

The Annual Audit Letter for Nottinghamshire County Council and Nottinghamshire Pension Fund

Year ended 31 March 2020

31 March 2021



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Executive Summary

Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Nottinghamshire Council (the Council) and Nottinghamshire County Council Pension Fund (the Fund) for the year ended 31 March 2020.

This Letter is intended to provide a commentary on the results of our work to the Council and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the Council's Governance and Ethics Committee as those charged with governance in our Audit Findings Report on 25 November 2020.

Respective responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Council and group's financial statements (section two)
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Council and group's financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

Our work

Materiality	We determined materiality for the audit of the Council's financial statements to be £16.8m, which is 1.5% of the Council's gross cost of services. We determined materiality for the Pension Fund to be £40m, which equated to 1% of the Pension Fund's net assets for the year.
Financial Statements opinion	<p>We gave an unqualified opinion on the Council and Pension Fund's financial statements on 30 November 2020.</p> <p>We included an emphasis of matter paragraph in our reports on both the Council and the Fund's accounts in respect of the uncertainty over valuations of the Council's land and buildings and investment properties and the Fund's property assets, reflecting the valuation uncertainties expressed by valuers given the Coronavirus pandemic. This does not affect our opinion that the statements give a true and fair view of the Council and Pension Fund's financial positions and incomes and expenditures for the year.</p>
Whole of Government Accounts (WGA)	We completed work on the Council's consolidation return following guidance issued by the NAO.
Use of statutory powers	We did not identify any matters which required us to exercise our additional statutory powers.

Executive Summary

Value for Money arrangements	We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We reflected this in our audit report to the Council on 25 November 2020.
Certificate	We will shortly complete our work on the Whole of Government Accounts return and at that point will certify that we have completed the audit of the financial statements of Nottinghamshire County Council.

Working with the Council

Restrictions for non-essential travel meant Council, Pension Fund and audit staff had to adapt to new remote working arrangements and remote auditing. This entailed remote accessing financial systems, video calling, sharing screens to review working papers. Consequently, more time was required to discuss and resolve audit queries and review audit work. All information and explanations requested from management were provided. The audit findings were reported to those charged with government, in the form of Governance and Ethics Committee, on 25 November 2020.

The audit team note their thanks to the finance team for the provision of working papers, evidence and explanations in what was an exceptional year.

Grant Thornton UK LLP
March 2021

Audit of the Financial Statements

Our audit approach

Materiality

In our audit of the Council's financial statements, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for the audit of the council's financial statements to be £16.8m, which is 1.5% of the gross cost of services for the year ended 31 March 2020. We determined materiality for the audit of the Pension Fund's financial statements to be £40m, which is 1% of the Council's net assets for the year ended 31 March 2020. We used these benchmark as, in our view, users of the financial statements are most interested in where the Council has spent its revenue in the year and the balance of the Pension Fund's net assets.

We also set a lower level of specific materiality for the remuneration table of specific senior officers. This materiality was set at £100K.

For the Council, we set a lower threshold of £840K and for the Pension Fund we set a lower threshold of £2.7m. Any errors identified above these thresholds were reported to the Governance and Ethics Committee in our Audit Findings Report as 'non-trivial' errors.

The scope of our audit

Our audit involves obtaining sufficient evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error. This includes assessing whether:

- the accounting policies are appropriate, have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the remainder of the Statement of Accounts to check it is consistent with our understanding of the Council and with the financial statements included in the Statement of Accounts on which we gave our opinion.

We carry out our audit in accordance with ISAs (UK) and the NAO Code of Audit Practice. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

Audit of the Financial Statements

Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk (summary)	Findings and conclusions
<p>Covid-19 – Council and Pension Fund</p> <p>The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expect current circumstances will have an impact on the production and audit of the financial statements for the year ended 31 March 2020. We therefore identified the global outbreak of the Covid-19 virus as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> • worked with management to understand the impact Covid-19 had on the organisation's ability to prepare the financial statements and going concern, including forecasts • Considered whether changes to our materiality were warranted • liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross-sector responses • evaluated the adequacy of disclosures in the financial statements • evaluated whether sufficient audit evidence could be obtained through remote technology • corroborate significant management estimates such as assets and the pension fund liability valuations • discussed with management the implications for our audit report • engaged an auditor's experts to support our review of asset valuations 	<p>Our audit work has not identified any significant issues in respect of Covid19, and the main impact has simply been on the time taken to complete the audit.</p>

Audit of the Financial Statements

Significant Audit Risks - continued

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of land and buildings - Council</p> <p>The Council revalues its land and buildings on a five-yearly basis. In the intervening years, such as 2019/20, to ensure the carrying value in the Council financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date, the Council 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 (£683 million) and the sensitivity of this estimate to changes in key assumptions.</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.</p>	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation expert and the scope of their work evaluated the competence, capabilities and objectivity of the valuation expert wrote to the valuer to confirm the basis on which the valuation was carried out to ensure the requirements of the Code were met challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding engaged our own valuer (auditor's expert) to assess the instructions to the Council's valuer, the valuers report and the assumptions that underpin the valuation tested a sample of revaluations made during the year to see if they had been input correctly into the Council's asset register evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end 	<p>Due to the outbreak of Covid-19, market activity was impacted in many sectors. The Council's valuers considered that less weight should be attached to previous market evidence in informing their opinions of valuation. They therefore reported to the Council a 'material valuation uncertainty'. The Council in turn disclosed the relevant wording within the Financial Statements in relation to material uncertainty, to give the reader a better understanding of the RICS guidance. We referred to this within our audit opinion, through an Emphasis of Matter paragraph, to draw this to the attention of the readers of the accounts. Our work did not identify other significant issues.</p>

Audit of the Financial Statements

Significant Audit Risks - continued

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of net pension fund liability - Council</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. The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£1bn in the Authority's balance sheet) and the sensitivity of the estimate to changes in key assumptions. Some elements of the valuation may also be affected this year by late changes associated with Brexit, leading to increased audit risk.</p> <p>The Council uses Barnett Waddingham to provide actuarial valuation to of the Council's assets and liabilities derived from the pension scheme. A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2019. 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.</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.</p>	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> • updated our understanding of the processes and controls in respect of the Council's pension fund net liability • evaluated the instructions issued by management to actuary for this estimate and the scope of the actuary's work; • assessed the competence, capabilities and objectivity of the actuary • assessed the accuracy and completeness of the information provided to the actuary • tested the consistency of the pension asset, liability and disclosures in financial statements to the actuarial report • assessed the reasonableness of the actuarial assumptions and performing additional procedures • Agreed the advance payment made to the pension fund for future years to the expected accounting treatment • obtained assurances from the auditor of Nottinghamshire County Council Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary 	<p>A material valuation uncertainty was reported in respect of the Council's share of pension fund investment properties. We referred to this within our audit opinion, through an Emphasis of Matter paragraph, to draw this to the attention of the readers of the accounts. Our work did not identify other significant issues.</p>

Audit of the Financial Statements

Significant Audit Risks - continued

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Management override of controls – Council and Pension Fund</p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management override of controls is present in all entities. The Council 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 Council and Fund, which was one of the most significant assessed risks of material misstatement.</p>	<p>As part of our audit work 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>Our audit work has not identified any issues in respect of management override of controls.</p>

Audit of the Financial Statements

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of level 3 investments – Pension Fund</p> <p>The Fund revalues its investments on an annual basis to ensure that the carrying value is not materially different from the fair value at the financial statements date.</p> <p>By their nature Level 3 investment valuations lack observable inputs. These valuations therefore represent a significant estimate by management in the financial statements due to the size of the numbers involved (£839 m) and the sensitivity of this estimate to changes in key assumptions.</p> <p>Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end.</p> <p>Management utilise the services of investment managers and custodians as valuation experts to estimate the fair value as at 31 March 2020.</p> <p>We therefore identified valuation of Level 3 investments, including property investments, as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>As part of our audit work we:</p> <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 investments and ensured the requirements of the code were met for 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. Reconciled those values to the values at 31 March 2020 with reference to known movements in the intervening period for a sample of non-property investments, tested the valuation by obtaining and reviewing the audited accounts, (where available) at the latest date for individual investments and agreeing these to the fund manager reports at that date, or evaluated the competence, capabilities and objectivity of the valuation expert tested revaluations made during the year to see if they had been input correctly into the Pension Fund's asset register where available, reviewed investment manager service auditor reports on design effectiveness of internal controls for property investments, reviewed the arrangements under which such investments are valued and the assumptions used. 	<p>Our audit work has not identified any issues in respect of Level 3 investments.</p>

Audit of the Financial Statements

Audit opinion

We gave an unqualified opinion on the Council's financial statements on 25 November 2020.

Preparation of the financial statements

The Council presented us with draft financial statements in July at the commencement of the final audit visit, in accordance with the agreed timescale, and provided a good set of working papers to support them. The finance team responded promptly and efficiently to our queries during the course of the audit.

Issues arising from the audit of the financial statements

We reported the key issues from our audit to the Council's Governance and Ethics Committee on 25 November 2020.

In addition to the key audit risks reported above, we identified a small number of adjustments and areas for improvement of controls that we have asked the Council's management team to address for the next financial year. The adjustments did not impact on the Council's overall financial position and were primarily in respect of disclosure notes rather than the primary statements.

Annual Governance Statement and Narrative Report

We are also required to review the Council's Annual Governance Statement and Narrative Report. It published them on its website alongside the draft Statement of Accounts in June.

Both documents were prepared in line with the CIPFA Code and relevant supporting guidance. We confirmed that both documents were consistent with the financial statements prepared by the Council and with our knowledge of the Council.

Pension fund accounts

We gave an unqualified opinion on the Nottinghamshire County Council Pension Fund accounts on 25 November 2020. We also reported the key issues from our audit of the pension fund accounts to the Council's Governance and Ethics Committee on 25 November 2020.

As with the County's accounts, we identified a small number of amendments needed to the accounts, but these did not impact on the overall reported financial position and related only to disclosure notes..

Whole of Government Accounts (WGA)

We carried out work in line with instructions provided by the NAO . We will issue our assurance statement shortly.

Other statutory powers

We also have additional powers and duties under the Act, including powers to issue a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the Council's accounts and to raise objections received in relation to the accounts.

Certificate of closure of the audit

Once we have issued the WGA assurance statement, we will certify that we have completed the audit of the financial statements of Nottinghamshire County Council.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in April 2020 which specified the 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.

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the risks where we concentrated our work.

The risk we identified and the work we performed is set out overleaf.

We did not need to make any VfM-related recommendations for improvement as part of our Audit Findings report agreed with the Council in November 2020.

Overall Value for Money conclusion

We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2020.

Value for Money conclusion

Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Sustainable Resource Deployment – planning finances effectively to support delivery of strategic priorities and maintain statutory functions.</p> <p>This risk relates to the sub-criteria of Sustainable Resource Deployment. 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 (M09) presented to the Finance and Major Contracts Management Committee indicates a net minor underspend of £35k forecast for the current financial year. However this masks the substantial overspend in Children & young peoples services with a forecast overspend of £9.6m. Furthermore the Council faces significant financial challenges over the medium term to keep its finances in balance.</p>	<p>As part of our work we have:</p> <ul style="list-style-type: none"> • Reviewed performance in the period by comparing outturn position to budgeted for revenue and capital budgets • Considered the MTFS and impact of Covid19 in terms of loss of income, cost pressures and use of reserves • Considered the planned level and actual use of reserves by the council during 2019/20. • Made enquiries of key officers to understand the process in place for medium term financial planning 	<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. The Council's strong overall reserves position before Covid-19 is enabling it to cope better than some other authorities with the increased pressures now being faced.</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 2019/20.</p>

A. Reports issued and fees - Council

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

Reports issued

Report	Date issued
Audit Plan	4 March 2020
Audit Findings Report	25 November 2020
Annual Audit Letter	31 March 2021

Fees - Council

	Planned £	Actual final fee £
Statutory audit	90,624	104,200
Total fees	90,624	£104,200

Audit fee variation

As outlined in our audit plan, the 2019-20 scale fee published by PSAA of £75,624 assumed that the scope of the audit would not significantly change. There are a number of areas where the scope of the audit has changed, which has led to additional work. We agreed these with you at the start of the audit and they are reflected in the planned fee above, with the exception of the impact of Covid-19. Details are set out in the following table, and are subject to final PSAA approval.

PSAA Agreed Fee Variation	Reason	Fee agreed
Raising the bar	The Financial Reporting Council (FRC) has highlighted that the quality of work by all audit firms needs to improve across local audit. For major audits such as Nottinghamshire County Council, we reduced the materiality level, reflecting increased sample testing.	£4,000
Pensions – IAS 19	The Financial Reporting Council highlighted that quality of work by audit firms in respect of IAS 19 needs to improve across local government audits. Accordingly, we have increased the scope and coverage of IAS 19 testing this year to reflect this.	£2,500
PPE Valuation – work of experts	As above, the Financial Reporting Council has highlighted that auditors need to improve the quality of work on PPE valuations across the sector. We have increased the volume and scope of our audit work to reflect this.	£7,500
New Standards and developments	PSAA's original scale fee for this contract was set in March 2018, so any new developments since that time need to be priced in, additional work will be required for IFRS16 implementation and corresponding disclosure required in 19/20 under IAS8.	£1,000
Covid19 delay and impact on audit duration	There has been a recognition that audits have taken significantly longer due the inherent complexities of remote auditing. To date, we estimate time taken on audits has increased by 25%, in some cases higher. Discussions with the ICAEW and PSAA indicate this is similar to other firms.	£13,676
Total		£28,576

A. Reports issued and fees – Pension Fund

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

Fees

	Planned £	Actual final fees £
Audit of Pension Fund	27,293	31400
Total fees	£27,293	£31,400

PSAA Scale Fees

As outlined in our audit plan, the 2019-20 scale fee published by PSAA of £23,043 assumed that the scope of the audit would not significantly change. There are a number of areas where the scope of the audit has changed, which has led to additional work. We agreed these with you at the start of the audit and they are reflected in the planned fee above, with the exception of the impact of Covid-19. Details are set out in the following table, and are subject to final PSAA approval.

Fee variation	Reason	Fee proposed
Pensions – IAS 19	The Financial Reporting Council (FRC) has highlighted that the quality of work by all audit firms needs to improve across local audit. This necessitated additional audit work in areas such as journals, estimates, financial resilience and information provided by the entity. For major audits such as this, we reduced the materiality level, reflecting the higher profile of local audit. This increased scoping and greater sample testing.	£2,500
Valuation of level 3 investments	As above, the Financial Reporting Council has highlighted that auditors need to improve the quality of work on PPE valuations across the sector. We have increased the volume and scope of our audit work to reflect this.	£1,750
Covid19 delay and impact on audit duration	There has been a recognition that audits have taken significantly longer due the inherent complexities of remote auditing. To date, we estimate that the issues highlighted above are increasing the time taken on audits by an average of 25%, in some cases higher. We understand from discussions with the ICAEW and PSAA that this is similar to other firms.	£4,107
Total		£8,357

A. Reports issued and fees continued

Non- audit services

- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council and Pension Fund. The table above summarises all non-audit services which were identified.
- We have considered whether non-audit services might be perceived as a threat to our independence as the Council and Pension Fund's auditor and have ensured that appropriate safeguards are put in place.

The non-audit services set out below are consistent with the Council's policy on the allotment of non-audit work to your auditor.

Fees for non-audit services

Service	Fees £
Audit related services (Council)	
- Certification of Teachers Pension Claim	£3,500
Non-Audit related services (Pension Fund)	
- Provision of IAS 19 Assurances to Scheme Employer auditors	£6,000
Non-Audit related services (Council and Pension Fund)	
- CFO insights	£16,000



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