Nottinghamshire County Council

Governance and Ethics Committee
Wednesday, 19 July 2023 commencing at 10:30 am

I refer to the Agenda you will have already received for the above mentioned meeting and enclose the following item:

Addendum to Item 5 – External Audit Plan

This report and appendix replaces the report and appendix published and printed with the agenda pack, following receipt of an updated External Audit Plan

Nottinghamshire County Council

Report to GOVERNANCE AND ETHICS COMMITTEE

19 July 2023

Agenda Item: 5

REPORT OF SERVICE DIRECTOR – FINANCE, INFRASTRUCTURE AND IMPROVEMENT

GRANT THORNTON – EXTERNAL AUDIT PLAN 2022/23

Purpose of the Report

1. To inform Members of the External Auditors' Audit Plan for their 2022/23 Audit.

Information

2. The attached report from our external auditors, Grant Thornton, sets out the proposed Audit Plan for the 2022/23 audit, including their approach, significant risks, fees, key staff and timelines for the audit. The report is presented to Members for their information. Andrew Smith, Engagement Lead - Grant Thornton) will be in attendance at the meeting to introduce the report and respond to Members' questions.

Other Options Considered

3. The report is for comment only.

Reason/s for Recommendation/s

4. To provide information to Members on the External Audit Plan 2022/23.

Statutory and Policy Implications

5. This report has been compiled after consideration of implications in respect of crime and disorder, data protection and information governance, finance, human resources, human rights, the NHS Constitution (public health services), the public sector equality duty, safeguarding of children and adults at risk, service users, smarter working, sustainability and the environment where such implications are material they are described below. Appropriate consultation has been undertaken and advice sought on these issues as required.

Financial Implications

6. The anticipated total fees, excluding the indicative fee for grant claim certification, are £129,374 for Nottinghamshire County Council and £39,456 for the Nottinghamshire Pension Fund. As in 2022/23, the Department for Levelling Up, Housing and Communities is providing Local Authorities with £15.0m in 2023/24 to meet the rise in cost of external audit fees. It is

expected that Nottinghamshire’s share of this allocation will be £36,984, the same as the 2022/23 allocation.

RECOMMENDATION/S

1) That Members to note the External Auditor’s Audit Plan for 2022/23.

Nigel Stevenson
Service Director – Finance, Infrastructure and Improvement

For any enquiries about this report please contact:
Glen Bicknell, Senior Finance Business Partner, Financial Strategy and Compliance.

Constitutional Comments (04/07/2023 GR)

7. Further to the Nottinghamshire County Council constitution, this Committee has the delegated authority to receive this report.

Financial Comments (04/07/2023 GB)

8. The financial implications are set out in the report.

Background Papers and Published Documents

Except for previously published documents, which will be available elsewhere, the documents listed here will be available for inspection in accordance with Section 100D of the Local Government Act 1972.

- None

Electoral Division(s) and Member(s) Affected

- All

Grant Thornton

Nottinghamshire County Council and Nottinghamshire Pension Fund audit plan

Year ending 31 March 2023

19 July 2023

Contents

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

Key matters

National context

For the general population, rising inflation rates, in particular for critical commodities such as energy, food and fuel, is pushing many households into poverty and financial hardship, including those in employment. At a national government level, recent political changes have seen an emphasis on controls on spending, which in turn is placing pressure on public services to manage within limited budgets.

Local Government funding continues to be stretched with increasing cost pressures due to the cost of living crisis, including higher energy costs, increasing pay demands, higher agency costs and increases in supplies and services. Local authority front-line services play a vital role in protecting residents from rising costs; preventing the most vulnerable from falling into destitution and helping to build households long-term financial resilience. At a local level, councils are also essential in driving strong and inclusive local economies, through their economic development functions and measures like increasing the supply of affordable housing, integrating skills and employment provision, and prioritising vulnerable households to benefit from energy saving initiatives. Access to these services remains a key priority across the country, but there are also pressures on the quality of services. These could include further unplanned reductions to services and the cancellation or delays to major construction projects such as new roads, amenities and infrastructure upgrades to schools, as well as pothole filling.

Our recent value for money work has highlighted a number of governance and financial stability issues at a national level, which is a further indication of the mounting pressure on audited bodies to keep delivering services, whilst also managing transformation and making savings at the same time.

In planning our audit, we will take account of this context in designing a local audit programme which is tailored to your risks and circumstances. Last year our Auditor's Annual Report included three improvement recommendations but crucially no key recommendations. A particular focus of our value for money audit will be your financial position. The Council has set a balanced budget for 2023/24. This was achieved through a combination of factors including identifying efficiencies (£8.7m) and a use of earmarked reserves (£3.9m). The medium financial outlook is more uncertain given the one-year Local Government Finance Settlement. In its February 2023 budget report, the Council identified potential budgets gaps of £30.8m (£17.6m for the 2025/26 financial year and £13.2m in 2026/27).

Audit Reporting Delays

In a report published in January 2023 the NAO have highlighted that since 2017-18 there has been a significant decline in the number of local government body accounts including an audit opinion published by the deadlines set by government. The NAO outline a number of reasons for this and proposed actions. In March 2023, we issued About time?, which explored the reasons for delayed publication of audited local authority accounts. In our view, it is critical to early sign off that draft local authority accounts are prepared to a high standard and supported by strong working papers.

Key matters

Pension Fund developments

The pressures on household income have raised concerns that members will look at their pension contributions as a way of cutting back on their monthly costs. The cost-of-living crisis is having a detrimental impact on pension savings, with some even dipping in to their savings to supplement short-term needs and several members are also requesting early access to their pension after age 55 as a means to financially manage their commitments. The cost of living crisis makes it even more important that lowly paid workers have access to a good quality pension.

There is no specific audit risk which has been identified as a result of these pressures and events. We have however determined a separate lower materiality for the Fund Account as these transactions are considered a key area of focus for users of the financial statements which are not directly derived from the investment portfolio.

Our Responses

- As a firm, we are absolutely committed to audit quality and financial reporting in the local government sector. Our proposed work and fee, as set out further in our Audit Plan, has been agreed with the Director of Finance.
- We will consider your arrangements for managing and reporting your financial resources as part of our audit in completing our Value for Money work.
- Our value for money work will also consider your arrangements relating to governance and improving economy, efficiency and effectiveness.
- We will consider and report on previously agreed recommendations contained within our prior year Audit Findings Reports and Auditor's Annual Report.
- We will continue to provide you and the Governance and Ethics Committee with sector updates providing our insight on issues from a range of sources and other sector commentators via our Governance and Ethics Committee updates.
- We hold annual financial reporting workshops for our audited bodies to access the latest technical guidance and interpretation, discuss issues with our experts and create networking links with other audited bodies to support consistent and accurate financial reporting across the sector.

Introduction and headlines

Purpose

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

Respective responsibilities

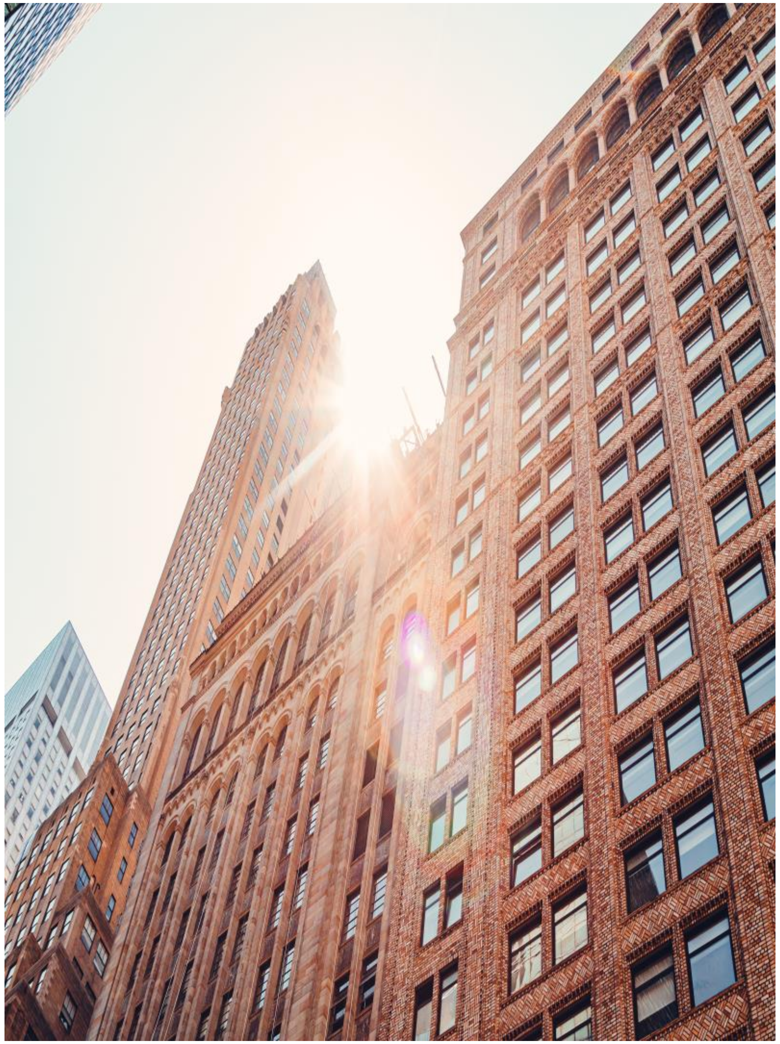
The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out and agreed in the Terms of Appointment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

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the Council and Pension Fund's financial statements that have been prepared by management with the oversight of those charged with governance (the Governance and Ethics Committee); and we consider whether there are sufficient arrangements in place at the Council and Pension Fund for securing economy, efficiency and effectiveness in your use of resources. Value for money relates to ensuring that resources are used efficiently in order to maximise the outcomes that can be achieved.

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

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



Introduction and headlines

Significant risks

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

County Council

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

Pension Fund

- Management override of control;
- Valuation of Level 3 investments; and
- Valuation of actuarial present value of promised retirement benefits

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

Materiality

We have determined planning materiality to be £20.96m (PY £18.5m) for the Council and £64.6m (PY £61.3m) for the Pension Fund (including £28.4m set as a separate materiality for the Pension Fund's Fund Account).

This equates to 1.5% of the Council's gross operating expenditure for the year in the draft accounts and 1% of the Pension Fund's gross investment assets less investment liabilities (and 10% of gross expenditure for the Fund Account). We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance.

Clearly trivial has been set at £1m (PY £0.925m) for the Council and £3.23m (PY £3.065m) for the Pension Fund (£1.42m for the Fund Account).

Significant risks identified

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Fraud in revenue recognition (rebutted)	Authority and Pension Fund	Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition. Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council and Fund, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • 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 Therefore we do not consider this to be a significant risk for Nottinghamshire County Council and Nottinghamshire Pension Fund.	We have rebutted this risk.
Fraud in expenditure recognition – Practice Note 10 (rebutted)	Authority and Pension Fund	In line with the Public Audit Forum Practice Note 10, in the public sector auditors must also consider the risk that material misstatements due to fraudulent financial reporting may arise from the manipulation of expenditure recognition (for instance by deferring expenditure to a later period) We have considered this risk for the Council and Pension Fund and have determined it to be appropriate to rebut this risk based on limited incentive and opportunity to manipulate expenditure.	We have rebutted this risk.

'Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty.' (ISA (UK) 315)

Significant risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Management over-ride of controls	Authority and Pension Fund	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 faces external scrutiny of its spending and likewise the Fund of its stewardship of funds and this could potentially place management under undue pressure in terms of how they report performance. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.	We will: • evaluate the design effectiveness of management controls over journals • analyse the journals listing and determine the criteria for selecting high risk unusual journals • test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence • evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.
Valuation of land and buildings, surplus assets and investment property – *specifically for assets where valuation movements fall outside of auditor expectation*	Authority	The Authority revalues its land and buildings and surplus assets on a rolling five year basis as per its interpretation of the Code. Investment properties are valued on an annual basis in line with the accounting Code. To ensure the five year valuation programme for land & buildings and surplus assets does not lead to material differences in carrying values, the Authority carries out a desktop valuation or requests a desktop valuation from its valuation expert. Valuations represent a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions. Within the valuation of the Authority's land and buildings and investment properties, the valuer's estimation of the value has several key inputs, which the valuation is sensitive to. For land and buildings, these include but are not limited to build cost indices, the size and location of the building and any judgements that have impacted this assessment and the condition of the buildings. For investment properties, these include yields used in the valuation and estimated future rentals from the investment properties. We therefore have identified that the accuracy of the key inputs and assumptions used in the valuation of land and buildings and investment properties as a significant risk, which was one of the most significant assessed risks of material misstatement.	We will: • evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work • evaluate the competence, capabilities and objectivity of the valuation expert • write to the valuer to confirm the basis on which the valuation was carried out • test revaluations made during the year to see if they had been input correctly into the Authority's asset register • engage our own valuer to assess the instructions to the Authority's valuer, the Authority's valuer's report and the assumptions that underpin the valuation. • evaluate the assumptions made by management for any assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end

Significant risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of the net defined benefit pension fund liability- *specifically with regard to the appropriateness of assumptions used to determine the valuation*	Authority	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. We do not believe there is a significant risk of material misstatement in the IAS 19 estimate due to the methods and models used in their calculation or due to the source data used in their calculation. However, we have concluded that there is a significant risk of material misstatement in the IAS 19 estimate due to the assumptions used in their calculation. The actuarial assumptions used are the responsibility of the entity but should be set on the advice given by the actuary. As noted above, the appropriateness of the assumptions proposed by the actuary is covered by the TAS actuarial standards. However, the Council may choose to use different assumptions than those proposed by their actuary. A small change in the key assumptions (discount rate, inflation rate, salary increase and life expectancy) can have a significant impact on the estimated IAS 19 liability. In particular the discount and inflation rates, where our consulting actuary has indicated that a 0.1% change in these two assumptions would have approximately 2% effect on the liability. We therefore identified the assumptions used to determine the valuation of the Authority's pension fund net liability as a significant risk.	We will: • update our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluate the design of the associated controls; • evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assess the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation; • assess the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability; • test the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; • undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; • agree any advance payments made to the pension fund during the year to the expected accounting treatment and relevant financial disclosures.; and • obtain assurances from the audit of Nottinghamshire Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.

Management should expect engagement teams to challenge management in areas that are complex, significant or highly judgmental which may be the case for accounting estimates and similar areas. Management should also expect to provide to engagement teams with sufficient evidence to support their judgments and the approach they have adopted for key accounting policies referenced to accounting standards or changes thereto.

Where estimates are used in the preparation of the financial statements management should expect teams to challenge management's assumptions and request evidence to support those assumptions.

Significant risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of the actuarial present value of promised retirement benefits - *specifically with regard to the appropriateness of assumptions used to determine the valuation*	Pension Fund	The Pension Fund's actuarial present value of promised retirement benefits, as reflected in the Pension Fund's notes to the accounts, represents a significant estimate in the financial statements. We do not believe there is a significant risk of material misstatement in the IAS 26 estimate due to the methods and models used in the calculation or due to the source data used in the calculation. However, we have concluded that there is a significant risk of material misstatement in the IAS 26 estimate due to the assumptions used in the calculation. The actuarial assumptions used are the responsibility of the Pension Fund but should be set on the advice given by the actuary. As noted above, the appropriateness of the assumptions proposed by the actuary is covered by the TAS actuarial standards. However, the Pension Fund may choose to use different assumptions than those proposed by their actuary. A small change in the key assumptions (discount rate, inflation rate, salary increase and life expectancy) can have a significant impact on the estimated IAS 26 disclosures. We therefore identified the assumptions used to determine the valuation of the actuarial present value of promised retirement benefits as a significant risk.	We will: • update our understanding of the processes and controls put in place by management to ensure that the disclosure is not materially misstated and evaluate the design of the associated controls; • evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assess the competence, capabilities and objectivity of the actuary who carried out the promised retirement benefits valuation; • assess the accuracy and completeness of the information provided by the Pension Fund to the actuary to estimate the liability; • test the consistency of the promised retirement benefits and disclosures in the notes to the accounts with the actuarial report from the actuary; and • undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report.

Significant risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of Level 3 Investments (financial investments and directly held properties)	Pension Fund	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. By their nature Level 3 investment valuations lack observable inputs. These valuations therefore represent a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions 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. Management utilise the services of investment managers (financial investments) and valuation experts (directly held properties) to estimate the fair value as at 31 March 2023. We therefore identified valuation of Level 3 investments as a significant risk.	Our audit procedures on Level 3 investments have been set out below according to the nature of the investment. Financial investments cover investments the fund hold in unquoted securities while directly held property relates to investments in freehold and leasehold property. For financial investments we will: • evaluate management's processes for valuing Level 3 investments • review the nature and basis of estimated values and consider what assurance management has over the year end valuations provided for these types of investments; to ensure that the requirements of the Code are met • independently request year-end confirmations from investment managers and/or custodian(s) • for a sample of investments, test the valuation by obtaining and reviewing the audited accounts, (where available) at the latest date for individual investments and agreeing these to the fund manager reports at that date. Reconcile those values to the values at 31 March 2023 with reference to known movements in the intervening period • test revaluations made during the year to see if they had been input correctly into the Pension Fund's asset register • where available review investment manager service auditor report on design effectiveness of internal controls. For directly held property we will: • evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work • evaluate the competence, capabilities and objectivity of the valuation expert • write to the valuer to confirm the basis on which the valuation was carried out • test revaluations made during the year to see if they had been input correctly into the Pension Fund's asset register • engage our own valuer to assess the instructions to the Pension Fund's valuer, the Pension Fund's valuer's report and the assumptions that underpin the valuation. • evaluate the assumptions made by management for any assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end • test property assets for rights and obligations and for existence

Other matters

Other work

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

- We read your Narrative Report and Annual Governance Statement and any other information published alongside your financial statements to check that they are consistent with the financial statements on which we give an opinion and our knowledge of the Council.
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with requirements set by CIPFA.
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.
- We consider our other duties under legislation and the Code, as and when required, including:
  - giving electors the opportunity to raise questions about your 2022/23 financial statements, consider and decide upon any objections received in relation to the 2022/23 financial statements;
  - issuing a report in the public interest or written recommendations to the Council under section 24 of the Local Audit and Accountability Act 2014 (the Act).
  - application to the court for a declaration that an item of account is contrary to law under section 28 or a judicial review under section 31 of the Act
  - issuing an advisory notice under section 29 of the Act
- We certify completion of our audit.

Other material balances and transactions

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

Our approach to 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.

Matter	Description	Planned audit procedures
1	**Determination** We have determined financial statement materiality based on a proportion of the gross expenditure of the Council and a proportion of net assets for the Pension Fund for the financial year. Materiality at the planning stage of our audit is: - £20.960m for the Council, which equates to 1.5% of your draft gross expenditure for the year (prior year: £18.500m - 1.5%) ; and - £64.6m for the Pension Fund, which equates to 1% of your draft gross investment assets (less investment liabilities) for the year (prior year: £61.300m – 1.0%) ; and - £28.4m for the Fund Account, which equates to 10% of your gross expenditure for the year. For the prior year audit, the same materiality figures were used for the Net Assets Statement and Fund Account.	We determine planning materiality in order to: – establish what level of misstatement could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements – assist in establishing the scope of our audit engagement and audit tests – determine sample sizes and – assist in evaluating the effect of known and likely misstatements in the financial statements
2	**Other factors** An item does not necessarily have to be large to be considered to have a material effect on the financial statements.	An item may be considered to be material by nature where it may affect instances when greater precision is required. – We have identified senior officer remuneration as a balance where we will apply a lower materiality level, as these are considered sensitive disclosures. We have set a materiality of £20,000.

Our approach to 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.

Matter	Description	Planned audit procedures
3	**Reassessment of materiality** Our assessment of materiality is kept under review throughout the audit process.	We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.
4	**Other communications relating to materiality we will report to the Governance and Ethics Committee** Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Governance and Ethics Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.	We report to the Governance and Ethics Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. In the context of the Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £1.000m (prior year: £0.925m). For the Pension Fund, we propose that an individual difference could normally be considered to be clearly trivial if it less than £3.23m (prior year: £3.065m). For the Fund Account clearly trivial has been set at £1.42m. 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.

Our approach to 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.

	Council Amount	Pension Fund Amount	Qualitative factors considered
Materiality for the financial statements	£20.960m	£64.6m	Gross expenditure is considered the most appropriate benchmark for the Council because we consider the users of the financial statements to be most interested in how the Council has expended its revenue and other funding. As a firm we cap materiality at 1.5% for large and complex authorities such as Nottinghamshire County Council to reflect the risk and regulatory expectation of audit firms. Gross investment assets (less investment liabilities) is considered the most appropriate benchmark for the Pension Fund because we consider the users of the financial statements to be most interested in the Pension Fund's ability to pay pension liabilities as they fall due. Materiality is determined at 1% of the Pension Fund's gross investment assets (less investment liabilities).
Materiality for the fund account	N/A	£28.4m	We have determined transactions within the Fund Account as items requiring greater precision and where we will apply a lower materiality level, as these are considered a key area of focus for users of the financial statements which is not directly derived from the investment portfolio. We have set materiality equivalent to 10% of gross expenditure.
Materiality for specific transactions, balances or disclosures (senior officer remuneration)	£20,000	£20,000	Lower materiality applied to senior officer remuneration disclosures due to heightened public interest in this area of the accounts.

IT audit strategy

In accordance with ISA (UK) 315 Revised, we are required to obtain an understanding of the relevant IT and technical infrastructure and details of the processes that operate within the IT environment. We are also required to consider the information captured to identify any audit relevant risks and design appropriate audit procedures in response. As part of this we obtain an understanding of the controls operating over relevant Information Technology (IT) systems i.e., IT general controls (ITGCs). Our audit will include completing an assessment of the design and implementation of relevant ITGCs. We say more about ISA 315 Revised on page 17.

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

IT system	Relating to	Audit area	Planned level of IT audit assessment
SAP	Authority and Pension Fund	General ledger for financial reporting; payroll; accounts payable, accounts receivable, assets; schools portal.	Detailed ITGC assessment including assessment of the design and implementation of ITGCs.
Civica Universal Pensions Management	Pension Fund	Pension administration system used for administering the pension fund.	Detailed ITGC assessment including assessment of the design and implementation of ITGCs.

ISA 315 (revised)

ISA 315 (revised July 2020) takes effect for accounting periods starting on or after the 15th December 2021. This ISA deals with the auditor's responsibility to identify and assess the risks of material misstatement in the financial statements. The revisions made in the ISA have increased the level of work required of auditors and detail of this extra work is set out below.

Area	What's changed?	Impact on the audit
Information Technology Environment	The new requirement states certain aspects of the IT environment must be understood and documented for each significant classes of transactions, account balances and disclosures (SCOT+). The auditor is required to consider the information captured to identify any audit relevant risks and design appropriate audit procedures in response.	The audit team will be required to: • perform walkthroughs of the IT environment; • identify and review relevant controls within the IT environment to ensure they are operational; • obtain details of the relevant IT / technical infrastructure (i.e., server location, database type); and • obtain details of the processes that operate within the IT environment (i.e., process to manage user access or manage a program or IT environment change).
Considering IT risks related to internal controls relevant to the audit.	The auditor is required to identify controls within a business process and identify which of those controls are controls relevant to the audit. For each internal control relevant to the audit, the auditor is required to evaluate the design of the control and evidence effective implementation of the control. The auditor is required to evaluate the design and determine the implementation of the general IT controls (ITGCs) that address the risks arising from the use of IT.	This requirement will lead to a significant change in practice, to the level of detail in which we will be required to understand the risks arising from the use of IT and associated general IT controls (ITGCs). There has been a significant increase in the number of detailed ITGC assessments required.
Control reliance	In previous years, where we had performed a walkthrough of your controls (such as operating expenditure), we were able to use the review of these controls to obtain comfort over the design effectiveness of your system. This would usually result in smaller sample sizes. The changes made to the ISA mean that design effectiveness will no longer grant a benefit when determining sample sizes.	There will be larger sample sizes across a number of areas. Key areas where we will likely see the biggest increase are: • operating expenditure and payables; • property, plant and equipment; • income. This is not a complete list but these will be the areas we expect to be most affected.

Value for Money arrangements

Approach to Value for Money work for the period ended 31 March 2023

The National Audit Office issued its latest Value for Money guidance to auditors in January 2023 . The Code expects auditors to consider whether a body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are expected to report any significant weaknesses in the body's arrangements, should they come to their attention. In undertaking their work, auditors are expected to have regard to three specified reporting criteria. These are as set out below:

Improving economy, efficiency and effectiveness

How the body uses information about its costs and performance to improve the way it manages and delivers its services.

Financial Sustainability

How the body plans and manages its resources to ensure it can continue to deliver its services.

Governance

How the body ensures that it makes informed decisions and properly manages its risks.

Risks of significant VFM weaknesses

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

Risks of significant weakness

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

Financial Planning (Medium Term Financial Sustainability)

Although the council expects to have sufficient resources in the immediate term (FY2023/24), it has identified a need to deliver significant year on year savings to achieve a balanced budget in the medium term. The council has identified a funding gap of £30.8m from 2025-2027. There remain significant uncertainties in the position going forward, due to uncertainty over future funding decisions and the performance of the wider economy and market factors - the Council's plans for medium term financial sustainability need to remain flexible and be robust.

Our responses to this risk:

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

Potential types of recommendations

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

Statutory recommendation

Written recommendations to the body under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the body to discuss and respond publicly to the report.

Key recommendation

The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the body. We have defined these recommendations as 'key recommendations'.

Improvement recommendation

These recommendations, if implemented should improve the arrangements in place at the body, but are not made as a result of identifying significant weaknesses in the body's arrangements

Audit logistics and team

Planning and risk assessment

G&E committee
July 2023
Audit Plan

Year end audit
July – December 2023

G&E committee
January 2024*
Audit Findings Report/ Auditor's Annual Report

Audit opinion

Andrew Smith, Key Audit Partner

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

The members of Andrew's team listed below will be the key day-to-day contacts for the Council's finance team and other Council officers:

Zak Francis, Senior Audit Manager (County Council)

Keith Chaisewa, Audit Manager (Pension Fund)

Araminta Allen, In Charge Accountant

Munyaradzi Mushokomi, Assistant Manager

Audited Entity responsibilities

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

Our requirements

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

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

*The Accounts and Audit (amendment) Regulations 2022 came into force on 22nd July 2022 and revised the statutory deadline for publishing the audited financial statements to 30 September for 2022/23 accounts and the subsequent 5 years. We highlight on page 3 the audit reporting delays of recent years, and this is explored further in the Grant Thornton report About time?, Only 12% of audited accounts for 2021/22 were published by the target date of 30 November 2022. Until the underlying matters are resolved, (chiefly: the backlog of audits; the complexity of local government accounts; and the clarity over the purpose of local audit) we do not consider that the September deadline for audited financial statements proposed by DHLUC is achievable.

Audit fees and updated Auditing Standards including ISA 315 Revised

In 2018, PSAA awarded a contract of audit for Nottinghamshire County Council and Nottinghamshire Pension Fund to begin with effect from 2018/19. The fee agreed in the contract was £75,624 for the Council and £23,043 for the Pension Fund. Since that time, there have been a number of developments, particularly in relation to the revised Code and ISA's which are relevant for the 2022/23 audit. For details of the changes which impacted on years up to 2021/22 please see our prior year Audit Plans.

The major change impacting on our audit for 2022/23 is the introduction of ISA (UK) 315 (Revised) - Identifying and assessing the risks of material misstatement ('ISA 315'). There are a number of significant changes that will impact the nature and extent of our risk assessment procedures and the work we perform to respond to these identified risks. Key changes include:

- Enhanced requirements around understanding the Council's-IT Infrastructure and IT environment. From this we will then identify any risks arising from the use of IT. We are then required to identify the IT General Controls ('ITGCs') that address those risks and test the design and implementation of ITGCs that address the risks arising from the use of IT.
- Additional documentation of our understanding of the Council's business model, which may result in us needing to perform additional inquiries to understand the Council's end-to-end processes over more classes of transactions, balances and disclosures.
- We are required to identify controls within a business process and identify which of those controls are controls relevant to the audit. These include, but are not limited to, controls over significant risks and journal entries. We will need to identify the risks arising from the use of IT and the general IT controls (ITGCs) as part of obtaining an understanding of relevant controls.
- Where we do not test the operating effectiveness of controls, the assessment of risk will be the inherent risk, this means that our sample sizes may be larger than in previous years.

These are significant changes which will require us to increase the scope, nature and extent of our audit documentation, particularly in respect of your business processes, and your IT controls. We will be unable to determine the full fee impact until we have undertaken further work in respect of the above areas. However, for an authority of your size, we estimate an initial increase of £5k. We will let you know if our work in respect of business processes and IT controls identifies any issues requiring further audit testing.

The other major change to Auditing Standards in 2022/23 is in respect of ISA 240 which deals with the auditor's responsibilities relating to fraud in an audit of financial statements. This Standard gives more prominence to the risk of fraud in the audit planning process. We will let you know during the course of the audit should we be required to undertake any additional work in this area which will impact on your fee.

Taking into account the above, our proposed work and fee for 2022/23, as set out below, is detailed overleaf and has been agreed with the Director of Finance.

Audit fees

	Actual Fee 2020/21	Final Fee 2021/22	Proposed fee 2022/23
Nottinghamshire County Council Audit	£120,124	£146,274	£129,374
Nottinghamshire Pension Fund Audit	£35,293	£44,456	£58,656*
Total audit fees (excluding VAT)	£155,417	£190,730	£188,030

*The proposed audit fees for 2022/23 include IAS 19 Assurance fees resulting from the fee being classed as a code fee. In the prior year the fees were shown as a non-audit fee.

Assumptions

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

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

Relevant professional standards

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

Independence and non-audit services

Auditor independence

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

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard (Revised 2019) and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

We confirm that we have implemented policies and procedures to meet the requirements of the Ethical Standard. For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council and Pension Fund.

Other services

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

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

None of the services provided are subject to contingent fees.

Independence and non-audit services

Nottinghamshire County Council

Service	Fees £	Threats	Safeguards
Audit related			
Certification of Teachers' Pensions return (County Council)	8,500	Self Interest	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £8,500 in comparison to the total fee for the audit and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
		Self review	We have not prepared the form which we review and do not expect material misstatements to the financial statements to arise from this service.
		Management	Changes to the return and the factual accuracy of our report will be agreed with informed management.
Non-audit related			
CFO Insights subscription (County Council)	15,000	Self-Interest	The Council renewed its subscription to CFO insights for 12 months from July 2022. The cost of the service over the 12 month term is £15,000. The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work in comparison to the total fee for the audit and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.

Communication of audit matters with those charged with governance

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	•	
Overview of the planned scope and timing of the audit, form, timing and expected general content of communications including significant risks and Key Audit Matters	•	
Confirmation of independence and objectivity of the firm, the engagement team members and all other indirectly covered persons	•	•
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	•	•
Significant matters in relation to going concern	n/a	•
Significant findings from the audit		•
Significant matters and issue arising during the audit and written representations that have been sought		•
Significant difficulties encountered during the audit		•
Significant deficiencies in internal control identified during the audit		•
Significant matters arising in connection with related parties		•
Identification or suspicion of fraud(deliberate manipulation) involving management and/or which results in material misstatement of the financial statements (not typically council tax fraud)		•
Non-compliance with laws and regulations		•
Unadjusted misstatements and material disclosure omissions		•
Expected modifications to the auditor's report, or emphasis of matter		•

ISA (UK) 260, as well as other ISAs (UK), prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table here.

This document, the Audit Plan, outlines our audit strategy and plan to deliver the audit, while the Audit Findings will be issued prior to approval of the financial statements and will present key issues, findings and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via an audit progress memorandum.

Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK), 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.

Grant Thornton