issues.</p>



# Fraud

## Issue

### Matters in relation to fraud

ISA (UK) 240 covers auditors responsibilities relating to fraud in an audit of financial statements.

The primary responsibility to prevent and detect fraud rests with both the Nottinghamshire County Council Committee and management. Management, with the oversight of the Nottinghamshire County Council Committee, needs to ensure a strong emphasis on fraud prevention and deterrence and encourage a culture of honest and ethical behaviour. As part of its oversight, the Nottinghamshire County Council Committee should consider the potential for override of controls and inappropriate influence over the financial reporting process.

As Nottinghamshire County Council's external auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error. We are required to maintain professional scepticism throughout the audit, considering the potential for management override of controls.

As part of our audit risk assessment procedures we are required to consider risks of fraud. This includes considering the arrangements management has put in place with regard to fraud risks including:

- assessment that the financial statements could be materially misstated due to fraud,
- process for identifying and responding to risks of fraud, including any identified specific risks,
- communication with the Audit Risk & Assurance Committee regarding its processes for identifying and responding to risks of fraud, and
- communication to employees regarding business practices and ethical behaviour.

We need to understand how the Nottinghamshire County Council Committee oversees the above processes. We are also required to make inquiries of both management and the Nottinghamshire County Council Committee as to their knowledge of any actual, suspected or alleged fraud. These areas have been set out in the fraud risk assessment questions below together with responses from Nottinghamshire County Council's management.



## Fraud risk assessment

Question	Management response
2. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?	<p>Internal Audit consider the exposure to fraud risk as part of the internal planning process and consider such classes of accounts to be Stock, Cash, Investments, Payroll, Creditors, Income Collection and Debt Recovery. These areas are considered during the Internal Audit Planning process and as part of the Counter Fraud Risk assessment. The risks to cash, investment, income collection also consider the impact of Cyber fraud from the access to accounts to the processing of banking and payment mandates that can be used to divert funds.</p> <p>Other classes of accounts are considered from disclosure within the financial statements such as related parties, investments, asset valuation etc which are covered within other sections and subject to the established Internal Audit risks assessment processes.</p> <p>Accounting treatment, such as accruals, prepayments and accounting estimates are considered through corporate finance in relation to potential misstatement rather than fraud.</p> <p>PF Potential fraud through unreported deaths, or payment fraud where payments out of the fund might be directed to bogus accounts.</p>
3. Are you aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within Nottinghamshire County Council as a whole or within specific departments since 1 April 2019? As a management team, how do you communicate risk issues (including fraud) to those charged with governance?	<p>SL Yes, such cases have been identified as part of internal audit work and cases have been subject to appropriate action. Cases have been recorded in the Annual Fraud Report. Cases have also been reviewed and actioned by departments: Adults, Social Care &amp; Health and Trading Standards with appropriate input from senior managers and Police.</p> <p>Internal Audit have been involved in referrals in relation to a number of cases involving suspected fraud as maintained on the investigations register. All cases have been valued under £100k and have been either investigated by internal audit, internal audit and the department or have been referred to the police. Work has been undertaken and recovery action instigated for deprived asset cases where a notional capital holding has been applied to ensure the correct client contribution is made and to restrict the payments made to service users.</p> <p>PF No. The Admin office may be aware of smaller scale issues.</p>

## Fraud risk assessment

Question	Management response
<p>1. Have Nottinghamshire County Council assessed the risk of material misstatement in the financial statements due to fraud?</p> <p>How has the process of identifying and responding to the risk of fraud been undertaken and what are the results of this process?</p> <p>How do Nottinghamshire County Council's risk management processes link to financial reporting?</p>	<p>The Council has undertaken an overall assessment of the risk of material misstatement in the financial statements as being low based on the good inherent record for completion of the financial statements, the current control environment and the management perception of risk based on the assessment of materiality for the Nottinghamshire County Council Financial Statements (NCC) and Nottinghamshire County Pension Fund. (NCPF)</p> <p>The risk assessment is based on the assessment made by management, the opinions expressed in the Annual Governance Statement and the methods employed by the Head of Internal Audit to review the Governance Arrangements.</p> <p>A material misstatement would require a fraud of £20m – NCC or £50m - NCPF. (Based on the assessment for the 2018/19 Financial Statements) . The key systems which could result in a mis-statement of this scale are audited on a rolling programme by internal audit as part of the coverage within the Core Audits (Corporate / Cross Cutting element of the Internal Audit Plan). The Council has a broad range of controls in place over the key systems to mitigate the risk of a material mis-statement.</p> <p>Current fraud risks have been identified and assessed as part of the Annual Fraud Risk Assessment and work undertaken to address them has been reported as part of the Annual Fraud Report 2018/19 (and will again be reported as part of the Annual Fraud Report 2019/20) as reported to the Governance and Ethics Committee. The Annual Fraud Risk Assessment is used to drive the coverage of Counter Fraud work, both proactive and reactive as part of the overall Internal Audit Universe and Termly planning processes.</p>

## Fraud risk assessment

Question	Management response
<p>4. Have you identified any specific fraud risks?</p> <p>Do you have any concerns there are areas that are at risk of fraud?</p> <p>Are there particular locations within Nottinghamshire County Council where fraud is more likely to occur?</p>	<p>Please refer to above where the planning process expands into risk areas and work undertaken to identify and mitigate.</p> <p>The general fraud risks considering the environment in which the Council operate are in relation to Procurement, Contract Management, Cyber, Social Care Expenditure, Blue Badge, Concessions and Licence issues.</p> <p>The Fraud Risk assessment considered each element of these risks and highlights specific risks in relation to:-</p> <ul style="list-style-type: none"> <li>• Public Health – Activity Based Contract Payments</li> <li>• Cyber Fraud – Data Protection and Breach</li> <li>• Cyber Fraud – implementation of General IT Controls</li> <li>• Cyber Fraud – Third Party Procurement and Security</li> <li>• Schools – BACS/Cheque/Mandate Risks</li> <li>• Licencing – issue and misuse</li> </ul> <p>Implication for Criminal Finance Act 2017 undertook a risk assessment of areas that highest risk of impact – this identified Income Tax IR35; Direct Payments and Grants as being at risk. Risk assessment or Money Laundering identified External Sales, Income collation, debt recovery and cash handling as being areas of higher risk.</p>

## Fraud risk assessment

Question	Management response
<p>5. What processes do Nottinghamshire County Council have in place to identify and respond to risks of fraud?</p>	<p>Internal Audit undertake an Annual Fraud Risk Assessment utilising a series of risk criteria and risk scoring to identify high risk locations using aspects such as turnover, cash transactions etc. Risks from processes such as payments and payroll systems are high due to value. A Fraud Risk assessment analyses the key areas of risk for the Council, which is revised annually to inform the counter fraud plan, which results in completion of the Annual Fraud Report.</p> <p>Internal Audit has engaged with the following pro-active counter-fraud activities during 2019/20:</p> <ul style="list-style-type: none"> <li>- Promotion of the Council's Counter Fraud and Counter Corruption Strategy in line with the Fraud Response Plan.</li> <li>- Reviewed policy documentation such as, anti-money laundering policy, anti-bribery and corruption policy etc.</li> <li>- E-learning – Fraud Awareness Course was re-launched through My Learning and International Fraud Week</li> <li>- Alerts from intelligence sources National Anti-Fraud Network, CIPFA etc. have been reviewed and disseminated</li> <li>- Serious &amp; Organised Crime – Home Office – Data sharing has been undertaken with GAIN;</li> <li>- NFI data matches have been completed and reports shared with other bodies.</li> <li>- NFI Re-check has been completed for mortality data and Pensions</li> <li>- Engagement with LGA Procurement Review; CIFAS development of Local Government Tools and FFCL strategy and CIPFA Survey Workshops in relation to Counter Fraud.</li> </ul> <p>Completion of Annual Fraud Report for 2018/19 (2019/20 Report will be completed for June 2020) and reported to the Governance &amp; Ethics Committee.</p>

## Fraud risk assessment

Question	Management response
<p>5b. What processes do Nottinghamshire County Council have in place to identify and respond to risks of fraud?</p>	<p>Other Counter Fraud activity includes:</p> <p>ASCH – work with Direct Payments team to review processes for recovery of funds to include consideration of fraud. Work on the identification and recovery of assessment and payments in relation to deprivation of assets. This has resulted in new process maps to raise awareness of fraud issues.</p> <p>Risk and Insurance have continued to be engaged with the Association of British Insurers (ABI) to review claims received against a 48 point checklist to screen against fraud risks. This has reduced the number of high risk claims being considered by the Council. Information and advice from the Councils insurers has been strengthened and has involved training with the Counter Fraud Officer at NCC.</p> <p>Business Support Centre (BSC) (inc PF) have actively reviewed payments prior to payment. Software has been installed to check for duplicated payments post payment processing and prior to payment generation. Proactive work on Bank Mandate checks have prevented significant payments being made as a result of attempted fraud.</p> <p>The CIPFA Accredited Counter Fraud Specialist has continued to work with the CIPFA Counter Fraud Centre to ensure current practice, risk and knowledge sharing is undertaken.</p> <p>Working arrangements have continued with Nottinghamshire Police through a Single Point of Contact (SPOC), with Action Fraud and with GAIN for the completion of data washing exercises.</p> <p>Cyber Security (inc PF) – we have reviewed cyber security arrangements as part of the Fraud Risk Assessment and updated the ICT audit plan to reflect the emerging risks. We have also reviewed current local practices against the National Audit Office guidance for audit committees on cyber security with a report taken to the Governance and Ethics Committee in December 2018 and subject to review and update during 2019.</p>



## Fraud risk assessment

Question	Management response
<p>6. How would you assess the overall control environment for Nottinghamshire County Council, including: the process for reviewing the effectiveness the system of internal control; internal controls, including segregation of duties; exist and work effectively?</p> <p>If not where are the risk areas and what mitigating actions have been taken?</p> <p>What other controls are in place to help prevent, deter or detect fraud?</p> <p>Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)?</p>	<p>The application of internal controls, including segregation of duties, is reviewed annually as part of the processes employed to complete the Annual Governance Statement and supported by Assurance Mapping activities. Weaknesses are captured in the document and the work undertaken by the HOIA to form the Annual Opinion.</p> <p>Management monitor their individual areas on an on-going basis and report to their respective management teams. There is a requirement to report any suspected irregularities to Internal Audit, who will determine how to proceed in individual cases, including reporting to police, investigation by internal audit and investigation by management. The Fraud Response Plan sets out the expectations for all to follow.</p> <p>The risks from internal controls and segregation of duties are reviewed as part of the risk based approach undertaken by internal audit in the completion of its work as part of the Termly Plan which is informed by the Internal Audit Risk assessment and Fraud Risk Assessment. These risks assessments utilise a series of risk criteria and risk scoring to identify high risk locations using aspects such as turnover, cash transactions etc. Risks from processes such as payments and payroll systems are high due to value. A Fraud Risk assessment analyses the key areas of risk for the Council, which is revised annually to inform the counter fraud plan and inform the termly planning process.</p> <p>These include close analysis of all the Council's activities and the risk they pose in terms of loss through error/fraud/reputation, exchange of information with other county councils, local district councils and neighbouring authorities, consideration and dissemination of information provided by NAFN, CIPFA, past experience of fraud in the Council and regular scanning of the media to identify losses / issues in other organisations. The Council's Counter Fraud and Counter Corruption Strategy and its Fraud Response Plan are periodically reported to staff groups to refresh awareness. The most recent being through a coordinated launch of fraud awareness as part of the International Fraud Awareness week.</p>

## Fraud risk assessment

Question	Management response
7. Are there any areas where there is potential for misreporting?	<p>The Governance control processes in place for the completion of the annual governance statement confirm that control arrangements are in place and have been operated during the course of the year. The governance arrangements are supported by a waiver process where any exceptions to the control function are approved. This process is controlled and reported to the Governance and Ethics Committee on an annual basis. There are no areas that have been identified for the override or controls due to the inappropriate influence.</p> <p>The Head of Internal Audit is not aware of any inappropriate over rides of management controls.</p> <p>A monthly budget monitoring process is undertaken to ensure that any variances to the budget are identified and reported to both the Corporate Leadership Teams and Finance and Major Contracts Management Committee on a timely basis. All variations are therefore considered buy management as part of an open and transparent process.</p>



## Fraud risk assessment

Question	Management response
<p>8. How do Nottinghamshire County Council communicate and encourage ethical behaviours and business processes of its staff and contractors?</p> <p>How do you encourage staff to report their concerns about fraud?</p> <p>What concerns are staff expected to report about fraud?</p> <p>Have any significant issues been reported?</p>	<p>Officers and members undertake their roles in line with Codes of Conduct and personnel handbook. The Council's constitution provides the framework for an comprehensive set of internal controls to prevent fraud. The requirements are set out in further detail within Financial Regulations and these are complemented by more detailed guidance at departmental level. Internal Audit have an annual programme of work which is agreed with the Governance and Ethics Committee.</p> <p>This programme of work provides assurance that these controls are in place, effective and complied with. Staff are reminded of the need for vigilance from time to time using Team Talk and corporate training materials. Awareness has been raised through Team Talk and intranet news to promote the work undertaken in line with the Fraud Response Plan. The Council has a whistle-blowing policy which reminds staff of the need to report instances of fraud. The Annual Fraud Report sets out how management has responded to fraud cases arising over the previous year. The Council provides information on fraud and collusion to contractors and review compliance with their own practices.</p> <p>The Council continues to have a Code of Conduct for employees. The Code details the standards of conduct expected of employees and subsequent consequences. Details of these expectations are shown in Section D35 of the Personnel Handbook which are available to all on the intranet. Internal Audit has completed an audit of ethics. Issues are reported by the Head of Internal Audit, Monitoring Officer and Line Managers. These are escalated to Head of Internal Audit for consideration of investigation. Internal Audit are engaged in a number of investigations where compliance issues have been identified and departmental action has been taken. None are significant to the Financial Statements. Awareness training is provided through My Learning, Team Talk and Intranet news articles. These have included counter fraud awareness articles to bring the Counter Fraud Response Plan to the attention of officers and staff along with the provision of an e-learning training course.</p>

## Fraud risk assessment

Question	Management response
<p>9. From a fraud and corruption perspective, what are considered to be high-risk posts?</p> <p>How are the risks relating to these posts identified, assessed and managed?</p>	<p>High risk posts are assessed as part of the vacancy management processes and the recruitment needs such as exposure to financial, safeguarding, vulnerable persons risks etc. These are mitigated through enhanced recruitment and management checks as part of the recruitment processes and processes put in place to check for identify fraud along with obtaining additional reference and DBS checks etc.</p> <p>From a fraud perspective the roles that involve payment (raising and collection) are considered a risk due to fraud and or theft. This includes staff involved in corporate roles (BSC payroll, pensions, vendor management, Investment, Pension Fund Management) and also in relation to establishments such as school (Office Administration) and care facilities (Care Home Managers) etc. This extends to debt collection staff with the ability to credit, suspend or cancel debt payments etc.</p> <p>Staff involved in care to vulnerable children and adults pose a risk in terms of safeguarding and fraud, especially if have responsibility for commissioning / providing care services or are involve din the management of individuals funds. This extends to staff involved in protecting assets of vulnerable people and / or dealing with the possession of valuables after death.</p> <p>Staff involved in the procurement and handling of stock and consumables such as Stocks and Stores in relation to maintenance, ICT and catering functions. This would also extend to staff involved in the use of tangible assets and consumables owned by the council to ensure appropriate use.</p>

## Fraud risk assessment

Question	Management response
<p>10. Are you aware of any related party relationships or transactions that could give rise to instances of fraud?</p> <p>How do you mitigate the risks associated with fraud related to related party relationships and transactions?</p>	<p>The Financial Statements identify all the related parties for the Council and the Pension Fund. Central Government – through the framework for grants and funding (Council tax and benefit payments) Relationships in relation to members were identified where they held position with bodies receiving grants.</p> <p>Related transactions related to Arc, Via, Nottinghamshire (Futures), Inspire and LGPS Central for the PF are detailed within notes to the financial statements.</p> <p>Departments are required to identify related parties that they have in operation in addition to the corporate requirements. Related parties in relation to individuals are identified during the financial statements generation and are reviewed prior to declaration.</p> <p>We are not aware of any significant or unusual transactions that would give rise to fraud. We are not aware of any unusual transactions with third parties that could give rise to the risk of fraud.</p> <p>No significant unusual transactions have been entered into during 2019/20. Cash holding and handling is reduced to a minimum and payments are subject to vetting prior to payment. The Council have not entered into any new JV's or PFI transactions.</p>

## Fraud risk assessment

Question	Management response
<p>11. What arrangements are in place to report fraud issues and risks to the Nottinghamshire County Council Committee?</p> <p>How does the Nottinghamshire County Council Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control?</p> <p>What has been the outcome of these arrangements so far this year?</p>	<p>A Fraud Risk Assessment is undertaken which is used to inform the Annual Fraud Plan and work within the Internal Audit Planned activity. Activity in relation to Counter Fraud is reported through the Annual Fraud Report and developments captured as part of the Fraud Plan. The annual fraud report is considered by the Governance and Ethics Committee each year. The Corporate Leadership Team and the Governance and Ethics Committee are consulted on the Termly Internal Audit Plan, the latest in October 2019 and March 2020. Termly plans incorporate both proactive and reactive counter fraud work. Meetings are held on a 6 weekly basis between the Head of Internal Audit and the Chairman of the Governance and Ethics Committee and include a periodic update of work against the termly plan and update on counter fraud activity.</p>
<p>12. Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?</p>	<p>The Monitoring Officer compiles an annual report in relation to Whistleblowing which was presented to the Governance and Ethics Committee on 19 December 2019. The report identified two concerns being raised under the policy and the actions taken in relation to each of these. When appropriate this includes further referral to Internal Audit for potential fraudulent activity.</p> <p>The Governance and Ethics Committee have endorsed that actions taken by officers to respond to whistleblowing cases and continued to promote the policy to staff and departments through the Team Talk intranet articles. The next annual whistleblowing Report is due for reporting to the Governance and Ethics Committee in May/June 2020.</p>
<p>13. Have any reports been made under the Bribery Act?</p>	<p>See above in relation to the Bribery Act.</p>



## Law and regulations

### Issue

#### Matters in relation to laws and regulations

ISA (UK) 250 requires us to consider the impact of laws and regulations in an audit of the financial statements.

Management, with the oversight of the Nottinghamshire County Council Committee, is responsible for ensuring that Nottinghamshire County Council's operations are conducted in accordance with laws and regulations including those that determine amounts in the financial statements.

As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error, taking into account the appropriate legal and regulatory framework. As part of our risk assessment procedures we are required to make inquiries of management and the Nottinghamshire County Council Committee as to whether the entity is in compliance with laws and regulations. Where we become aware of information of non-compliance or suspected non-compliance we need to gain an understanding of the non-compliance and the possible effect on the financial statements.

Risk assessment questions have been set out below together with responses from management.

## Impact of laws and regulations

Question	Management response
<p>1. How does management gain assurance that all relevant laws and regulations have been complied with?</p> <p>What arrangements does Nottinghamshire County Council have in place to prevent and detect non-compliance with laws and regulations?</p> <p>Are you aware of any changes to Nottinghamshire County Council's regulatory environment that may have a significant impact on Nottinghamshire County Council's financial statements?</p>	<p>Decision making is undertaken by Committees and other meetings of the County Council based on reports following standardised templates with sections covering financial, constitutional, human rights, equalities implications etc. Each report is checked for compliance prior to publication. In addition, each department and service area is aware of the legal and regulatory framework relevant to their areas and appropriately qualified staff are recruited and trained in relevant procedures and processes. There is oversight by relevant government and other agencies tasked with monitoring standards and compliance. Periodic internal audit inspections of each service area take place. Legal advice is available for any casework or individual queries. The Monitoring Officer sits on the Corporate Leadership Team and attends Policy Committee and Full Council.</p>
<p>2. How is the Nottinghamshire County Council Committee provided with assurance that all relevant laws and regulations have been complied with?</p>	<p>Decision making by Committees and other meetings at the Council subject to appropriate advice via standardised committee reports covering relevant issues for consideration. The Annual Governance Statement summarises the processes and procedures in place that govern the arrangements. Internal Audit procedures, legal advisory support from in-house and (where necessary) external advisors on different areas of service delivery. Training and development of staff from both internal and external sources, accreditation with relevant professional bodies, whistle-blowing policy, Financial Regulations, contract procedures, complaints procedures, internal and external investigations, HR procedures, terms and conditions of employment including disciplinary procedures etc.</p>
<p>3. Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2019 with an on-going impact on the 2019/2020 financial statements?</p>	<p>Internal Audit deal with allegations of fraud or criminal behaviour which is reported to the relevant authorities for investigation. Not aware of any other instances of non-compliance which would be required to be reported to the Council's Monitoring Officer for consideration of the need for a report to the Council if they arose.</p>

## Impact of laws and regulations

Question	Management response
4. Is there any actual or potential litigation or claims that would affect the financial statements?	Any contingent assets or liabilities arising as a result of litigation, claims or assessments are notified annually in the annual statement of accounts following a request by colleagues in Financial Services.
5. What arrangements does Nottinghamshire County Council have in place to identify, evaluate and account for litigation or claims?	Risk and Insurance manage insurance claims, together with the Council's insurers and having taken external legal advice where appropriate. Non-insured cases are managed by Legal Services together with external advisory support where appropriate with claims being pursued or settled on the basis of legal advice in accordance with provisions within the Constitution. Any contingent assets or liabilities arising as a result of litigation, claims or assessments are notified annually in the annual statement of accounts.
6. Have there been any report from other regulatory bodies, such as HM Revenues and Customs which indicate non-compliance?	We are not aware of any such reports.

# Going Concern

## Issue

### Matters in relation to going concern

ISA (UK) 570 covers auditor responsibilities in the audit of financial statements relating to management's use of the going concern assumption in the financial statements.

The going concern assumption is a fundamental principle in the preparation of financial statements. Under this assumption entities are viewed as continuing in business for the foreseeable future. Assets and liabilities are recorded on the basis that the entity will be able to realise its assets and discharge its liabilities in the normal course of business.

Going concern considerations have been set out below and management has provided its response.



## Going concern considerations

Question	Management response
1. Has the management team carried out an assessment of the going concern basis for preparing the financial statements for Nottinghamshire County Council? What was the outcome of that assessment?	<p>It should be noted that 2019/20 was the final year of a four year settlement from Central Government. Despite a further one year settlement announced in December 2019, there is much uncertainty surrounding the delayed changes to the business rates methodology, the delayed fair funding review, the delayed social care green paper and the implications of Brexit. This does not however cast doubt on the Council's ability to continue as a going concern and the MTFS will continue to be reviewed regularly to ensure that it reflects the latest information available. The outcome of the going concern exercise can be seen in the Annual Budget Reports that are submitted to Full Council in February of each year.</p> <p>PF Because of the nature of the Pension Fund, and its assets and liabilities the going concern basis is appropriate. The Council is currently responding to the consequences of COVID-19. A report which sets out the impact of the COVID19 crisis on the work of the Council was reported to Policy Committee on 17 June 2020. A Finance Resilience Group has been established to consider the impact of the crisis and will be reviewing all of the assumptions in the MTFS. Regular reports will be provided to the Corporate Leadership Team and Members to keep them informed of the financial implications of the crisis</p>
2. Are the financial assumptions in that report (e.g., future levels of income and expenditure) consistent with Nottinghamshire County Council's Nottinghamshire County Council and the financial information provided to Nottinghamshire County Council throughout the year?	<p>Your Nottinghamshire, Your Future, the County Council Plan sets out the strategic ambition for the future of Nottinghamshire and the Council, structured around four vision statements and supported by twelve commitments. The annual budget report sets out the financial framework around which the County Council will achieve its strategic vision statements and meet the success factors that underpin the County Council's twelve commitments. The Council's Planning and Performance Management Framework ensures the alignment of the Council Plan, the Departmental Strategies and the MTFS.</p>

## Going concern considerations

Question	Management response
3. Are the implications of statutory or policy changes appropriately reflected in Nottinghamshire County Council, financial forecasts and report on going concern?	The Council undertakes a robust process each year to identify new cost pressures as well as justifying any existing cost pressures within the MTFS. An on-going process to identify and potential savings and efficiencies across the Council also takes place. The implications of any statutory or policy changes are picked up either as part of these exercises or through the rigorous view of the Council's other MTFS assumptions
4. Have there been any significant issues raised with the Nottinghamshire County Council Committee during the year which could cast doubts on the assumptions made? (Examples include adverse comments raised by internal and external audit regarding financial performance or significant weaknesses in systems of financial control).	Both internal audit and external audit report regularly to the Governance and Ethics Committee. During 2019/20, no adverse comments have been raised with regard to either financial performance or significant weaknesses in systems of financial control.
5. Does a review of available financial information identify any adverse financial indicators including negative cash flow or poor or deteriorating performance against the better payment practice code? If so, what action is being taken to improve financial performance?	<p>The financial position of the Council is reported to the Finance and Major Contracts Managements Committee on a monthly basis. The financial monitoring reports show the current position with regard to the revenue budget and the capital programme. It also provides an update on the current position with regard to Treasury Management. On a quarterly basis, the financial monitoring reports also report on the performance of Accounts Payable, Account Receivable and Procurement. The financial monitoring process has not picked up any adverse financial indicators during 2019/20.</p> <p>Detailed progress on the Council's plans, departmental strategies and details of achieving the councils savings and transformation plans are reported quarterly to the Improvement &amp; Change Sub-Committee. Both Committees receive reports identifying improvement actions where necessary.</p>

## Going concern considerations

Question	Management response
<p>6. Does Nottinghamshire County Council have sufficient staff in post, with the appropriate skills and experience, particularly at senior manager level, to ensure the delivery of Nottinghamshire County Council's objectives? If not, what action is being taken to obtain those skills?</p>	<p>Yes. The Members of the Corporate Leadership Team (CLT) is a stable team that has a wealth of experience in many facets of County Council services. They have the skills and knowledge necessary to ensure that the Council's objectives, set out in the Council Plan – Your Nottinghamshire, Your Future - are delivered. The Section 151 officer sits on CLT who receive regular performance, finance and service reports to ensure that progress is made against all objectives. In addition, Senior Leadership Teams across all Departments meet regularly and are supported by dedicated finance teams.</p> <p>From a financial viewpoint, the Council has the appropriate mix of qualified, part-qualified and trainees to undertake financial management &amp; support activities. The senior finance managers including the Service Director, Group Managers and Team Managers are qualified accountants with considerable experience. Junior Officers in Finance Group are either qualified or part-qualified accountants or AAT qualified staff.</p> <p>The Council's robust Employee Performance &amp; Development Review process records training and development undertaken and required to be undertaken and meets the various professional accounting bodies requirements for CPD.</p>

## Going concern considerations

Question	Management response
7. Does Nottinghamshire County Council have procedures in place to assess their ability to continue as a going concern?	The County Council on the 28 February 2019 set the annual budget and capital programme budget to 2021/22 and the Medium Term Financial Strategy over the same period. This report included the formal assessment by the Section 151 Officer on the robustness of the Budget Estimates and the adequacy of the County Council's reserves in accordance with the 2003 Local Government Act. This indicates the Section 151 Officer has considered that the Council has is a going concern. As set out above, a Finance Resilience Group has been established to consider the impact of the COVID-19 crisis and will be reviewing all of the assumptions in the MTFS. Regular reports will be provided to the Corporate Leadership Team and Members to keep them informed of the financial implications of the crisis
8. Is management aware of the existence of events or conditions that may cast doubt on Nottinghamshire County Council's ability to continue as a going concern?	As set out above, despite the uncertain financial environment that the Council is working within and the CIVID-19 crisis, this does not cast doubt on the Council's ability to continue as a going concern and the MTFS will continue to be reviewed regularly to ensure that it reflects the latest information available.



## Going concern considerations

Question	Management response
<p>9. Are arrangements in place to report the going concern assessment to the Nottinghamshire County Council Committee ?</p> <p>How has the Nottinghamshire County Council Committee satisfied itself that it is appropriate to adopt the going concern basis in preparing financial statements?</p>	<p>The County Council on the 28 February 2019 set the annual budget and capital programme budget to 2021/22 and the Medium Term Financial Strategy over the same period. This report included the formal assessment by the Section 151 Officer on the robustness of the Budget Estimates and the adequacy of the County Council's reserves in accordance with the 2003 Local Government Act. This indicates the Section 151 Officer has considered that the Council has is a going concern.</p>

# Related Parties

## Issue

### Matters in relation to Related Parties

Nottinghamshire County Council are required to comply with IAS 24 and disclose transactions with entities/individuals that would be classed as related parties. These may include:

- entities that directly, or indirectly through one or more intermediaries, control, or are controlled by Nottinghamshire County Council;
- associates;
- joint ventures;
- an entity that has an interest in the authority that gives it significant influence over Nottinghamshire County Council;
- key management personnel, and close members of the family of key management personnel, and
- post-employment benefit plans (pension fund) for the benefit of employees Nottinghamshire County Council, or of any entity that is a related party of Nottinghamshire County Council.

A disclosure is required if a transaction (or series of transactions) is material on either side, i.e. if a transaction is immaterial from the Nottinghamshire County Council perspective but material from a related party viewpoint then Nottinghamshire County Council must disclose it.

ISA (UK) 550 requires us to review your procedures for identifying related party transactions and obtain an understanding of the controls that you have established to identify such transactions. We will also carry out testing to ensure the related party transaction disclosures you make in the financial statements are complete and accurate.

## Relating Parties

Question	Management response
<p>1. What controls does Nottinghamshire County Council have in place to identify, account for and disclose related party transactions and relationships?</p>	<p>The Financial Statements identify all the related parties for the Council and the Pension fund.</p> <p>Central Government – through the framework for grants and funding (Council tax and benefit payments)</p> <p>Relationships in relation to members were identified where they held position with bodies receiving grants.</p> <p>Related transactions related to Arc, Via, Nottinghamshire (Futures), Inspire and LGPS Central (PF) are detailed within notes to the financial statements.</p> <p>Related parties in relation to individuals are identified during the financial statements generation and are reviewed prior to declaration.</p>

# Accounting estimates

## Issue

### Matters in relation to Related Accounting estimates

Nottinghamshire County Council apply appropriate estimates in the preparation of their financial statements. ISA (UK) 540 sets out requirements for auditing accounting estimates. The objective is to gain evidence that the accounting estimates are reasonable and the related disclosures are adequate.

Under this standard we have to identify and assess the risks of material misstatement for accounting estimates by understanding how the Combined Authority identifies the transactions, events and conditions that may give rise to the need for an accounting estimate.

Accounting estimates are used when it is not possible to measure precisely a figure in the accounts. We need to be aware of all estimates that the Combined Authority is using as part of its accounts preparation; these are detailed in appendix 1 to this report. The audit procedures we conduct on the accounting estimate will demonstrate that:

- the estimate is reasonable; and
- estimates have been calculated consistently with other accounting estimates within the financial statements.

We would ask the Nottinghamshire County Council Committee to satisfy itself that the arrangements for accounting estimates are adequate.



## Accounting Estimates

Question	Management response
1. Are management aware of transactions, events, conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement (other than those in Appendix A)?	<p>The Statement of Accounts contains estimated figures that are based on assumptions made by the Council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors.</p> <p>PF The statement of accounts includes valuations of Level 2 and Level 3 financial instruments which involve an element of judgement</p>
2. Are the management arrangements for the accounting estimates, as detailed in Appendix A reasonable?	It is the view of the Section 151 officer that the estimates made within the Statement of Accounts are consistent with the Local Authority Accounting Code of Practice and are both prudent and reasonable.
3. How is the Nottinghamshire County Council Committee provided with assurance that the arrangements for accounting estimates are adequate ?	The Accounting Policies which set out the specific principles , rules and practices applied by the Authority in preparing and presenting the financial statements are approved each year by the Governance and Ethics Committee. The financial statements are presented to Governance and Ethics Committee each year which set out the accounting estimates used.

## Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Property, plant & equipment valuations	Fair value for land/buildings defined as 'existing use' by Nottinghamshire County Council.	Valuations are performed annually to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. For land and buildings all material assets will be considered in 2019/20.	Nottinghamshire County Council	Degree of uncertainty inherent with any revaluation. We employ professional valuers and rely on expert opinion.	No
Estimated remaining useful lives of PPE	Each part of an item of property, plant and equipment with a significant cost in relation to the total cost is depreciated separately. Depreciation methods, useful lives and residual values are reviewed each financial year and adjusted if appropriate.	See left box	Discussion with internal asset team and where applicable Nottinghamshire County Council as the valuer.	Depreciation is calculated on a straight line basis as this reflects consumption of assets and is a reasonable assumption.	No

## Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Depreciation and Amortisation	See above	See above	See above	See above	No
Impairments	Review of all assets undertaken annually in line with Nottinghamshire County Council.	See left.	Discussion with internal asset team as appropriate.	N/A.	No.
Measurement of Financial Instruments	Financial instruments consist of investments (Collective Investment Fund (CIF)). Measured initially at cost and subsequently at amortised cost using the effective interest method.	Knowledge by the Investment team who manages the CIF portfolio in assessing the potential risk in credit losses.	Fund advisers – Nottinghamshire County Council	The CIF portfolio is assessed on an individual borrower for its expected credit losses using: i) Probability of default ii) Loss of given default	No

## Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Provisions for liabilities	Provisions are identified through detailed monthly management accounts which flags any potential issues to management.	Each provision is separately reviewed by financial accounts and a working is put together to support the calculation.	As necessary on an individual basis	Each provision is assessed on an individual basis to ensure that it meets the criteria of a provision per IAS 37. The degree of uncertainty is assessed when determining whether a provision is the correct treatment for an item.	No.
Bad Debt Provision	Debts are reviewed monthly and any debts that are deemed to be irrecoverable are written off to Nottinghamshire County Council.	Knowledge by the Accounts Receivables team in likelihood of recoverability and the aging of the debts. Nottinghamshire County Council signs off the write off.	N/A	N/A	No.



## Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Accruals	We use standard accruals accounting –accruals are based on expenses incurred that have not yet been paid.	Monthly management accounts provides rigorous analysis so that any accruals are highlighted and actioned throughout the year.	N/A.	N/A.	No.
Non Adjusting events – events after the balance sheet date	Monthly management accounts prepared would flag any adjusting/non-adjusting events.	See left.	N/A.	N/A.	No.

## Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Pension Fund (LGPS) Actuarial gains/losses	The actuarial gains and losses figures are calculated by the actuarial expert Nottinghamshire County Council. These figures are based on making % adjustments to the closing values of assets/liabilities.	The Nottinghamshire County Council responds to queries raised by the administering body, Nottinghamshire County Council.	The Nottinghamshire County Council are provided with an actuarial report by Nottinghamshire County Council (LGPS).	The nature of these figures forecasting into the future are based upon the best information held at the current time and are developed by experts in their field.	No.



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