

Nottinghamshire County Council and Nottinghamshire Pension Fund audit plan

Year ending 31 March 2022

Nottinghamshire County Council
and Pension Fund

9 June 2022



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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.

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Key matters

Factors

Council developments

We have continued to hold regular meetings with the senior finance team at the Council. During these meetings we discuss a range of key issues regarding the Council and Pension Fund's general developments, current and projected financial performance, governance issues and regulatory oversight.

The period 10 financial monitoring report to 21st March 2022 Finance Committee forecast a £5.03m underspend for the 2021/22 year prior to use of reserves. The Council has also updated its Medium-Term Financial Strategy (MTFS) based on latest funding assumptions from the Local Government Funding Settlement and the approved 2022/23 Budget. The latest MTFS forecasts a funding gap of £29.1m from 2023 to 2026. On 24 February 2022, Full Council approved a Band D Council Tax increase for 2022-23 of 4.00% including 3.00% to be used for Adult Social Care as per the new flexibilities.

Pension Fund developments

2022 is the year of the triennial valuation. This will not impact the 2021/22 year however will determine the level of funding and future contribution rates effective from the following year. This will also entail a significant time commitment from the pensions administration team during 2022.

The expectation on funds to invest sustainably and within environmental, social and governance initiatives is increasing with many funds setting net carbon zero targets.

Sector-wide issues

The Department for Levelling Up, Housing and Communities (DLUHC) state their intention, subject to consultation, to introduce secondary legislation to extend the deadline for publishing audited local authority accounts to 30 November 2022 for the 2021/22 accounts. The consultation runs from 6-20 May with the intention of making these changes by UK Parliament's summer recess.

CIPFA has set up an urgent task and finish group to consider a sector-wide issue in the accounting for infrastructure assets, with a view to produce a bulletin and possible amendments to the accounting code in accordance with a published timetable which runs to June 2022.

CIPFA has issued a formal decision to defer the implementation of the IFRS 16 – Leases accounting standard until 1 April 2024. However both the 2022/23 and 2023/24 accounting codes will allow for early adoption as of 1 April 2022 or 2023.

Our response

- As a firm, we are absolutely committed to audit quality and financial reporting in the local government sector. Our proposed work and fee is set further on page 18,
- We will consider your arrangements for managing and reporting your financial resources as part of our work in completing our Value for Money (VfM) work.
- As part of our assessment of the Council's arrangements for securing Value for Money in 2020/21, we identified a small number of improvement recommendations. These were set out in our Annual Auditor's Report which was presented to the April 2022 Governance and Ethics Committee. We will follow up progress against those recommendations as part of our 2021/22 VfM work and report progress in our 2021/22 Annual Auditor's Report.

Introduction and headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audit of Nottinghamshire County Council ('the Council') and Nottinghamshire Pension Fund ('the Pension Fund') for those charged with governance.

Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out and agreed in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of Nottinghamshire County Council and Nottinghamshire Pension Fund. We draw your attention to both of these documents.

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for

- forming and expressing an opinion on the Council and Pension Fund's financial statements that have been prepared by management with the oversight of those charged with governance (the Governance and Ethics committee); and
- considering whether there are sufficient arrangements in place at the Council for securing economy, efficiency and effectiveness in your use of resources. Value for money relates to ensuring that resources are used efficiently to maximise the outcomes that can be achieved.

The audit of the financial statements does not relieve management or the Governance and Ethics Committee of your responsibilities. It is the responsibility of the Council and Pension Fund to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council and Pension Fund is fulfilling these responsibilities.

Our audit approach is based on a thorough understanding of the Council and Pension Fund's business, and is risk-based.

Significant risks

Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:

County Council

- Management override of controls
- Valuation of land and buildings and investment properties
- Valuation of the net defined benefit pension fund liability

Pension Fund

- Management override of control; and
- Valuation of Level 3 investments

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.

Materiality

We have determined planning materiality to be £18.5m (prior Year £17.8m) for the Council, which equates to 1.5% of your prior year gross expenditure for the year and £61.3m (prior year £50.0m) for the Pension Fund which equates to 1% of net assets. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £0.925m (prior year £0.890m) for the Council and £3m (prior year £2.5m).

Value for Money arrangements

Our risk assessment regarding your arrangements to secure value for money have identified the following risks of significant weakness:

- Financial Planning (Medium Term Financial Sustainability)

Audit logistics

Our interim audit took place during March and April 2022 and our final visit will take place between June and October 2022. Our key deliverables are this Audit Plan, our Audit Findings Report and Auditor's Annual Report.

Our fee for the audit will be £133,774 (prior year: £120,124) for the Council and £38,456 (prior year £35,293) for the Pension Fund, subject to delivering a good set of financial statements and working papers.

We have complied with the Financial Reporting Council's Ethical Standard (revised 2019) 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..

Significant risks identified

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.

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Fraud in revenue recognition [rebutted]	Authority and Pension Fund	<p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. 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 and Fund, 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 and Nottinghamshire Pension Fund, 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 and Nottinghamshire Pension Fund.</p>	We have rebutted this risk.
Fraud in expenditure recognition – Practice Note 10 [rebutted]	Authority and Pension Fund	<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 Pension Fund and have determined it to be appropriate to rebut this risk based on limited incentive and opportunity to manipulate expenditure.</p>	We have rebutted this risk.
Management over-ride of controls	Authority and Pension Fund	<p>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.</p> <p>The Authority faces external scrutiny of its spending and likewise the Fund of its stewardship of funds and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>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.</p>	<p>We will:</p> <ul style="list-style-type: none"> • evaluate the design effectiveness of management controls over journals • analyse the journals listing and determine the criteria for selecting high risk unusual journals • test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence • evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.

Significant risks identified (continued)

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of land and buildings, surplus assets and investment property – specifically for assets where valuation movements fall outside of auditor expectation	Authority	<p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p>	<p>We will:</p> <ul style="list-style-type: none"> • evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work • evaluate the competence, capabilities and objectivity of the valuation expert • write to the valuer to confirm the basis on which the valuation was carried out • test revaluations made during the year to see if they had been input correctly into the Authority's asset register • engage 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. • evaluate 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

Significant risks identified (continued)

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of the net defined benefit pension fund liability- specifically with regard to the appropriateness of assumptions used to determine the valuation	Authority	<p>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.</p> <p>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.</p> <p>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.</p> <p>We therefore identified the assumptions used to determine the valuation of the Authority's pension fund net liability as a significant risk.</p>	<p>We will:</p> <ul style="list-style-type: none"> • update 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 evaluate the design of the associated controls; • evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assess the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation; • assess the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability; • test 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; • undertake 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; • agree any advance payments made to the pension fund during the year to the expected accounting treatment and relevant financial disclosures.; and • obtain assurances from the audit 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.

Significant risks identified (continued)

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of Level 3 Investments (financial investments and Directly held properties)	Pension Fund only	<p>The Fund revalues its investments on an annual basis to ensure that the carrying value is not materially different from the fair value at the financial statements date.</p> <p>By their nature Level 3 investment valuations lack observable inputs. These valuations therefore 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</p> <p>Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end.</p> <p>Management utilise the services of investment managers as valuation experts to estimate the fair value as at 31 March 2022. We therefore identified valuation of Level 3 investments as a significant risk.</p>	<p>Our audit procedures on level 3 investments have been set out below according to the nature of the investment. Financial investments cover investments the fund hold in private unlisted equity while directly held property relates to investments in freehold and leasehold property.</p> <p>For financial investment we will:</p> <ul style="list-style-type: none"> • evaluate management's processes for valuing Level 3 investments • review the nature and basis of estimated values and consider what assurance management has over the year end valuations provided for these types of investments; to ensure that the requirements of the Code are met • independently request year-end confirmations from investment managers and/or custodian(s) • for a sample of investments, test the valuation by obtaining and reviewing the audited accounts, (where available) at the latest date for individual investments and agreeing these to the fund manager reports at that date. Reconcile those values to the values at 31 March 2022 with reference to known movements in the intervening period and • in the absence of available audited accounts, we will evaluate the competence, capabilities and objectivity of the valuation expert • test revaluations made during the year to see if they had been input correctly into the Pension Fund's asset register • where available review investment manager service auditor report on design effectiveness of internal controls. <p>For directly held property we will:</p> <ul style="list-style-type: none"> • evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work • evaluate the competence, capabilities and objectivity of the valuation expert • write to the valuer to confirm the basis on which the valuation was carried out • test revaluations made during the year to see if they had been input correctly into the Pension Fund's asset register • engage our own valuer to assess the instructions to the Pension Fund's valuer, the Pension Fund's valuer's report and the assumptions that underpin the valuation. • evaluate 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 • Test property assets for rights and obligations and for existence

Other risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Value of Infrastructure assets and the presentation of the gross cost and accumulated depreciation in the PPE note	Council	<p>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.</p> <p>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:</p> <p>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.</p> <p>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.</p> <p>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.</p>	<p>We will:</p> <ul style="list-style-type: none"> reconcile the Fixed Asset Register to the Financial statements using our own point estimate, consider the reasonableness of depreciation charge to Infrastructure assets obtain assurance that the UEL applied to Infrastructure assets is reasonable document 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.

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings Report.

Accounting estimates and related disclosures

The Financial Reporting Council issued an updated ISA (UK) 540 (revised): *Auditing Accounting Estimates and Related Disclosures* which includes significant enhancements in respect of the audit risk assessment process for accounting estimates.

Introduction

Under ISA (UK) 540 (Revised December 2018) auditors are required to understand and assess an entity's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the entity's risk management process identifies and addresses risks relating to accounting estimates;
- The entity's information system as it relates to accounting estimates;
- The entity's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do Governance and Ethics Committee members:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?



Accounting estimates and related disclosures

Additional information that will be required

To ensure our compliance with this revised auditing standard, we will be requesting further information from management and those charged with governance during our audit for the year ended 31 March 2022.

Based on our knowledge of the Council and Pension Fund we have identified the following material accounting estimates for which this is likely to apply:

- Valuations of land and buildings, surplus assets and investment properties
- Depreciation
- Year end provisions and accruals
- Credit loss and impairment allowances
- Valuation of defined benefit net pension fund liabilities
- Fair value estimates
- Valuation of level 2 and level 3 investments

The Council's Information systems

In respect of the Council and Pension Fund's information systems we are required to consider how management identifies the methods, assumptions and source data used for each material accounting estimate and the need for any changes to these. This includes how management selects, or designs, the methods, assumptions and data to be used and applies the methods used in the valuations.

When the models used include increased complexity or subjectivity, as is the case for many valuation models, auditors need to understand and assess the controls in place over the models and the data included therein. Where adequate controls are not in place we may need to report this as a significant control deficiency and this could affect the amount of detailed substantive testing required during the audit.

If management has changed the method for making an accounting estimate we will need to fully understand management's rationale for this change. Any unexpected changes are likely to raise the audit risk profile of this accounting estimate and may result in the need for additional audit procedures.

We are aware that the Council and Pension Fund uses management experts in deriving some of its more complex estimates, e.g. asset valuations and pensions liabilities. However, it is important to note that the use of management experts does not diminish the responsibilities of management and those charged with governance to ensure that:

- All accounting estimates and related disclosures included in the financial statements have been prepared in accordance with the requirements of the financial reporting framework, and are materially accurate;
- There are adequate controls in place at the Council and Pension Fund (and where applicable its service provider or management expert) over the models, assumptions and source data used in the preparation of accounting estimates.



Estimation uncertainty

Under ISA (UK) 540 we are required to consider the following:

- How management understands the degree of estimation uncertainty related to each accounting estimate; and
- How management address this estimation uncertainty when selecting their point estimate.

For example, how management identified and considered 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 point estimate used.

The revised standard includes increased emphasis on the importance of the financial statement disclosures. Under ISA (UK) 540 (Revised December 2018), auditors are required to assess whether both the accounting estimates themselves and the related disclosures are reasonable.

Where there is a material uncertainty, that is where there is a significant risk of a material change to the estimated carrying value of an asset or liability within the next year, there needs to be additional disclosures. Note that not all material estimates will have a material uncertainty and it is also possible that an estimate that is not material could have a risk of material uncertainty.

Where there is material estimation uncertainty, we would expect the financial statement disclosures to detail:

- What the assumptions and uncertainties are;
- How sensitive the assets and liabilities are to those assumptions, and why;
- The expected resolution of the uncertainty and the range of reasonably possible outcomes for the next financial year; and
- An explanation of any changes made to past assumptions if the uncertainty is unresolved.

Planning enquiries

As part of our planning risk assessment procedures we made enquiries of management which were presented to the Governance and Ethics Committee in April 2022 in a separate document named 'Informing the Audit Risk Assessment'. Members of the Committee were required to consider these responses and confirm that they are consistent with their understanding.

Further information

Further details on the requirements of ISA (UK) 540 (Revised December 2018) can be found in the auditing standard on the Financial Reporting Council's website:

[https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-\(UK\)-540_Revised-December-2018_final.pdf](https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-(UK)-540_Revised-December-2018_final.pdf)

Other matters

Other work

In addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities, as follows:

- We read your Narrative Report and Annual Governance Statement to check that they are consistent with the financial statements on which we give an opinion and our knowledge of the Council.
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with requirements set by CIPFA.
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.
- We consider our other duties under legislation and the Code, as and when required, including:
 - giving electors the opportunity to raise questions about your 2021/22 financial statements, consider and decide upon any objections received in relation to the 2021/22 financial statements;
 - issuing a report in the public interest or written recommendations to the Council under section 24 of the Local Audit and Accountability Act 2014 (the Act).
 - application to the court for a declaration that an item of account is contrary to law under section 28 or a judicial review under section 31 of the Act
 - issuing an advisory notice under section 29 of the Act
- We carry out work to satisfy ourselves on the consistency of the pension fund financial statements included in the pension fund annual report with the audited fund accounts.
- We certify completion of our audit.

Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

Materiality

The concept of materiality

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. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality for planning purposes

We have determined financial statement materiality based on a proportion of the gross expenditure of the Council and a proportion of net assets of the Pension Fund based on the prior financial year. In the prior year we used the same benchmarks. Materiality at the planning stage of our audit is £18.5m (PY £17.8m) for the Council, which equates to 1.5% of your gross expenditure for the prior year and £61.2m (PY £50.0m) for the Pension Fund, which equates to 1% of your net assets for the prior year. We design our procedures to detect errors in specific accounts at a lower level of precision which we have determined to be £20k for senior officer remuneration due to public interest in this area of the accounts.

We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.

Matters we will report to the Governance and Ethics Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Governance and Ethics Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the Council and Pension Fund, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £0.925m (PY £0.890m) for the Council and £3m (PY £2.70m) for the Pension Fund.

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Governance and Ethics Committee to assist it in fulfilling its governance responsibilities.

Prior year gross operating costs/ net assets

£1,233m Council

£6,132m Pension Fund



■ Prior year gross operating costs and net assets

Materiality



IT audit strategy

In accordance with ISA (UK) 315, we are required to obtain an understanding of the information systems relevant to financial reporting to identify and assess the risks of material misstatement. As part of this we obtain an understanding of the controls operating over relevant Information Technology (IT) systems i.e. IT general controls (ITGCs).

Our audit will include completing an assessment of the design of ITGCs related to security management; technology acquisition, development and maintenance; and technology infrastructure. Based on the level of assurance required for each IT system the assessment may focus on evaluating key risk areas ('streamlined assessment') or be more in depth ('detailed assessment').

The following IT systems have been judged to be in scope for our audit and based on the planned financial statement audit approach we will perform the indicated level of assessment:

IT system	Audit area	Planned level IT audit assessment
SAP	Financial reporting (Council and Pension Fund)	<ul style="list-style-type: none"> Roll-forward procedures linked to prior year detailed ITGC assessment and testing of previously reported control deficiencies upon which management action has been taken.
Altair	(Pension Fund)	<ul style="list-style-type: none"> Streamlined ITGC assessment

Value for Money arrangements

Approach to Value for Money work for 2021/22

The National Audit Office (NAO) issued updated 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 three specified reporting criteria. These are as set out below:



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



Risks of significant VFM weaknesses

As part of our planning work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources that we needed to perform further procedures on. The risks we have identified are detailed in the first table below, along with the further procedures we will perform. Our risk assessment is an ongoing process and we may identify further risks to those outlined below during the course of the audit. Any further risks will be reported in our Audit Findings Report and finally in the Annual Auditor's Report. We may need to make recommendations following the completion of our work. The potential different types of recommendations we could make are set out in the second table below.

Risks of significant weakness

Those risks requiring audit consideration and procedures to address the likelihood that proper arrangements are not in place at the body to deliver value for money.



Financial Planning (Medium Term Financial Sustainability)

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 2023-2036. 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.

Our responses to this risk:

- To document an understanding of the arrangements the body has in place in respect of financial sustainability
- To make an assessment of those arrangements
- To gather sufficient evidence to support the commentary on the body's arrangements in the Auditor's Annual Report
- To identify any further risks of significant weaknesses in arrangements that weren't identified at the initial planning stage
- To draft the commentary to be included in the Auditor's Annual Report

Potential types of recommendations

A range of different recommendations could be made following the completion of work on risks of significant weakness, 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

Audit logistics and team



Andrew Smith, Key Audit Partner

Andrew will be the main point of contact for the Chair, Service Director and Committee members. He will share his wealth of knowledge and experience across the sector providing challenge and sharing good practice. Andrew will ensure our audit is tailored specifically to you, and he is responsible for the overall quality of our audit. Andrew will sign your audit opinion.



Jim McLarnon, Senior Audit Manager

Pension Fund



Zak Francis, Audit Manager

County Council



Ellie West, Audit In-charge

County Council and Pension Fund

Audited body responsibilities

Where audited bodies do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other audits. Where the elapsed time to complete an audit exceeds that agreed due to a client not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit, you need to ensure that you:

- produce draft financial statements of good quality by the agreed timetable you have agreed with us, including all notes, the Narrative Report and the Annual Governance Statement
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of items for testing
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- respond promptly and adequately to audit queries.

Audit fees

In 2018, PSAA awarded a contract of audit Nottinghamshire County Council and Nottinghamshire Pension Fund to begin with effect from 2018/19. The fee agreed in the contract was £75,624 for the Council and £23,043 for the Pension Fund. Since that time, there have been a number of developments, particularly in relation to the revised Code and ISA's which are relevant for the 2021/22 audit and the revised approach to our VFM work as required by the National Audit Office which took effect from 2020/21.

Across all sectors and firms, the FRC has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing, in relation to the updated ISA (UK) 540 (revised): Auditing Accounting Estimates and Related Disclosures.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and public sector financial reporting. We have engaged an audit expert to improve the level of assurance we require for property valuation estimates, which has been included in our proposed audit fee.] Our proposed work and fee for 2021/22, as set out below, is detailed overleaf and has been agreed with the Service Director – Finance, Procurement and Improvement.

	Actual Fee 2019/20	Actual Fee 2020/21	Proposed fee 2021/22
Nottinghamshire County Council Audit	£104,200	£120,124	£133,774*
Nottinghamshire Pension Fund Audit	£31,400	£35,293	£38,456*
Total audit fees (excluding VAT)	£135,600	£155,417	£172,230

*The proposed audit fee for 2021/22 includes an estimated recharge of £7,500 for the Council and £2,500 for the Pension Fund for additional costs related to remote working. Remote working impacts on the work we do and results in increases to our inputs and in the time it takes to complete an audit. Under the prevailing government advice, it will be the Council and Pension Fund's choice whether the audits are carried out remotely. These additional fees would only be applicable if the Council and Pension Fund choose to carry out the audit engagements remotely. The amounts quoted are an estimate of the cost and we will revisit this estimate when the audit has been completed. At the time of this report, the finance team have indicated that a remote audit will not be necessary and therefore these elements of the fees are expected to be waived.

Assumptions

In setting these fees, we have assumed that the Council and Pension Fund will:

- prepare a good quality set of financial statements, supported by comprehensive and well-presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements.

Relevant professional standards

In preparing our fee estimate, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's [Ethical Standard \(revised 2019\)](#) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.

Independence and non-audit services

Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons, relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

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 (Revised 2019) 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.

We confirm that we have implemented policies and procedures to meet the requirements of the Ethical Standard. 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.

Other services

Other services provided by Grant Thornton were identified and are set out overleaf.

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

None of the services provided are subject to contingent fees.

Independence and non-audit services

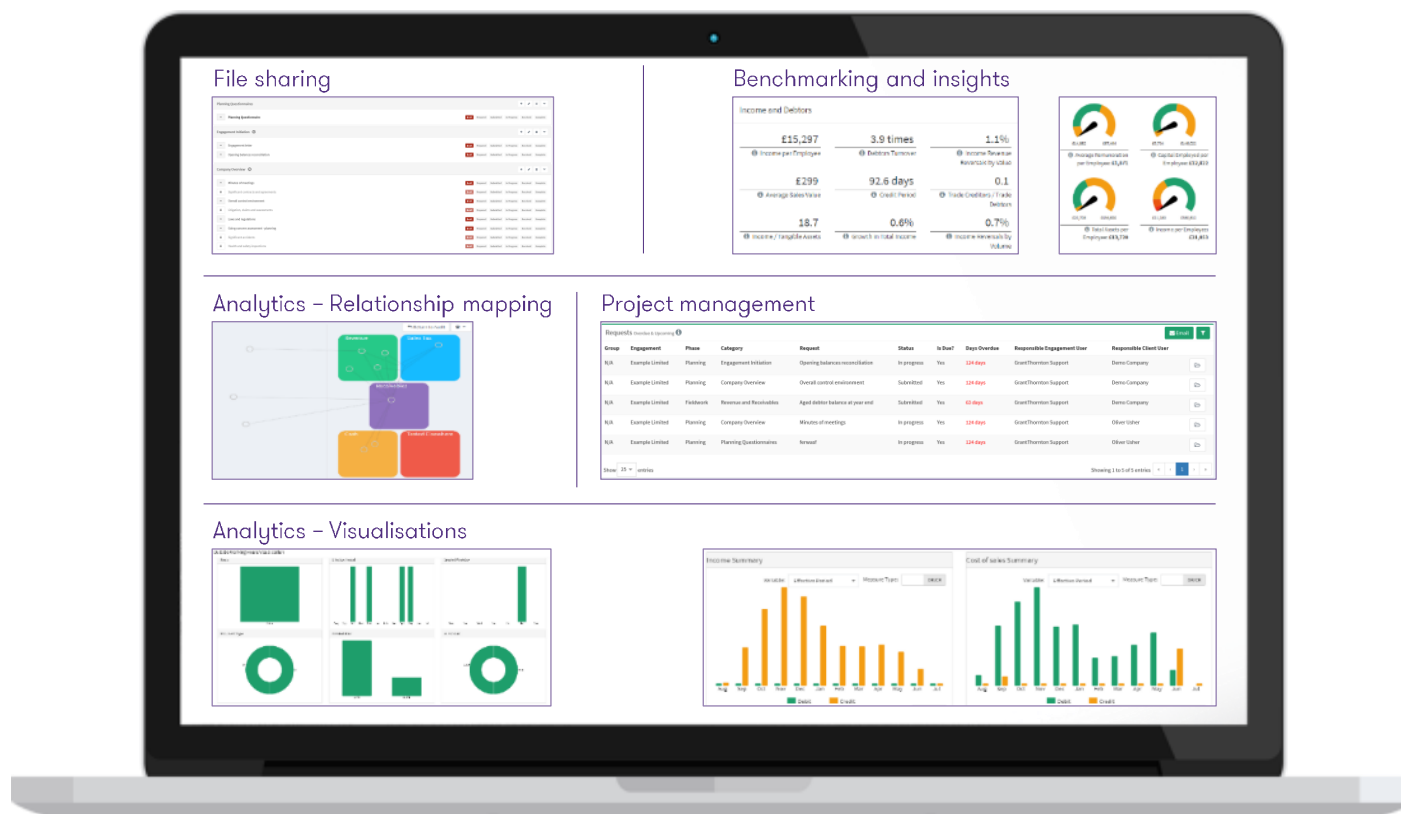
Nottinghamshire County Council

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 £31,060 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>

Our digital audit experience

A key component of our overall audit experience is our comprehensive data analytics tool, which is supported by Info Software technology. This tool has a number of key functions within our audit process:

Function	Benefits for you
Data extraction	Providing us with your financial information is made easier
File sharing	An easy-to-use, ISO 27001 certified, purpose-built file sharing tool
Project management	Effective management and oversight of requests and responsibilities
Data analytics	Enhanced assurance from access to complete data populations



Grant Thornton's Analytics solution is supported by Info Software technology

Our digital audit experience

A key component of our overall audit experience is our comprehensive data analytics tool, which is supported by Inflo Software technology. This tool has a number of key functions within our audit process:



Data extraction

- Real-time access to data
- Easy step-by-step guides to support you upload your data



File sharing

- Task-based ISO 27001 certified file sharing space, ensuring requests for each task are easy to follow
- Ability to communicate in the tool, ensuring all team members have visibility on discussions about your audit, reducing duplication of work



Project management

- Facilitates oversight of requests
- Access to a live request list at all times



Data analytics

- Relationship mapping, allowing understanding of whole cycles to be obtained quickly
- Visualisation of transactions, allowing easy identification of trends and anomalies

How will analytics add value to your audit?

Analytics will add value to your audit in a number of ways. We see the key benefits of extensive use of data analytics within the audit process to be the following:

Improved fraud procedures using powerful anomaly detection

Being able to analyse every accounting transaction across your organisation enhances our fraud procedures. We can immediately identify high risk transactions, focusing our work on these to provide greater assurance to you, and other stakeholders.

Examples of anomaly detection include analysis of user activity, which may highlight inappropriate access permissions, and reviewing seldom used accounts, which could identify efficiencies through reducing unnecessary codes and therefore unnecessary internal maintenance.

Another product of this is identification of issues that are not specific to individual postings, such as training requirements being identified for members of staff with high error rates, or who are relying on use of suspense accounts.

More time for you to perform the day job

Providing all this additional value does not require additional input from you or your team. In fact, less of your time is required to prepare information for the audit and to provide supporting information to us.

Complete extracts from your general ledger will be obtained from the data provided to us and requests will therefore be reduced.

We provide transparent project management, allowing us to seamlessly collaborate with each other to complete the audit on time and around other commitments.

We will both have access to a dashboard which provides a real-time overview of audit progress, down to individual information items we need from each other. Tasks can easily be allocated across your team to ensure roles and responsibilities are well defined.

Using filters, you and your team will quickly be able to identify actions required, meaning any delays can be flagged earlier in the process. Accessible through any browser, the audit status is always available on any device providing you with the information to work flexibly around your other commitments.

Appendix 1: Progress against prior year audit recommendations

We identified the following issues in our 2020/21 audit of the Council and Pension Fund's financial statements, which resulted in seven recommendations being reported in our 2020/21 Audit Findings Report. An update on our progress and our planned procedures in relation to these recommendations is included in the table below.

Issue and risk previously communicated	Issue relates to	Update on actions taken to address the issue	Planned audit response
Journals controls- self authorisation The finance system allowed journals to be posted and approved by the same user. This acts as an enabler for fraudulent financial misreporting and error. We found that the Council and Pension Fund had a mitigating control in place, in that all such self-approved journals undergo retrospective approval. The control was found not to be operating effectively for four journals posted during 2020/21.	County Council and Pension Fund	Management have reported that they have introduced a more robust monthly process to capture any retrospective authorisations that may be required.	We will: <ul style="list-style-type: none"> • Update our understanding of the controls in place around journal self-authorisation • Risk-assess the full population of journals transactions and test all high risk journals.
Journals controls- senior officers 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.	County Council and Pension Fund	Two senior officers have access to post journals – the Section 151 Officer and the Deputy 151 Officer. Management have reported there have been no postings by either for a number of years and propose that their access continues to provide system resilience in the event that other officers are not available to post journals. To assure external audit that senior officers have not over-ridden controls, a report can be produced to show any journals that have been posted by the two senior officers.	We will: <ul style="list-style-type: none"> • Test any journals posted by senior officers during the year to confirm the validity of any such transactions.

Appendix 1: Progress against prior year audit recommendations (continued)

Issue and risk previously communicated	Issue relates to	Update on actions taken to address the issue	Planned audit response
<p>Payable and Receivable reports</p> <p>Reports provided to audit for payable and receivable sample selection were transaction listings rather than listings of balances owing/ owed at the year end. This led to significant additional time expended to select an appropriate sample and to obtain sufficient and appropriate assurance over these material balances.</p>	County Council	The audit team have met with the Council's system accountants and explained the reports required to support the audit process.	We will provide IT specialists who will endeavour to assist the Council in extracting the required reports for the 2021/22 audit.
<p>IT system control deficiencies</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 	County Council and Pension Fund	<p>The matters identified relate to IT systems but not specifically the financial reporting process. Our substantive approach to audit mitigated any risks that would arise from the findings.</p> <p>However the controls around access and segregation are intrinsic to the integrity of the system and should be addressed.</p> <p>Management reported that the findings were addressed during the 2021/22 year.</p>	<p>We will:</p> <ul style="list-style-type: none"> • Review the actions taken by management to address the IT findings • Test the effectiveness of the controls now in place.

Appendix 1: Progress against prior year audit recommendations (continued)

Issue and risk previously communicated	Issue relates to	Update on actions taken to address the issue	Planned audit response
Controls reports, bridging letters and audited financial statements <p>Consistent with the prior period we have identified a deficiency in regard to lack of controls reports at certain fund managers and/ or no bridging letter. The value of investments of which we were unable to obtain a controls report is £114.6m and as we understand, the Pension Fund do not perform any alternative procedures to gain assurance that controls and processes are designed effectively at these funds. Similarly, we were unable to obtain audited financial statements for one fund.</p>	Pension Fund	Management will seek to obtain controls reports, bridging letters and audited financial statements for all major investments.	We will assess information received as part of our response to risks at the audit fieldwork stage. Any gaps in information will be considered and alternative procedures performed to obtain reasonable assurance where necessary.
Investment property <p>We note from our review of the valuation of directly held property that one property in Essex was not revalued at the period end, but rather at 31 December 2020. Management have not performed any additional procedures to consider the movement in value of this asset within the final quarter to the period end.</p>	Pension Fund	The property in question which was not revalued as at the year end date will be included in the external managers valuations for 31 March 2022.	No impact noted, we will incorporate this valuation into our review of directly held property.
Membership data – starters and leavers testing <p>As a result of testing performed on starters and leavers to the fund, we identified one starter that was incorrectly set up in the system under the wrong employer. We therefore extended our testing to cover a further 10 starters and identified one issue whereby a starter was missing a membership certificate as this was due to be issued however the employee subsequently left and therefore this was deemed unnecessary.</p>	Pension Fund	The Pensions Administration service has undertaken a member wide data audit and improvement project as part of its transformation programme. There has also been a move from annual to monthly membership data returns which will ensure information is received in a timely manner.	We will assess the completeness and accuracy of member data as part of our substantive procedures in regard to contributions and benefits payable of the fund.

Appendix 2: Significant improvements from the Financial Reporting Council's (FRC) quality inspection

On 29 October, the FRC published its annual report setting out the findings of its review of the work of local auditors. The report summarises the results of the FRC's inspections of twenty audit files for the last financial year. A link to the report is here: [FRC AQR Major Local Audits October 2021](#)

Grant Thornton are one of seven firms which currently delivers local audit work. Of our 330 local government and NHS audits, 87 are currently defined as 'major audits' which fall within the scope of the AQR. This year, the FRC looked at nine of our audits.

Our file review results

The FRC reviewed nine of our audits this year. It graded six files (67%) as 'Good' and requiring no more than limited improvements. No files were graded as requiring significant improvement, representing an impressive year-on-year improvement. The FRC described the improvement in our audit quality as an 'encouraging response by the firm to the quality findings reported in the prior year.' Our Value for Money work continues to be delivered to a high standard, with all of the files reviewed requiring no more than limited improvement. We welcome the FRC findings and conclusions which demonstrate the impressive improvement we have made in audit quality over the past year.

The FRC also identified a number of good practices including effective challenge of management's valuer, use of an auditor's expert to assist with the audit of a highly specialised property valuation, and the extent and timing of involvement by the audit partner on the VFM conclusion.

Our results over the past three years are shown in the table below:

Grade	Number 2018/19	Number 2019/20	Number 2020/21
Good with limited improvements (Grade 1 or 2)	1	1	6
Improvements required (Grade 3)	2	5	3
Significant improvements required (Grade 4)	1	0	0
Total	4	6	9

Our continued commitment to Audit quality and continuous improvement

Our work over the past year has been undertaken during the backdrop of COVID, when the public sector has faced the huge challenge of providing essential services and helping safeguard the public during the pandemic. Our NHS bodies in particular have been at the forefront of the public health crisis. As auditors we have had to show compassion to NHS staff deeply affected by the crisis, whilst staying focused on the principles of good governance and financial management, things which are more important than ever. We are very proud of the way we have worked effectively with audited bodies, demonstrating empathy in our work whilst still upholding the highest audit quality.

Appendix 2: Significant improvements from the Financial Reporting Council's (FRC) quality inspection (cont.)

Over the coming year we will make further investments in audit quality including strengthening our quality and technical support functions, and increasing the level of training, support and guidance for our audit teams. We will address the specific improvement recommendations raised by the FRC, including:

- Enhanced training for local auditors on key assumptions within property valuations, and how to demonstrate an increased level of challenge
- Formalising our arrangements for the consideration of complex technical issues by Partner Panels.

As part of our enhanced Value for Money programme, we will focus on identifying the scope for better use of public money, as well as highlighting weaknesses in governance or financial stewardship where we see them.

Conclusion

Local audit plays a critical role in the way public sector audits and society interact, and it depends on the trust and confidence of all those who rely on it. As a firm we're proud to be doing our part to promote good governance, effective stewardship and appropriate use of public funds.

