

The Audit Findings for Nottinghamshire County Council and Nottinghamshire County Council Pension Fund

Year ended 31 March 2019

24 July 2019



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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. 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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Headlines – Nottinghamshire County Council

This table summarises the key findings and other matters arising from the statutory audit of Nottinghamshire County Council ('the Council') and the Nottinghamshire Pension Fund ('Pension Fund') and the preparation of the Council's and Pension Fund financial statements for the year ended 31 March 2019 for those charged with governance.

Financial Statements	<p>Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Council's and Pension Fund's financial statements:</p> <ul style="list-style-type: none"> • give a true and fair view of the financial position of the Council and Pension Fund and income and expenditure for the year; and • have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014. <p>We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS), Narrative Report and Pension Fund Financial Statements), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p>	<p>Our audit work was completed on site during June and July. Our findings are summarised on pages 8 to 17.</p> <p>We have identified one adjustment to the financial statements that has resulted in a £44.8m adjustment to the Council's Comprehensive Income and Expenditure Statement.</p> <p>Audit adjustments are detailed in Appendix B. We have also raised recommendations for management as a result of our audit work in Appendix A.</p> <p>Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion at the time of writing this report Appendix D or further material changes to the financial statements, subject to the following outstanding matters;</p> <ul style="list-style-type: none"> • Queries on PPE revaluation, Operating Expenditure, Income, Creditors, Journals • Whole of Government Accounts • Final audit housekeeping steps • Updating our post balance sheet events review, to the date of signing the opinion • Receipt of management representation letter; and • Review of the final set of financial statements. <p>We have concluded that the other information to be published with the financial statements is consistent with our knowledge of your organisation and the financial statements we have audited.</p> <p>Our anticipated audit report opinions will be unmodified</p>
Value for Money arrangements	<p>Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').</p>	<p>We have completed our risk based review of the Council's value for money arrangements. We have concluded that Nottinghamshire County Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources</p> <p>We therefore anticipate issuing an unqualified value for money conclusion, as detailed in Appendix D. Our findings are summarised on pages 20 to 23.</p>
Statutory duties	<p>The Local Audit and Accountability Act 2014 ('the Act') also requires us to:</p> <ul style="list-style-type: none"> • report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and • To certify the closure of the audit. 	<p>We have not exercised any of our additional statutory powers or duties</p> <p>We have completed the majority of work under the Code but are unable to issue our completion certificate until we complete our work on the Whole Government Accounts review.</p>

Headlines – Nottinghamshire Pension Fund

This table summarises the key findings and other matters arising from the statutory audit of Nottinghamshire County Council Pension Fund ('the Pension Fund') and the preparation of the Pension Fund's financial statements for the year ended 31 March 2019 for those charged with governance.

Financial Statements	<p>Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Pension Fund's financial statements:</p> <ul style="list-style-type: none">• give a true and fair view of the financial position of the Pension Fund and its income and expenditure for the year ended 31 March 2019; and• have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.	<p>Our audit work was completed on site during June and July. Our findings are summarised on pages 8 to 17. Our audit of the Fund did not identify any material adjustments to the financial statements at the time of writing this report. Audit adjustments are detailed in Appendix B. We have also raised recommendations for management as a result of our audit work in Appendix A.</p> <p>Our work is substantially complete and there are no matters of which we are aware at the time of writing this report that would require modification of our audit opinion Appendix E or material changes to the financial statements, subject to the following outstanding matters;</p> <ul style="list-style-type: none">- outstanding queries on membership, investments, contributions and benefits- receipt of management representation letter- receipt and review of the Annual Report and- review of the final set of financial statements <p>Our anticipated audit report opinion will be unmodified.</p>
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Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

Summary

Overview of the scope of our audit

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

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

Audit approach

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

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

We have not had to alter or change our audit plan, as communicated to you on 13 March 2019, other than increasing the level of materiality on the Pension Fund audit (see p*x*).

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Governance and Ethics Committee meeting on 24 July 2019, as detailed in Appendix D . These outstanding items include:

Council

- Queries on PPE revaluation, Operating Expenditure, Income, Creditors, Journals
- Whole of Government Accounts
- Final audit housekeeping steps
- Updating our post balance sheet events review, to the date of signing the opinion
- Receipt of management representation letter; and
- Review of the final set of financial statements.

Pension Fund

- outstanding queries on membership, investments, contributions and benefits
- receipt of management representation letter
- review of the final set of financial statements

Certification

Receipt and review of the Annual Report due August 2019

Materiality

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

Matter	Description	Planned audit response to the Council	Planned audit response to the Pension Fund
1	<p>Calculation and determination</p> <p>We have determined planning materiality (financial statement materiality determined at the planning stage of the audit) based on professional judgment in the context of our knowledge of the Authority and the Fund, including consideration of factors such as stakeholder expectations, financial stability and reporting requirements for the financial statements.</p> <p>We determine planning materiality in order to:</p> <ul style="list-style-type: none"> – estimate the tolerable level of misstatement in the financial statements – assist in establishing the scope of our audit engagement and audit tests – calculate sample sizes and – assist in evaluating the effect of known and likely misstatements in the financial statements 	<ul style="list-style-type: none"> • For the Council, we have determined financial statement materiality based on a proportion of the gross expenditure of the Authority for the financial year. Materiality at the planning stage of our audit was £20m for the Authority, which equates to 1.9% of your prior year gross expenditure for the year (cost of services). 	<ul style="list-style-type: none"> • For the Pension Fund, we have determined financial statement materiality based on a proportion of the Pension Fund's net assets. Our materiality at the planning stage was £50m which equates to 1% of your actual net assets for the year ended 31 March 2018.
2	<p>Other factors</p> <p>An item does not necessarily have to be large to be considered to have a material effect on the financial statements. We design our procedures to detect errors in specific accounts at a lower level of precision which we deem to be relevant to stakeholders.</p>	<ul style="list-style-type: none"> • For the Council, we have determined a lower specific materiality level of £100K for the table of the remuneration of specific senior officers. 	<ul style="list-style-type: none"> • No lower level materiality
3	<p>Reassessment of materiality</p> <p>Our assessment of materiality is kept under review throughout the audit process.</p>	<ul style="list-style-type: none"> • Materiality calculations remain the same as reported in our audit plan 	<ul style="list-style-type: none"> • Upon receipt of the draft financial statement, we updated our materiality for the Pension Fund. to reflect updated figures. Revised materiality at the final audit is £54m, which equates to 1% of your net assets per the draft accounts for the year ended 31 March 2019.

Materiality

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

Matter	Description	Planned audit response Council	Planned audit response for Pension Fund
4	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, 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.	<ul style="list-style-type: none">• Our view is that an individual difference could normally be considered to be clearly trivial if it is less than £1m.• 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.	<ul style="list-style-type: none">• In the context of the Pension Fund, we proposed at the planning stage that an individual difference could normally be considered to be clearly trivial if it is less than £2.5m.• Upon receipt of the draft financial statement, we updated our materiality for the Pension Fund. to reflect updated figures. Revised triviality at the final audit is £3m.

Significant findings – audit risks

Matter	Risks identified in our Audit Plan	Risk relates to	Commentary – Council
1	<p>Fraudulent revenue recognition</p> <p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	Authority and Pension Fund	<p>Auditor commentary</p> <p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Authority and the 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 County Council Pension Fund</p>
2	<p>Management override of controls</p> <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. . The Authority and Fund faces external scrutiny of its spending 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 for both the Authority and Fund, which was one of the most significant assessed risks of material misstatement.</p>	Authority and Pension Fund	<p>Auditor commentary</p> <p>We have:</p> <ul style="list-style-type: none"> • evaluated the design effectiveness of management controls over journals • analysed the journals listing and determined the criteria for selecting high risk unusual journals • gained an understanding of the accounting estimates and critical judgements applied made by management and considered their reasonableness with regard to corroborative evidence • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. <p>Conclusion</p> <p>Our audit work and detailed testing in this area is ongoing.</p>

Significant findings – audit risks

Risks identified in our Audit Plan	Risk relates to	Commentary – Council
<div><div>3</div><div><p>Valuation of Land and Buildings</p><p>The Authority revalues its land and buildings on a five-yearly basis. In the intervening years, such as 2018/19, to ensure the carrying value in the Authority financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date, the Authority carries out a desktop revaluation or requests a desktop valuation from its valuation expert to ensure that there is no material difference. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£717 million) and the sensitivity of this estimate to changes in key assumptions.</p><p>The possibility of Brexit occurring just before the year end increases the risk in relation to these valuations as there could be late changes if Brexit has a significant impact on financial and property markets.</p><p>We therefore identified valuation of land and buildings as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.</p></div></div>	Authority	<div><p>Auditor commentary</p><p>We have:</p><ul style="list-style-type: none">evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their workevaluated the competence, capabilities and objectivity of the valuation expertwritten to the valuer to confirm the basis on which the valuation was carried out to ensure that the requirements of the Code have been metchallenged the information and assumptions used by the valuer to assess completeness and consistency with our understandingthe Brexit delay removed the risk around material valuation changes at year end so no further work was undertaken<p>Outstanding matters</p><ul style="list-style-type: none">Finalising the review of revaluations made during the year to ensure correct recording in the asset registerEvaluation of the assumptions made by management for those assets not revalued during the year and how management have satisfied themselves that these are not materially different to current value at year end<p>Conclusion</p><p>Our audit work in this area is ongoing.</p></div>

Significant findings – audit risks

Risks identified in our Audit Plan	Risk relates to	Commentary – Council
<p>4 Valuation of the pension fund net liability</p> <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>The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£1.1bn in the Authority's balance sheet) and the sensitivity of the estimate to changes in key assumptions.</p> <p>Some elements of the valuation may also be affected this year by late changes associated with Brexit, leading to increased audit risk.</p> <p>We therefore identified valuation of the Authority's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.</p>	Authority	<p>Auditor commentary</p> <p>We have:</p> <ul style="list-style-type: none"> • updated our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluated the design of the associated controls; • evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assessed the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation; • assessed the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability; • tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; • undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; and • agreeing the advance payment made to the pension fund for future years to the expected accounting treatment and relevant financial disclosures. • The Brexit delay removed the risk around material valuation changes at year end <p>Outstanding matters</p> <ul style="list-style-type: none"> • obtain assurances as the auditor of Nottinghamshire Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements. <p>Conclusion</p> <p>Our audit identified one issue in relation to accounting for the impact of the McCloud Court of Appeal judgement. This is considered under section "Significant findings – other issues" at page 12.</p>

Significant findings – audit risks


Risks identified in our Audit Plan		Risk relates to	Commentary – Council
4	Valuation of Level 3 (hard to value) Investment Assets Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end.	Pension Fund	Auditor commentary We have: <ul style="list-style-type: none">gained an understanding of the Fund’s process for valuing level 3 investments and evaluated the design of the associated controls;reviewed the nature and basis of estimated values and considered what assurance management have had over the year end valuations provided for these types of investmentsfor a sample of investments, tested the valuation by obtaining and reviewing the audited accounts (where available) at the latest date for individual investments and agreeing those to the fund managers reports at that date Outstanding matters <ul style="list-style-type: none">Awaiting outstanding confirmations for a small sample of investments. Conclusion Our audit work in this area is ongoing.

Significant findings - other issues





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

Issue	Commentary	
<div data-bbox="64 454 99 492">1</div> <div data-bbox="140 454 524 478">Impact of the McCloud judgement</div> <div data-bbox="140 492 706 882"><p>The Court of Appeal has ruled that there was age discrimination in the judges and firefighters pension schemes where transitional protections were given to scheme members.</p><p>The Government applied to the Supreme Court for permission to appeal this ruling, but this permission to appeal was unsuccessful. The case will now be remitted back to employment tribunal for remedy.</p><p>The legal ruling around age discrimination (McCloud - Court of Appeal) has implications not just for pension funds, but also for other pension schemes where they have implemented transitional arrangements on changing benefits.</p></div>	<div data-bbox="727 454 816 478">Council</div> <div data-bbox="727 492 1317 725"><p>The Council has requested an estimate from its actuary of the potential impact of the McCloud ruling. The actuary's estimate was of an increase in pension liabilities of £44,754k, the increase in past service costs for the 2018/19 year was £21,106k.</p><p>Management have amended the financial statements to reflect the actuarial review of the impact of the McCloud judgement.</p></div> <div data-bbox="727 739 884 763">Pension Fund</div> <div data-bbox="727 778 1317 863"><p>The Pension Fund has amended its disclosure in relation to the impact of the McCloud ruling resulting in a £65,860k increase in the disclosure of the net liability.</p></div>	<div data-bbox="1369 454 1514 478">Auditor view</div> <div data-bbox="1369 492 1980 571"><p>We have reviewed the analysis performed by the actuary, and consider that the approach that has been taken to arrive at this estimate is reasonable.</p></div>

















Significant findings – key judgements and estimates (Council)

	Summary of management's policy	Audit Comments	Assessment
Land and Buildings – Other - £683m	Other land and buildings comprises £601m of specialised assets such as schools and libraries, which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. The remainder of other land and buildings (£82m) are not specialised in nature and are required to be valued at existing use value (EUV) at year end. The Council has engaged its Internal Valuer to complete the valuation of properties as at 31 03 19 on a five yearly cyclical basis. 25% of total assets held at Current Value were revalued during 2018/19. The valuation of properties valued by the valuer has resulted in a net increase of £5m. Management have considered the year end value of non-valued properties in consultation with the valuer. Management's assessment of assets not revalued has identified no material change to the properties' value. The total year end valuation of Other land and buildings was £683m, a net decrease of £33.5m from 2017/18 (£716.6m).	<p>We have</p> <ul style="list-style-type: none"> Undertaken an assessment of management's expert Reviewed the impact of any changes to valuation method Reviewed the completeness and accuracy of the underlying information used to determine the estimate <p>Outstanding matters</p> <ul style="list-style-type: none"> Checking the consistency of the estimate against near neighbours Reviewing the adequacy of disclosure of the estimate in the financial statements <p>Conclusion</p> <p>Our audit work in this area is ongoing.</p>	

Assessment

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



Significant findings – key judgements and estimates (Council)

	Summary of management's policy	Audit Comments	Assessment																									
Net pension liability – £1,058m	Following the adjustment for the McCloud issue. The Council's net pension liability at 31 March 2019 is £1,058m (PY £1,112m) comprising the Nottinghamshire County Council Pension Fund Local Government scheme and unfunded defined benefit pension scheme obligations in relation to the Teacher's Pension Scheme.	We have																										
		<ul style="list-style-type: none">Undertaken an assessment of management's expertReviewed and assessed the actuary's roll forward approach taken,Used an auditors expert (PWC) to assess the actuary and assumptions made by the actuary																										
		<table><tr><th>Assumption</th><th>Actuary Value</th><th>PwC range</th><th>Assessment</th></tr><tr><td>Discount rate</td><td>2.4%</td><td>2.35%-2.45%</td><td></td></tr><tr><td>Pension increase rate</td><td>2.4%</td><td>2.4%-2.45%</td><td></td></tr><tr><td>Salary growth</td><td>3.9%</td><td>3.10%-4.35%</td><td></td></tr><tr><td>Life expectancy – Males Current Pensioners Future Pensioners</td><td>21.6 23.3 years</td><td>20.6- 23.4 22.2-25.0 years</td><td></td></tr><tr><td>Life expectancy – Females Current Pensioners Future Pensioners</td><td>24.4 26.2 years</td><td>23.2- 24.8 25.0-26.6 years</td><td></td></tr></table>		Assumption	Actuary Value	PwC range	Assessment	Discount rate	2.4%	2.35%-2.45%		Pension increase rate	2.4%	2.4%-2.45%		Salary growth	3.9%	3.10%-4.35%		Life expectancy – Males Current Pensioners Future Pensioners	21.6 23.3 years	20.6- 23.4 22.2-25.0 years		Life expectancy – Females Current Pensioners Future Pensioners	24.4 26.2 years	23.2- 24.8 25.0-26.6 years		
	Assumption	Actuary Value		PwC range	Assessment																							
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Life expectancy – Females Current Pensioners Future Pensioners	24.4 26.2 years	23.2- 24.8 25.0-26.6 years																										
	The Council uses Barnett Waddingham to provide actuarial valuations of the Council's assets and liabilities derived from these schemes. A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2016. A roll forward approach is used in intervening periods, which utilises key assumptions such as life expectancy, discount rates, salary growth and investment returns.																											
	Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £54m net actuarial gain during 2018/19.	Reviewed																										
		<ul style="list-style-type: none">the completeness and accuracy of the underlying information used to determine the estimateImpact of any changes to valuation methodReasonableness of the Council's share of LGPS pension assets.Reasonableness of increase/decrease in estimateAdequacy of disclosure of estimate in the financial statements																										





Assessment

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

Significant findings – key judgements and estimates (Pension Fund)

	Summary of management's policy	Audit Comments	Assessment
Level 3 investments	The Pension Fund has investments in unlisted shares, private equity funds and property which in total are valued on the balance sheet as at 31 March 2019 at £839m. These investments are not traded on an open market and the valuation of the investment is highly subjective due to a lack of observable inputs. In order to determine the value, management use fund managers who value within industry accepted guidelines. The value of the investment has increased by £299m in 2018/19,	<ul style="list-style-type: none"> Our work in respect of Level 3 investments has not been finalised at the date of writing this report 	
Level 2 investment	The Pension Fund have investments in pooled property investments that in total are valued on the balance sheet as at 31 March 2019 at £248m. The investments are not traded on an open exchange and the valuation of the investment is subjective. In order to determine the value, management use valuation techniques based on observable inputs. The value of the investment has decreased by £4m in 2018/19	<ul style="list-style-type: none"> Our work in respect of Level 2 investments has not been finalised at the date of writing this report 	

Assessment

-  We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
-  We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
-  We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
-  We consider management's process and key assumptions to be reasonable

Significant findings - Going concern - Council

Our responsibility

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

Going concern commentary - Council

Management's assessment process

Management have responded to the questions we set out on going concern in our “Informing the Audit Risk Assessment” document which confirms:

- There are no events, of which they are aware, that could cause sufficient material uncertainty to cast significant doubt on the Councils 's ability to continue as a going concern. This extends but is not limited to at least twelve months from the Balance Sheet date.
- The Council monitor cash flow on a quarterly basis, including maintaining an up to date forecast position for at least the next 12 months. These cash flow forecasts do not indicate any material uncertainty relating to the Council's continuing ability to meet financial obligations.
- Excluding the impact of the pension liability, the Authority, has a strong balance sheet, with cash and cash equivalents of £56.3 million.

Work performed

- Detailed audit work performed on management's assessment

Concluding comments

Auditor commentary

Management's assessment has considered the applicable guidance relating to public sector bodies which presumes in local government is that the going concern assumption does apply unless there is specific evidence to the contrary. Management assessment has concluded that no material uncertainty in respect of going concern exists. In addition based on our own review of the Council, we are aware that the Council has set an "approved budget" for 2019/20 and has a longer term financial plan. The going concern assessment includes a cash flow forecast. The cashflow forecast does not indicate any signs of significant financial difficulty that would cause concern. Nigel Stevenson Service Director – Finance, Infrastructure and Improvement takes overall responsibility for monitoring and reporting financial projections and reserve management.

As such we consider that the assessment undertaken by the Authority on going concern is a reasonable and valid one and there are no indications of material uncertainty.

Auditor commentary

- Our audit did not identify any events or conditions which may cast significant doubt on going concern assumption.
- Excluding the impact of the pension liability, the Authority has a strong balance sheet, with cash and cash equivalents of £56.3 million.
- The Council has mainly PWLB debt £387 million plus £95 million non-PWLB debt and there is no requirement to borrow further to meet any immediate liabilities falling due.
- The Council set a budget in line with local government requirements for 2019-20.
- Management have reported that at the end of Month 2 there is a forecast net overspend of £5.7m largely related to the Children and Young people budget. Reinforcement of budget management and a review of the cost pressures is being undertaken. There are a number of spend pressures emerging particularly in relation to the increasing demand of looked after children mitigating action is being taken where possible.

Auditor commentary

- We propose to issue an unmodified opinion for 2018/19.

Significant findings - Going concern Pension Fund

Our responsibility

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

Going concern commentary - Council

Management's assessment process

Management have responded to the questions we set out on going concern in our “Informing the Audit Risk Assessment” document which confirms:

- There are no events, of which they are aware, that could cause sufficient material uncertainty to cast significant doubt on the Councils' ability to continue as a going concern. This extends but is not limited to at least twelve months from the Balance Sheet date.
- The Fund account has a strong asset balance of £5.4 billion and net return on investments of £310.9 million is in excess of benefits paid by £109 million.

Auditor commentary

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

Management's assessment has considered the applicable guidance relating to public sector bodies which presumes in local government is that the going concern assumption does apply unless there is specific evidence to the contrary. Management assessment has concluded that no material uncertainty in respect of going concern exists. The purpose of the review is to ensure that cash is available to meet liabilities as and when they fall due. The fund continues to have a positive net cash flow due to investment income and any downward cashflow trend is reversed by large employers contributions.

We communicated on Going Concern with the Audit, Risk and Assurance Committee through our *Informing the Risk Assessment*.

The Director of Finance, Infrastructure and Improvement has a reasonable expectation that the Fund will continue for the foreseeable future. Members concur with this view. For this reason, the Fund continue to adopt the going concern basis in preparing the financial statements.

As such we consider that the assessment undertaken by the Council on going concern is a reasonable and valid one and there are no indications of material uncertainty.

Work performed

- Detailed audit work performed on management's assessment

Auditor commentary

- Our audit did not identify any events or conditions which may cast significant doubt on going concern assumption.
- The Fund has a strong asset balance of £5.4 billion and net return on investments of £310.9 million is in excess of benefits paid by £109 million.
- The last actuarial valuation was carried out as at March 2016 and the actuary estimated that the value of the fund was sufficient to meet 87% of its future liabilities. Amendment to contribution rates are expected to improve this to 100% within a period of 20 years.

Concluding comments

Auditor commentary

- We propose to issue an unmodified opinion for 2018/19.

Other communication requirements

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

	Issue	Commentary
1	Matters in relation to fraud	<ul style="list-style-type: none"> We have previously discussed the risk of fraud with the Governance and Ethics Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
2	Matters in relation to related parties	<ul style="list-style-type: none"> We are not aware of any related parties or related party transactions which have not been disclosed.
3	Matters in relation to laws and regulations	<ul style="list-style-type: none"> You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
4	Written representations	<ul style="list-style-type: none"> A letter of representation has been requested from the Council, and the Pension Fund which are included in the Governance and Ethics Committee papers.
5	Confirmation requests from third parties	<ul style="list-style-type: none"> We requested from management permission to send confirmation requests to banks, lenders, the pension fund's custodian and investment bodies. This permission was granted and the requests were sent. All but one of the Council and the majority of the Pension Fund requests were returned with positive confirmation. In relation to the Pension fund's cash holdings, 5 requests were not received so we undertook alternative procedures, including direct verification to bank statements and confirmations to the external counterparty's online investment portals. In relation to the Pension Fund, we are awaiting responses from 4 investments managers. There are a further 6 Investment Managers where we have ongoing queries in respect of the confirmations that have provided.
6	Disclosures	<ul style="list-style-type: none"> Our review found no material omissions in the Council's financial statements. A number of disclosure amendments were made to the Council and the Pension Fund accounts details can be seen at appendix B.
7	Audit evidence and explanations/significant difficulties	<ul style="list-style-type: none"> The vast majority of information and explanations requested from management for the Council and the Pension Fund were provided. Although not unusual for a first year audit, there were some complications in obtaining supporting evidence and transactional and membership data, particularly in respect of the Pension fund, which delayed aspects of wider audit testing.

Other responsibilities of the Council under the Code

Issue	Commentary
1 Other information	<ul style="list-style-type: none"> We are required to give an opinion on whether the other information published together with the Councils audited financial statements (including the Annual Governance Statement, Narrative Report and Pension Fund Financial Statements), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. <p>No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect – refer to appendix D</p>
2 Matters on which we report by exception	<p>We are required to report on a number of matters by exception in a numbers of areas:</p> <ul style="list-style-type: none"> If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit If we have applied any of our statutory powers or duties <p>We have nothing to report on these matters</p> <p>We are required to give a separate opinion for the Pension Fund Annual Report on whether the financial statements included therein are consistent with the audited financial statements.</p> <p>Due to statutory deadlines the Pension Fund Annual Report is not required to be published until the 1st December 2019 and therefore this report has not yet been produced. We have therefore not given this separate opinion at this time and are unable to certify completion of the audit of the administering authority until this work has been completed.</p>
3 Specified procedures for Whole of Government Accounts	<p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.</p> <p>As the Council exceeds the specified group reporting threshold of £500m we examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements.</p> <ul style="list-style-type: none"> Note that work is not yet completed plans are in place to complete this work in August to meet the submission deadline of 13 September 2019
4 Certification of the closure of the audit	<p>We are unable to certify the closure of the 2018/19 audit of Nottinghamshire County Council in the audit opinion, as detailed in Appendix D.</p>

Value for Money

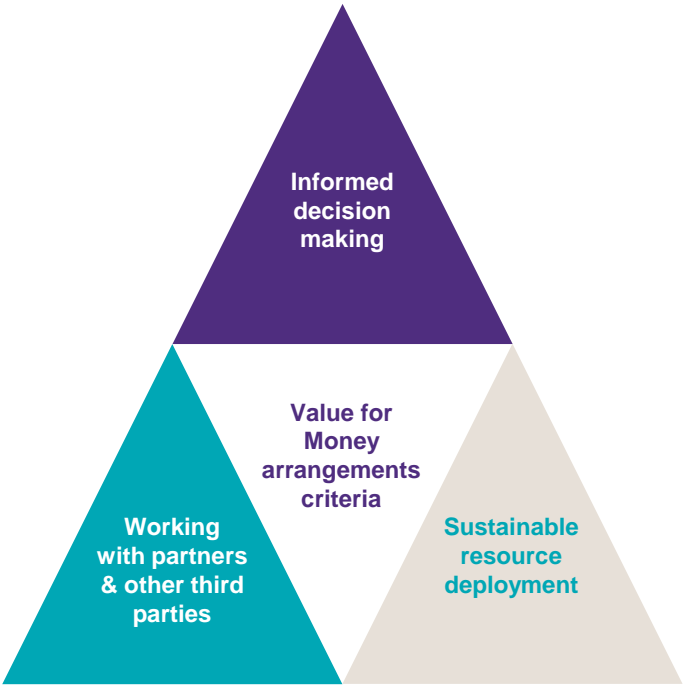
Background to our VFM approach

We are required to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2017. AGN 03 identifies one single criterion for auditors to evaluate:

"In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people."

This is supported by three sub-criteria, as set out below:



Risk assessment

We carried out an initial risk assessment in January/February 2019 and identified a number of significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan dated March 2019.

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

We carried out further work only in respect of the significant risks we identified from our initial and ongoing risk assessment. Where our consideration of the significant risks determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.

Value for Money

Our work

AGN 03 requires us to disclose our views on significant qualitative aspects of the Council's arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the significant risks that we identified in the Council's arrangements. In arriving at our conclusion, our main considerations were:

- Financial Sustainability - and the significant challenges faced over the medium term
- Partnership Working – and the challenges faced by governance in a wider working relationship

We have set out more detail on the risks we identified, the results of the work we performed, and the conclusions we drew from this work on pages 22 to 23.

Overall conclusion

Based on the work we performed to address the significant risks, we are satisfied that the Council had proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

The text of our report, which confirms this can be found at Appendix D.

Recommendations for improvement

We discussed findings arising from our work with management and have agreed recommendations for improvement.

Significant difficulties in undertaking our work

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

Significant matters discussed with management

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

	Significant risk	Findings	Conclusion
1	<p>Financial Sustainability</p> <p>This risk relates to the sub-criteria of Sustainable Resource Deployment.</p> <p>Audit Plan wording: The council continues to face similar financial pressures to those experienced by others in the Local Government sector. The council's latest financial monitoring report (M08) presented to the Finance and Major Contracts Management Committee indicates a £5.8m net overspend forecast for the current financial year. Furthermore the council faces significant financial challenges over the medium term to achieve its statutory break even budget duty.</p> <p>The latest report shows a £34.1m gap for the medium term.</p>	<p>The Council has been successful in delivering £26.8m of savings over the previous two financial years. Rising demand for services coupled with continued reductions in funding will mean that savings will become increasingly more difficult to find.</p> <p>The financial position of the Council has been closely monitored throughout the year, with monthly reports being produced and reported to the Leadership Team and the Finance and Major Contracts Committee.</p> <p>The impact of pressures on social care services has resulted in a year end contribution from reserves of £6.8m compared to the £1.5m budgeted estimate.</p> <p>The MTFS proposes to utilise a further £19.2m of reserves over the medium term.</p> <p>The level of reserves and balances have been reviewed by the Council and are considered to be adequate. However the continued use of reserves to balance budgets which continues into 2019/20 should be approached cautiously and the Council should ensure that the level of reserves remain prudent. Reserves are one off funds so it is recommended that they are limited to supporting one-off expenditure rather than funding on-going costs</p> <p>The budget set for 2019/20 shows a savings requirement of £15.2m. The Council continues to monitor and gain understanding of both overspends and underspends against budgets and continually applies mitigation strategies, not only for the immediate budget but for the Medium Term to ensure the £34.2 shortfall forecast required by 2023 is addressed.</p> <p>Strict budgetary control is in place and departments are expected to utilise any underspends to offset unexpected cost pressures.</p>	<p>Auditor view</p> <p>The Council applies a stringent monitoring regime to ensure issues can be identified and addressed in a timely manner. The MTFS is monitored and aligned to the vision of the Council and adjustments made when necessary..</p> <p>On the basis of this evidence we have concluded that the Council had appropriate arrangements in place to secure Value for Money through Sustainable Resource Deployment during 2018/19.</p>

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

	Significant risk	Findings	Conclusion
2	<p>Partnership Working This risk relates to the sub-criteria of Working with partners and other 3rd parties.</p> <p>Increasingly the Council has identified and indeed continues to identify a range of measures and significant savings to mitigate financial challenges. It has increased partnership working with other public sector organisations in Nottinghamshire, across both local government and the NHS. The council has also made greater use of subsidiaries, joint ventures and its dedicated performance and improvement team.</p> <p>As wider partnership working evolves it is important to consider governance arrangements within the collaborations and ensure the required outcomes are being achieved.</p>	<p>The Council is committed to working with partners to provide the best possible services for local people whilst delivering value for money.</p> <p>Partnership working is diverse and covers health, the environment including transport and education.</p> <p>The health partnership as part of the Integrated Care System has notably seen an increase in the amount of service users enabled to return to independent living via the enablement service. Users of this service rose to 1,335 in 2018/19.</p> <p>The Council appoint representatives to a wide range of bodies to ensure that partnership working is monitored and governance is in place.</p> <p>The Policy Committee receive regular updates on the strategies and monitoring of partnerships and also a register of outside bodies with representatives is produced for their scrutiny. These bodies include local community groups, charities and partners, and detail who is the council representative on each group.</p> <p>For example, a major partnership is the Integrated Care System. The board of the ICS includes a Nottinghamshire County Council representative, but also individual members such as Sherwood Forest Hospital FT also has a Council representative on its board.</p> <p>The council have had some major achievements during 2018/19 in relation to working with partners these include:</p> <p>Leadership of the Partnership Strategy for looked after children and care leavers – becoming the first 2 tier council area to secure council tax exemption for its care leavers up to 25.</p> <p>The successful leadership and establishment of the Regional Adoption Agency.</p>	<p>Auditor view</p> <p>Partnership working continues to achieve positive results for the Nottinghamshire area.</p> <p>This has improved services and in relation to health where the most pressure is felt financially and has provided closer integration. As a result the Council has been noted as the best performing council nationally for performance of delayed transfer of care.</p> <p>Governance is reported regularly to the Policy Committee and monitored by individual representatives.</p> <p>On the basis of this evidence we have concluded that the Council had appropriate arrangements in place to secure Value for Money through Partnership Working during 2018/19</p>

Independence and ethics

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

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix C

Audit, Non-audit and other services

For the purposes of our audit of the Council and the Pension Fund we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council and Pension Fund.

Pension Fund

No non-audit services were identified which were charged from the beginning of the financial year to July 2019.

Council

The following non – audit services were provided to the Council

Fees for other services	Fees £'000
Non-audit services	10,000
CFO insights	
	£10,000

Grant Thornton's Government and Infrastructure Advisory Team has undertaken work for the Midlands Engine (a partnership of local authorities and other bodies (across the East and West Midlands) in relation to Support for the Business Case for a Development Corporation in relation to the HS2 hub at Toton. This specific piece of work was procured through Nottinghamshire County Council, but in doing so it was acting as agent for the entities that make up the 'Midlands Engine'. We are satisfied that this work does not present any threat to our independence as auditors of the County Council. The fee for this work, which was all paid in 2019/20, was £TBC.

None of the services provided are subject to contingent fees.

Action plan

We have identified a number of recommendations for the Council and Pension Fund as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2019/20 audit.

The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

	Assessment	Council / Pension Fund	Issue and risk	Recommendations
1	●	Pension Fund	<ul style="list-style-type: none"> We identified that the membership data used for Note 3 disclosure purposes was not as at the 31st of March, but rather as at mid April 2019. We made further inquiries and obtained a reconciliation of the two data sets, and noted differences between the two data sets. In addition, we identified that a number of manual adjustments had been made to the data, totalling 6,000 members split across various member categories. We understand the adjustments were made to reflect processes that are currently ongoing such as adding starters and removing leavers. We undertook further inquiries of management and obtained corroborating evidence for these manual amendments, which we understand were intended to improve the accuracy of the membership data disclosed However, the volume of manual adjustments are in our opinion indicative of weaknesses in controls pertaining to the processing of membership data, and particularly that membership data is not being updated in a timely manner. 	<ul style="list-style-type: none"> We recommend the Pension Fund Systems and Admin team undertake a process to understand and verify the causes of these discrepancies in the data which necessitate the manual adjustments: specifically, the underlying reasons as to why change forms and notifications are not being processed in a timely manner Amendments to data should be processed in a timely manner to reduce the risk of inaccurate membership data being reported in the financial statements. Processes should be strengthened to ensure changes in membership data is processed and uploaded to the Pensions Admin System in a timely manner Management and particularly Pensions Finance should consider the impact of these discrepancies on data to be provided to the external actuary as part of the 2019 Triennial Valuation, to gain assurance that membership data is materially correct
				Management response <ul style="list-style-type: none"> [...]

Controls

- High – Significant effect on control system
- Medium – Effect on control system
- Low – Best practice

Action plan

We have identified a number of recommendations for the Council and Pension Fund as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2019/20 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

	Assessment	Council / Pension Fund	Issue and risk	Recommendations
2	●	Pension Fund	<p>Our audit work has identified a number of control issues in relation to the accuracy of data recorded on the pensions Admin and Payroll systems. Notable issues were identified in relation to membership data, starters and leavers, and inclusion of non pensioners within the data list. Although these were corrected at the time of audit, the lack of timely updates and controls to identify errors to these data sets, could result in inaccuracies in the pension system reporting.</p> <ul style="list-style-type: none"> A number of our samples selected for starters and leavers were found to have been either included on the Pensions Payroll system but did not relate to pensioners of the fund, or were actively making contributions, but not set up on the Pension Admin system We identified 1 deceased person in the pensioner 'leavers' sample, whose death certificate was dated circa 30 years ago. Though we confirmed no payments had been made in the current financial year and this matter was previously investigated by Internal Audit, timely removal from the Pensions Payroll system would ensure no additional payments are processed inadvertently We identified a number of employers from which the annual year-end 'Pen58' return" - which is the employing bodies confirmation of their annual employer and employee contributions - had not been received at the time of the audit. We were therefore unable to verify that pension contributions for those respective employers as per the Pension Fund's ledger were materially correct. 	<ul style="list-style-type: none"> Amendments to data should be processed in a timely manner to reduce the risk of inaccurate membership data being reported in the financial statements. Controls to check the accuracy of the data on a regular basis should be implemented to allow early identification of errors, including between the Pensions Admin and Pensions Payroll systems. The process in respect of receiving annual year end 'Pen58' returns from admitted & employer bodies should be strengthened, so that returns are obtained in a timely manner and management is able to assure itself that employer and employee contributions reported in the accounts are materially correct <p>Management response</p> <ul style="list-style-type: none"> [...]

Controls

- High – Significant effect on control system
- Medium – Effect on control system
- Low – Best practice

Action plan

We have identified a number of recommendations for the Council and Pension Fund as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2019/20 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

	Assessment	Council / Pension Fund	Issue and risk	Recommendations
3	●	Pension Fund	<ul style="list-style-type: none"> Review of controls assurance provided by the investment managers revealed that numerous smaller investment managers do not produce controls reports or bridging letters, or did provide controls reports but could not provide bridging letters to confirm that controls had not substantially changed between the report dates and the pension fund's year end date of 31st March 2019 Historically no additional information has been requested by the pension fund to bridge this gap in assurance and gain comfort that effective controls are in place at investment managers used by the Pension Fund We were able to positively confirm investment and cash balances with these investment managers, so there was no impact on the reported financial disclosures 	<ul style="list-style-type: none"> In accordance with best practice we recommend and would expect that where controls reports and 'bridging letters' are not available, the Pension Fund makes annual enquiries with its investment managers to ascertain how controls operate and if there are significant controls weaknesses of which it should be aware. Or alternatively request controls reports from investment managers, particularly those not covered by the Pension Fund's Custodian where triangulation of investment balances is not possible <p>Management response</p> <ul style="list-style-type: none"> [...]
4	●	Pension Fund	<ul style="list-style-type: none"> In the course of obtaining confirmations of year end cash and investment balances, we noted that account names across investment managers were not consistent. Some of the Pension Fund's accounts were under the name "Nottinghamshire County Council", whereas others were under the name "Nottinghamshire County Council Pension Fund". <p>We also noted through review of Land Registry title deeds, that the pension fund's investment property are held in the name of Nottinghamshire County Council.</p>	<p>Although we understand these are legacy issues - and there may be legal reasons and historical arrangements for variances in account names - we recommend that a consistent approach is used across investment managers and investment properties.</p> <p>Management response</p> <ul style="list-style-type: none"> [...]

Controls

- High – Significant effect on control system
- Medium – Effect on control system
- Low – Best practice

Action plan

We have identified a number of recommendations for the Council and Pension Fund as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2019/20 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

	Assessment	Council / Pension Fund	Issue and risk	Recommendations
1	●	Council	<ul style="list-style-type: none">As part of our sample testing of 6 schools bank reconciliations, we identified that the April 2019 funding (tranche) payment for each school had not been reflected in the bank reconciliation. Consequently, we were not able to agree schools cash balances per the ledger to bank confirmations received directly by the audit team.We were however able to verify these amounts using alternative methods and as such there was no impact on the cash balance reported in the financial statements.	<ul style="list-style-type: none">For completeness purposes, schools bank reconciliations should include the April 2019 tranche payments, to ensure bank balances per the ledger are reconciled to bank statements.

Controls

- High – Significant effect on control system
- Medium – Effect on control system
- Low – Best practice

Audit Adjustments - Council

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

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2019.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
1 McCloud – revision of Pension Liability and past service costs	44.754	44,754	44,754
Overall impact	£44,754	£44,754	£44,754

Misclassification and disclosure changes

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

Disclosure / Misstatement	Detail	Auditor recommendations	Adjusted?
Disclosure	Various minor Disclosure amendments	The Council have amended and expanded a number of disclosure notes to enhance readability and internal consistency of the accounts.	✓

Unadjusted Misstatements - Council

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2018/19 audit which have not been made within the final set of financial statements. The Governance & Ethics Committee is required to approve management's proposed treatment of all items recorded within the table below:

Detail		Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
1	None identified at the time of writing this report. – though there are outstanding queries that could result in audit adjustments.	[...]	[...].		
Overall impact		£X,XXX	£X,XXX	£X,XXX	

Audit Adjustments – Pension Fund

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

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2019.

Detail		Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
1	None identified at the time of writing this report. – though there are outstanding queries that could result in audit adjustments.	[...]	[...].	
Overall impact		£X,XXX	£X,XXX	£X,XXX

Audit Adjustments – Pension Fund (continued)

Misclassification and disclosure changes

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

Disclosure / Misclassification	Detail	Auditor recommendations	Adjusted?
Disclosure	Note 17 – Related Parties	<ul style="list-style-type: none"> For completeness of the related parties transactions disclosure, £21m of funds invested with LGPS central should be disclosed in note 17. In accordance with the CIPFA code, costs incurred in respect of Key Management Personnel should be disclosed in the accounts; management has opted to include this disclosure in the related parties note Additional disclosures have been included to gain assurance over completeness of related parties disclosure 	✓
Disclosure	Various	<ul style="list-style-type: none"> Various other minor disclosure corrections including to the Accounting Policies and descriptions of valuation methods and assumptions in respect of directly held investment property. 	✓
Disclosure	Note 2 C - Actuarial Present Value of Promised Retirement Benefits	<ul style="list-style-type: none"> Material assumptions made by the Pension fund's actuary, including mortality and estimated return on fund assets should be included. A disclosure on the McCloud findings should be included 	✓
Disclosure	Note 11 b – Reconciliation of Opening and Closing Values of Investments	<ul style="list-style-type: none"> The pension fund had reclassified investments worth £50m to "Property Pooled Vehicles", from "Pooled Investment Vehicles" and this adjustment was presented as a negative purchase in the draft accounts. The finance team opted to amend this adjustment to simplify the presentation, so that the adjustment is shown in the opening values, rather than a 'negative purchase' which may have been confusing to readers of the accounts. 	✓

Unadjusted Misstatements - Pension Fund

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2018/19 audit which have not been made within the final set of financial statements. The Governance & Ethics Committee is required to approve management's proposed treatment of all items recorded within the table below:

Detail	Fund Account £'000	Net Assets Statement £' 000	Impact on Net Assets Available to Fund Benefits £'000	Reason for not adjusting
1 We identified that fees and charges within pooled investment funds is netted off against changes in the fair value of the investments, although this amount is immaterial and there is no overall impact on the bottom-line, we would expect Income and Expenditure to be separately recognised on a gross basis, as stated in the accounting policies. This is in accordance with the applicable financial reporting framework.	Investment Management Expenses +£X,XXX (TBC) Profit & Losses on changes in value -£X,XXX (TBC)	£NIL	£NIL	Immaterial (The adjustment is expected to be less than £5m)
Overall impact	£X,XXX	£X,XXX	£X,XXX	

Fees

We confirm below our final fees charged for the audit and confirm there were no fees for the provision of non audit services

Audit Fees

	Proposed fee	Final fee
Council Audit	£75,624	£75,624
Pension Fund	£23,043	£23,043
Total audit fees (excluding VAT)	£98,667	£98,667

Other services can be seen at page 24

Where we are required to respond to requests received from other auditors of other bodies for assurance in respect of information held by the Pension Fund and provided to the actuary to support their individual IAS 19 calculations these will be billed in addition to the audit fee on a case by case basis.

Work undertaken following the McCloud ruling and increased expectations from regulators may result in a fee variation being applied this will be confirmed with management at the finalisation of the audit and reported to the Governance and Ethics Committee

Audit opinion – Nottinghamshire County Council

We anticipate we will provide the Council with an unmodified audit report

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Nottinghamshire County Council (the 'Authority') for the year ended 31 March 2019 which comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2019 and of its expenditure and income for the year then ended;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Service Director of Finance Infrastructure and improvement use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Service Director of Finance Infrastructure and improvement has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The Service Director of Finance Infrastructure and improvement is responsible for the other information. The other information comprises the information included in the Statement of Accounts, the Narrative Report, the Annual Governance Statement, other than the financial statements our auditor's report thereon and our auditor's report on the pension fund financial statements. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge of the Authority obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

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

Under the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with the 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and

Audit opinion

controls or that risks are satisfactorily addressed by internal controls.
We have nothing to report in this regard.

Opinion on other matter required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority gained through our work in relation to the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources, the other information published together with the financial statements in the Statement of Accounts, the Narrative Report, the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

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

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

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

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

As explained more fully in the Statement of Responsibilities [set out on page(s) **x to x**], the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs.

In this authority, that officer is the Service Director of Finance Infrastructure and improvement. The Service Director of Finance Infrastructure and improvement is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19, for being satisfied that they give a true and fair view, and for such internal control as the Service Director of Finance Infrastructure and improvement determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Service Director of Finance Infrastructure and improvement is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the Authority will no longer be provided.

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

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

Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, we are satisfied that the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

Responsibilities of the Authority

The Authority is responsible for putting in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Audit opinion

Auditor's responsibilities for the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether in all significant respects the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to be satisfied that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

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

We are required to give an opinion on the consistency of the pension fund financial statements of the Authority included in the Pension Fund Annual Report with the pension fund financial statements included in the Statement of Accounts. The Local Government Pension Scheme Regulations 2013 require authorities to publish the Pension Fund Annual Report by 1 December 2019. As the Authority has not prepared the Pension Fund Annual Report at the time of this report we have yet to issue our report on the consistency of the pension fund financial statements. Until we have done so, we are unable to certify that we have completed the audit of the financial statements in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

We cannot formally conclude the audit and issue an audit certificate in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the Authority for the year ended 31 March 2019.

We are satisfied that this work does not have a material effect on the financial statements or on our conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

We cannot formally conclude the audit and issue an audit certificate for the Authority for the year ended 31 March 2019 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until your previous auditors KPMG have determined an objection to the 2015/16 accounts brought by a local authority elector under Section 27 of the Local Audit and Accountability Act 2014. We are satisfied that this matter does not have a material effect on the financial statements or on our conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 [and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited]. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

[Signature]

John Gregory, Key Audit Partner
for and on behalf of Grant Thornton UK LLP, Local Auditor

Birmingham

[Date]

Audit opinion – Nottinghamshire County Council Pension Fund

We anticipate we will provide the Pension Fund with an unmodified audit report

Independent auditor's report to the members of Nottinghamshire County Council on the pension fund financial statements of Nottinghamshire County Council Pension Fund

Opinion

We have audited the financial statements of Nottinghamshire Pension fund name (the 'pension fund') administered by Nottinghamshire County Council (the 'Authority') for the year ended 31 March 2019 which comprise the Fund Account, the Net Assets Statement and notes to the pension fund financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19.

In our opinion, the financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2019 and of the amount and disposition at that date of the fund's assets and liabilities, [other than liabilities to pay promised retirement benefits after the end of the fund year];
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the pension fund's financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Service Director Finance, Infrastructure and improvement use of the going concern basis of accounting in the preparation of the pension fund's financial statements is not appropriate;
- or
- the Service Directors Finance, Infrastructure and improvement has not disclosed in the pension fund's financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for the pension fund for a period of at least twelve months from the date when the pension fund's financial statements are authorised for issue.

Other information

The Service Directors Finance, Infrastructure and improvement is responsible for the other information. The other information comprises the information included in the Statement of Accounts, the Narrative Report, the Annual Governance Statement other than the pension fund's financial statements, our auditor's report thereon and our auditor's report on the Authority's financial statements. Our opinion on the pension fund's financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the pension fund's financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the pension fund's financial statements or our knowledge of the pension fund obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the pension fund's financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Audit opinion Nottinghamshire Pension Fund cont

Opinion on other matter required by the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice)

In our opinion, based on the work undertaken in the course of the audit of the pension fund's financial statements and our knowledge of the pension fund the other information published together with the pension fund's financial statements in the Statement of Accounts, [the Narrative Report, the Annual Governance Statement and the Annual Report] for the financial year for which the financial statements are prepared is consistent with the pension fund's financial statements.

Matters on which we are required to report by exception

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

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

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

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

As explained more fully in the Statement of Responsibilities [set out on [page\(s\) x to x](#)], the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs.

In this authority, that officer is the Service Director Finance, Infrastructure and improvement. The Service Director Finance, Infrastructure and improvement is responsible for the preparation of the Statement of Accounts, which includes the pension fund's financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19, for being satisfied that they give a true and fair view, and for such internal control as the Service Director Finance, Infrastructure and improvement determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the pension fund's financial statements, the Service Director Finance, Infrastructure and improvement is responsible for assessing the pension fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the pension fund will no longer be provided.

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the pension fund's financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at:

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

Audit opinion Nottinghamshire Pension Fund cont..

Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 [and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited]. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

[Signature]

John Gregory, Key Audit Partner
for and on behalf of Grant Thornton UK LLP, Local Auditor
Birmingham office

[Date]

