

Informing the audit risk assessment for Nottinghamshire County Council

Year ended 31 March 2019

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect your business or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Purpose

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

Background

Under International Standards on Auditing (UK and Ireland) (ISA(UK&I)) auditors have specific responsibilities to communicate with the governance and ethics committee. ISA(UK&I) emphasise the importance of two-way communication between the auditor and the governance and ethics committee and also specify matters that should be communicated.

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

Communication

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

- fraud
- laws and regulations
- going concern.

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

Fraud

Issue

Matters in relation to fraud

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

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

As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error. We are required to maintain professional scepticism throughout the audit, considering the potential for management override of controls. As part of our audit risk assessment procedures we are required to consider risks of fraud. This includes considering the arrangements management has put in place with regard to fraud risks including:

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

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

Fraud risk assessment

Has the Council assessed the risk of material misstatement in the financial statements due to fraud? What are the results of this process including the nature, extent and frequency of such assessments?

The Council has undertaken an overall assessment of the risk of material misstatement in the financial statements as being low based on the good inherent record for completion of the financial statements, the current control environment and the management perception of risk based on the assessment of materiality for the Nottinghamshire County Council Financial Statements (NCC) and Nottinghamshire County Pension Fund. (NCPF)

The risk assessment is based on the assessment made by management, the opinions expressed in the Annual Governance Statement and the methods employed by the Head of Internal Audit to review the Governance Arrangements.

A material misstatement would require a fraud of £18m – NCC or £40m - NCPF. (Based on the assessment for the 2017/18 Financial Statements) . The key systems which could result in a mis-statement of this scale are audited on a rolling programme by internal audit as part of the coverage within the Core Audits (Corporate / Cross Cutting element of the Internal Audit Plan). The Council has a broad range of controls in place over the key systems to mitigate the risk of a material mis-statement.

Current fraud risks have been identified and assessed as part of the Annual Fraud Risk Assessment and work undertaken to address them has been reported as part of the Annual Fraud Report 2017/18 (and will again be reported as part of the Annual Fraud Report 2018/19) as reported to the Governance and Ethics Committee. The Annual Fraud Risk Assessment is used to drive the coverage of Counter Fraud work, both proactive and reactive as part of the overall Internal Audit Universe and Termly planning processes.

Fraud risk assessment

What processes does the Council have in place to identify and respond to risks of fraud?

Internal Audit undertake an Annual Fraud Risk Assessment utilising a series of risk criteria and risk scoring to identify high risk locations using aspects such as turnover, cash transactions etc. Risks from processes such as payments and payroll systems are high due to value. A Fraud Risk assessment analyses the key areas of risk for the Council, which is revised annually to inform the counter fraud plan, which results in completion of the Annual Fraud Report.

Internal Audit has engaged with the following pro-active counter-fraud activities during 2018/19:

- Promotion of the Council's Counter Fraud and Counter Corruption Strategy in line with the Fraud Response Plan.
- Reviewed policy documentation such as, anti-money laundering policy, anti-bribery and corruption policy etc.
- Developed a Policy in relation to the Criminal Finances Act 2017
- E-learning – Fraud Awareness Course has been launched through My Learning
- Alerts from intelligence sources National Anti-Fraud Network, CIPFA etc. have been reviewed and disseminated
- Serious & Organised Crime – Home Office – The full audit has been completed and reported through the Corporate Leadership Team;
- NFI data matches have been completed and reports shared with other bodies.
- NFI Re-check has been completed for mortality data and Pensions
- Procurement – Review of the UK Corruption Strategy and input to review of Cartel Tool.

Completion of Annual Fraud Report for 2017/18 (2018/19 Report will completed for June 2019) and reported to the Governance & Ethics Committee.

Other Counter Fraud activity includes:

ASCH – work with Direct Payments team to review processes for recovery of funds to include consideration of fraud. Work on the identification and recovery of assessment and payments in relation to deprivation of assets.

Risk and Insurance have been engaged with the Association of British Insurers (ABI) to review claims received against a 48 point checklist to screen against fraud risks. This has reduced the number of high risk claims being considered by the Council. Information and advice from the Councils insurers is currently being shared with NCC Counter fraud.

Business Support Centre (BSC) have actively reviewed payments prior to payment. Software has been installed to check for duplicated payments post payment processing and prior to payment generation. This preventative measure is put in place to reduce the potential duplications as part of the NFI exercise.

Fraud risk assessment

What processes does the Council have in place to identify and respond to risks of fraud? (cont.)

A data analytic review of payroll data has been completed and outliers have been identified for Deep Dive review which is currently in progress.

One member of the Internal Audit team successfully completed the CIPFA Accredited Counter Fraud Specialist qualification.

Working arrangements have been developed with Nottinghamshire Police through a Single Point of Contact (SPOC) for the centralised management of fraud referrals by the Council. Data washing exercise with Nottinghamshire Police – has commenced and data sources are being subject to a data sharing agreement prior to comparison.

Cyber Security – we have reviewed cyber security arrangements as part of the Fraud Risk Assessment and updated the ICT audit plan to reflect the emerging risks. We have also reviewed current local practices against the National Audit Office guidance for audit committees on cyber security with a report taken to the Governance and Ethics Committee in December 2018.

Have any specific fraud risks, or areas with a high risk of fraud, been identified and what has been done to mitigate these risks?

Please refer to above where the planning process expands into risk areas and work undertaken to identify and mitigate.

Fraud risk assessment continued

Are internal controls, including segregation of duties, in place and operating effectively? If not, where are the risk areas and what mitigating actions have been taken?

The application of internal controls, including segregation of duties, is reviewed annually as part of the processes employed to complete the Annual Governance Statement. Corporate Directors and Service Managers are required to provide assurance on the arrangements within the council and departments which is subject to review by Internal Audit as part of the assessment process. Weaknesses are captured in the document and the work undertaken by the HOIA to form the Annual Opinion.

Management monitor their individual areas on an on-going basis and report to their respective management teams. There is a requirement to report any suspected irregularities to Internal Audit, who will determine how to proceed in individual cases, including reporting to police, investigation by internal audit and investigation by management. The Fraud Response Plan sets out the expectations for all to follow.

The risks from internal controls and segregation of duties are reviewed as part of the risk based approach undertaken by internal audit in the completion of its work as part of the Termly Plan which is informed by the Internal Audit Risk assessment and Fraud Risk Assessment. These risk assessments utilise a series of risk criteria and risk scoring to identify high risk locations using aspects such as turnover, cash transactions etc. Risks from processes such as payments and payroll systems are high due to value. A Fraud Risk assessment analyses the key areas of risk for the Council, which is revised annually to inform the counter fraud plan and inform the termly planning process.

These include close analysis of all the Council's activities and the risk they pose in terms of loss through error/fraud/reputation, exchange of information with other county councils, local district councils and neighbouring authorities, consideration and dissemination of information provided by NAFN, CIPFA, past experience of fraud in the Council and regular scanning of the media to identify losses / issues in other organisations. The Council's Counter Fraud and Counter Corruption Strategy and its Fraud Response Plan are periodically reported to staff groups to refresh awareness. The most recent being through a coordinated launch of fraud awareness as part of the International Fraud Awareness week.

Fraud risk assessment (continued)

Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)?

The Governance control processes in place for the completion of the annual governance statement confirm that control arrangements are in place and have been operated during the course of the year. The governance arrangements are supported by a waiver process where any exceptions to the control function are approved. This process is controlled and reported to the Governance and Ethics Committee on an annual basis. There are no areas that have been identified for the override or controls due to the inappropriate influence.

The Head of Internal Audit is not aware of any inappropriate over rides of management controls.

A monthly budget monitoring process is undertaken to ensure that any variances to the budget are identified and reported to both the Corporate Leadership Teams and Finance and Major Contracts Management Committee on a timely basis. All variations are therefore considered by management as part of an open and transparent process.

How does the Governance and Ethics Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control? What arrangements are in place to report fraud issues and risks to the Governance and Ethics Committee?

A Fraud Risk Assessment is undertaken which is used to inform the Annual Fraud Plan and work within the Internal Audit Planned activity. Activity in relation to Counter Fraud is reported through the Annual Fraud Report and developments captured as part of the Fraud Plan. The annual fraud report is considered by the Governance and Ethics Committee each year. The Corporate Leadership Team and the Governance and Ethics Committee are consulted on the Termly Internal Audit Plan, the latest in October 2018 and March 2019. Termly plans incorporate both proactive and reactive counter fraud work. Meetings are held on a 6 weekly basis between the Head of Internal Audit and the Chairman of the Governance and Ethics Committee and include a periodic update of work against the termly plan and update on counter fraud activity.

Fraud risk assessment continued

How does the Council communicate to and encourage ethical behaviour and appropriate business practices of its employees and contractors?

Officers and members undertake their roles in line with Codes of Conduct and personnel handbook. The Council's constitution provides the framework for an comprehensive set of internal controls to prevent fraud. The requirements are set out in further detail within Financial Regulations and these are complemented by more detailed guidance at departmental level. Internal Audit have an annual programme of work which is agreed with the Governance and Ethics Committee.

This programme of work provides assurance that these controls are in place, effective and complied with. Staff are reminded of the need for vigilance from time to time using Team Talk and corporate training materials. Awareness has been raised through Team Talk and intranet new to promote the work undertaken in line with the Fraud Response Plan. The Council has a whistle-blowing policy which reminds staff of the need to report instances of fraud. The Annual Fraud Report sets out how management has responded to fraud cases arising over the previous year. The Council provides information on fraud and collusion to contractors and review compliance with their own practices. Internal Audit have developed guidance in relation to the Criminal Finances Act 2017 – Failing to prevent the facilitation of Tax Evasion which will include the engagement with contractors.

Fraud risk assessment continued

How do you encourage employees to report their concerns about fraud? Have any significant issues been reported?

The Council continues to have a Code of Conduct for employees. The Code details the standards of conduct expected of employees and subsequent consequences. Details of these expectations are shown in Section D35 of the Personnel Handbook which are available to all on the intranet. Internal Audit has completed an audit of ethics. Issues are reported by the Head of Internal Audit, Monitoring Officer and Line Managers. These are escalated to Head of Internal Audit for consideration of investigation. Internal Audit are engaged in a number of investigations where compliance issues have been identified and departmental action has been taken. None are significant to the Financial Statements. Awareness training is provided through My Learning, Team Talk and Intranet news articles. These have included counter fraud awareness articles to bring the Counter Fraud Response Plan to the attention of officers and staff along with the provision of an e-learning training course.

Fraud risk assessment continued

Are you aware of any related party relationships or transactions that could give rise to risks of fraud?

The Financial Statements identify all the related parties for the Council. Central Government – through the framework for grants and funding (Council tax and benefit payments) Relationships in relation to members were identified where they held position with bodies receiving grants. Related transactions related to Arc, Via, Nottinghamshire (Futures) and Inspire are detailed within notes to the financial statements.

Departments are required to identify related parties that they have in operation in addition to the corporate requirements. Related parties in relation to individuals are identified during the financial statements generation and are reviewed prior to declaration.

We are not aware of any significant or unusual transactions that would give rise to fraud. We are not aware of any unusual transactions with third parties that could give rise to the risk of fraud.

No significant unusual transactions have been entered into during 2018/19. Cash holding and handling is reduced to a minimum and payments are subject to vetting prior to payment. The Council have not entered into any new JV's or PFI transactions.

Are you aware of any instances of actual, suspected or alleged, fraud, either within the Council as a whole or within specific departments since 1 April 2017?

Yes, such cases have been identified as part of internal audit work and cases have been subject to appropriate action. Cases have been recorded in the Annual Fraud Report. Cases have also been reviewed and actioned by departments: Adults, Social Care & Health and Trading Standards with appropriate input from senior managers and Police.

Internal Audit have been involved in referrals in relation to a number of cases involving suspected fraud as maintained on the investigations register. All cases have been valued under £100k and have been either investigated by internal audit, internal audit and the department or have been referred to the police. Work has been undertaken and recovery action instigated for deprived asset cases where a notional capital holding has been applied to ensure the correct client contribution is made and to restrict the payments made to service users. In other cases recovery action has been undertaken and in addition some cases where it is felt 'powers of attorney' have been abused.

Fraud risk assessment continued

Are you aware of any whistleblower reports or reports under the Bribery Act since 1 April 2017? If so how does the governance and ethics Committee respond to these?

The Monitoring Officer compiles an annual report in relation to Whistleblowing which was presented to the Governance and Ethics Committee on 13 June 2018. The report identifies six concerns being raised under the policy and the actions taken in relation to each of these. The actions and learning are identified and used to develop the currently and future delivery. When appropriate this includes further referral to Internal Audit for potential fraudulent activity. There have been no issues raised in relation to the Bribery Act.

The Governance and Ethics Committee have endorsed that actions taken by officers in response to whistleblowing cases are continued to promote the policy to staff and departments through the Team Talk intranet articles. The next annual whistleblowing Report is due for reporting to the Governance and Ethics Committee in June/July 2019.

Laws and regulations

Issue

Matters in relation to laws and regulations

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

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

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

Risk assessment questions have been set out in the following pages together with responses from management.

Impact of Laws and regulations

Question	Management response
What arrangements does the Council have in place to prevent and detect non-compliance with laws and regulations?	<p>Decision making is undertaken by Committees and other meetings of the County Council based on reports following standardized templates with sections covering financial, constitutional, human rights, equalities implications etc. Each report is checked for compliance prior to publication. In addition, each department and service area is aware of the legal and regulatory framework relevant to their areas and appropriately qualified staff are recruited and trained in relevant procedures and processes. There is oversight by relevant government and other agencies tasked with monitoring standards and compliance. Periodic internal audit inspections of each service area take place. Legal advice is available for any casework or individual queries. The Monitoring Officer sits on the Corporate Leadership Team and attends Policy Committee and Full Council.</p>
How do management gain assurance that all relevant laws and regulations have been complied with?	<p>Decision making by Committees and other meetings at the Council subject to appropriate advice via standardised committee reports covering relevant issues for consideration. The Annual Governance Statement summarises the processes and procedures in place that govern the arrangements. Internal Audit procedures, legal advisory support from in-house and (where necessary) external advisors on different areas of service delivery. Training and development of staff from both internal and external sources, accreditation with relevant professional bodies, whistle-blowing policy, Financial Regulations, contract procedures, complaints procedures, internal and external investigations, HR procedures, terms and conditions of employment including disciplinary procedures etc.</p>

Impact of Laws and regulations

Question	Management response
Have there been any instances of non-compliance or suspected non-compliance with law and regulation since 1 April 2017 with an on-going impact on the 2018/19 financial statements?	Internal Audit deal with allegations of fraud or criminal behaviour which is reported to the relevant authorities for investigation. Not aware of any other instances of non-compliance which would be required to be reported to the Council's Monitoring Officer and to the Council if they arose.
What arrangements does the Council have in place to identify, evaluate and account for litigation or claims?	Risk and Insurance manage insurance claims, together with the Council's insurers and having taken external legal advice where appropriate. Non-insured cases are managed by Legal Services together with external advisory support where appropriate with claims being pursued or settled on the basis of legal advice in accordance with provisions within the Constitution. Any contingent assets or liabilities arising as a result of litigation, claims or assessments are notified annually in the annual statement of accounts.
Is there any actual or potential litigation or claims that would affect the financial statements?	Any contingent assets or liabilities arising as a result of litigation, claims or assessments are notified annually in the annual statement of accounts following a request by colleagues in Financial Services.
Have there been any reports from other regulatory bodies, such as HM Revenues and Customs which indicate non-compliance?	I am not aware of any such reports.

Going Concern

Issue

Matters in relation to Going Concern

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

The going concern assumption is a fundamental principle in the preparation of financial statements for the Council. The accounting concept of going concern refers to the basis of measurement of an organisation's assets and liabilities in its accounts (that is the basis on which those assets and liabilities are recorded and included in the accounts).

Entities are viewed as continuing in business for the foreseeable future. Assets and liabilities are recorded on the basis that the entity will be able to realise its assets and discharge its liabilities in the normal course of business. If the entity could not continue as a going concern, assets and liabilities would need to be recorded in the accounts on a different basis, reflecting their value on the winding up of the entity. Consequently, assets would be likely to be recorded at a much lower break-up value and medium- and long –term liabilities would become short-term liabilities.

The Council is not subject to the same future trading uncertainties as private sector entities. However, consideration of the key features of the going concern provides an indication of the Council's financial resilience. It may indicate that some classes of assets or liabilities should not be valued on an on going basis.

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

Going Concern Considerations

Question	Management response
Does the Council have procedures in place to assess the Council's ability to continue as a going concern?	<p>The County Council on the 28 February 2018 set the annual budget and capital programme budget for 2018/19 and the Medium Term Financial Strategy to 2021/22. This report included the formal assessment by the Section 151 Officer on the robustness of the Budget Estimates and the adequacy of the County Council's reserves in accordance with the 2003 Local Government Act. This indicates the Section 151 Officer has considered that the Council is a going concern.</p>

Going Concern Considerations

Question	Management response
Is management aware of the existence of other events or conditions that may cast doubt on the Council's ability to continue as a going concern?	It should be noted that the four year settlement accepted by the Council concludes in 2019/20. Following this, there is much uncertainty surrounding the move to localising 75% of business rates income from 2020/21. Other areas of uncertainty exist throughout the term of the MTFS such as the outcome of the Social Care Green Paper and the implications of Brexit and further political uncertainty. This does not however cast doubt on the Council's ability to continue as a going concern and the MTFS will continue to be reviewed regularly to ensure that it reflects the latest information available.
Are arrangements in place to report the going concern assessment to the governance and ethics Committee?	The County Council on the 28 February 2018 set the annual budget and capital programme budget to 2021/22 and the Medium Term Financial Strategy over the same period. This report included the formal assessment by the Section 151 Officer on the robustness of the Budget Estimates and the adequacy of the County Council's reserves in accordance with the 2003 Local Government Act. This indicates the Section 151 Officer has considered that the Council has is a going concern.
Are the financial assumptions in that going concern report (e.g., future levels of income and expenditure) consistent with the Council Plan 2017-2021, Medium Term Financial Plan and the financial information provided to the Council throughout the year?	Your Nottinghamshire, Your Future, the County Council Plan sets out the strategic ambition for the future of Nottinghamshire and the Council, structured around four vision statements and supported by twelve commitments. The annual budget report sets out the financial framework around which the County Council will achieve its strategic vision statements and meet the success factors that underpin the County Council's twelve commitments. The Council's Planning and Performance Management Framework ensures the alignment of the Council Plan, the Departmental Strategies and the MTFS.

Going Concern Considerations

Question	Management response
<p>Are the implications of statutory or policy changes appropriately reflected in the Council Plan 2017-2021, Medium Term Financial Plan, financial forecasts and report on the going concern?</p>	<p>The Council undertakes a robust process each year to identify new cost pressures as well as justifying any existing cost pressures within the MTFS. An on-going process to identify and potential savings and efficiencies across the Council also takes place. The implications of any statutory or policy changes are picked up either as part of these exercises or through the rigorous view of the Council's other MTFS assumptions</p>
<p>Have there been any significant issues raised with the governance and ethics Committee during the year which could cast doubts on the assumptions made? (Examples include adverse comments raised by internal and external audit regarding financial performance or significant weaknesses in systems of financial control).</p>	<p>Both internal audit and external audit report regularly to the Governance and Ethics Committee. During 2018/19, no adverse comments have been raised with regard to either financial performance or significant weaknesses in systems of financial control.</p>
<p>Does a review of available financial information identify any adverse financial indicators including negative cash flow or poor or deteriorating performance against the better payment practice code?</p> <p>If so, what action is being taken to improve financial performance?</p>	<p>The financial position of the Council is reported to the Finance and Major Contracts Managements Committee on a monthly basis. The financial monitoring reports show the current position with regard to the revenue budget and the capital programme. It also provides an update on the current position with regard to Treasury Management. On a quarterly basis, the financial monitoring reports also report on the performance of Accounts Payable, Account Receivable and Procurement. The financial monitoring process has not picked up any adverse financial indicators during 2018/19.</p> <p>Detailed progress on the Council's plans, departmental strategies and details of achieving the councils savings and transformation plans are reported quarterly to the Improvement & Change Sub-Committee.</p> <p>Both Committees receive reports identifying improvement actions where necessary.</p>

Going Concern Considerations

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

Accounting Estimates

Issue

Matters in relation to Accounting Estimates

Local Authorities need to apply appropriate estimates in the preparation of their financial statements. ISA (UK&I) 540 sets out requirements for auditing accounting estimates. This objective is to gain evidence that the accounting estimates are reasonable and the related disclosures are adequate.

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

Accounting estimates are used when it is not possible to measure precisely a figure in the accounts. We need to be aware of all estimates that the Council are using as part of their accounts preparation: these are detailed in appendix 1 to this report.

The audit procedures we conduct on the accounting estimate will demonstrate that :

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

Consideration of accounting estimates

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

Related Parties

Issue

Matters in relation to Related Parties

For local government bodies, the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) requires compliance with IAS 24: Related party disclosures. The Code identified the following as related parties to local government bodies:

- Entities that directly, or indirectly through one or more intermediaries, control, or are controlled by the authority (i.e. subsidiaries)
- Associates
- Joint ventures in which the authority is a venturer
- An entity that has an interest in the authority that gives it significant influence over the authority
- Key management personnel, and close members of the family of key management personnel
- Post –employment benefit plan (pension fund) for the benefit of employees of the authority, or of any entity that is a related party of the authority.

The Code notes that, in considering materiality, regard should be had to the definition of materiality, which requires materiality to be judged from the viewpoint of both the authority and the related party.

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

Related Parties

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

Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert (Yes/No and details of expert)	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year? (Yes/No)
Land & Buildings valuation	Existing Use Value in accordance with RICS Valuation definitions – UKVS 1.3 and Depreciated Replacement Cost (see RICS UKGN2)	Formal approval process for all valuations Estimates made within secure AMP system setting Finance review SLA / Valuation protocol	Yes – RICS Professionally qualified valuers	<ul style="list-style-type: none"> • Location • Building Type/construction/condition • Market conditions • Development Potential / Planning Framework • Maintenance 	No
Vehicles, Plant, Furniture and Equipment Valuation	Depreciated Historic Cost as proxy for Current Value	Departmental consultation Accounting Policy / Impairment review Finance Review	No	<ul style="list-style-type: none"> • Useful economic lives for asset consumption in line with requirements of CIPFA code 	No
Infrastructure Assets Valuation	Depreciated Historic Cost as proxy for Current Value	Departmental consultation Accounting Policy / Impairment review Finance Review	No	<ul style="list-style-type: none"> • Useful economic lives for asset consumption in line with requirements of CIPFA code 	No
Surplus Assets Valuation	Fair Value in accordance with section 2.10 of the CIPFA Code (2018-19)	Formal approval process for all valuations Estimates made within secure AMP system setting Finance review SLA / Valuation protocol	Yes – RICS Professionally qualified valuers	<ul style="list-style-type: none"> • Location/Comparables • Market conditions/rent growth/occupancy 	No

Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert (Yes/No and details of expert)	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year? (Yes/No)
Finance Lease Liabilities	IAS17	Lease contract used to calculate Liability	No	Judgements based on relevant accounting standard	No
Estimated remaining useful lives of PPE	Property Assets – RICS Valuation Framework Other Assets – CIPFA Code of Practice / IAS16	Property Assets - Formal approval process for all valuations within secure AMP system setting	Yes - RICS Professionally qualified valuer	<ul style="list-style-type: none"> • Maintenance • Asset consumption • Asset Type / Characteristics 	No
		Other Assets – Finance / Dept review	No		
Depreciation and amortisation	Straight line method	Property Assets - Formal approval process for all valuations within secure AMP system setting	Yes - RICS Professionally qualified valuer	<ul style="list-style-type: none"> • Maintenance • Asset consumption • Residual Lives 	No
		Other Assets – Finance / Dept review	No		
Impairments	IAS36 as adapted by the CIPFA Code of Practice	Annual Impairment review	Yes - RICS Professionally qualified valuer for Property assets	<ul style="list-style-type: none"> • Recoverable amount • Useful Lives 	No

Appendix A Accounting Estimates continued

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Pension liability	Assets valued using the market index returns for the last three months of the accounting period. Liabilities valued using the projected unit method.	External actuary provides the actuarial assumptions used to calculate the position.	Yes, Barnett Waddingham LLP.	Actuarial assumptions are set out in the statement of accounts.	No.
Long term obligations under PFI schemes	The original recognition of these assets (based on the cost to purchase the property, plant and equipment) was balanced by the recognition of a liability for amounts due to the scheme operator.	Amounts paid to PFI operators are analysed and set out in the statement of accounts.	An expert was used in 2009 as part of the initial arrangements for the PFI schemes.	Set out in model documentation..	No.

Appendix A Accounting Estimates continued

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Impairment of receivables (bad debt provision)	Debt over 6 months provided for. However, allowance should increase for known/significant doubtful debts under 6 months and decrease for known/significant debts over 6 months where confidence is high the payment will be received.	SAP report run as at 1 st April by Accounting and clearing house team and provided to Finance Business Partners, who make the adjustments to the allowance.	No	Debt over 6 months provided for. However, allowance should increase for known/significant doubtful debts under 6 months and decrease for known/significant debts over 6 months where confidence is high the payment will be received.	No
Accrued Income	Known amounts / Best estimate. More than £5k	Checks by Finance	No	Known amounts / Best estimate. More than £5k	No
Accrued Expenditure	Known amounts / Best estimate. More than £5k	Checks by Finance	No	Known amounts / Best estimate. More than £5k	No
Provision and	Strict criteria around creation of Provisions which must be met. Best information available at the time for estimate.	Discussion between Corp finance and FBP on new set up. Existing controls for Insurance, NDR and Redundancy.	Yes – Actuary used (not annually) to estimate the Insurance fund provision. Others – No	Degree of uncertainty built into Ins. NDR from Districts. Redundancy from Savings options /Section 188 notice. Experience split between ST + LT.	No
Contingent liabilities	As no entry is made, must be over £1m + meet other strict criteria	Emails to SFBP, Group Manager + Service Director Finance about known issues	No	Done as part of meeting qualifying criteria	No

Appendix A Accounting Estimates continued

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Investments in companies valuations	No previous investments shown (May change). Valued at Zero	N/a	No	N/a	No (May change)
Non-adjusting events – events after the BS date	Depends on the event. Best information available at the time	Emails to SFBP, Group Manager + Service Director Finance about known issues	If applicable	Depends on the event	No

Appendix A Accounting Estimates continued

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Measurement of Financial Instruments - PWLB loans	Fair value of loans is provided by PWLB after year end	n/a	No	That PWLB method is adequate. No in-house expertise for generating alternative figure.	No
Measurement of Financial Instruments - Investments	No estimates used. Cash investments shown at book cost.	n/a	No	None	No
Measurement of Financial Instruments - Market LOBO loans	Fair value calculated by discounted cash flow method, using redemption rates as provide by PWLB.	n/a	No	That LOBO loans will run to maturity.	No



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