

# Informing the audit risk assessment for Nottinghamshire County Council 2022/23

**Andrew J Smith**

Director

T +44 (0)161 953 6472

E [andrew.j.smith@uk.gt.com](mailto:andrew.j.smith@uk.gt.com)

**Zak Francis**

Manager

T +44 (0)121 212 5164

E [zak.francis@uk.gt.com](mailto:zak.francis@uk.gt.com)



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## Purpose

The purpose of this report is to contribute towards the effective two-way communication between Nottinghamshire County Council's external auditors and Nottinghamshire County Council's Governance & 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 & Ethics Committee under auditing standards.

## Background

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

This two-way communication assists both the auditor and the Governance & 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 & Ethics Committee and supports the Governance & 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 Council's oversight of the following areas:

- General Enquiries of Management
- Fraud,
- Laws and Regulations,
- Related Parties,
- Going Concern, and
- Accounting Estimates.

## Purpose

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

# General Enquiries of Management

Question	Management response
<p>1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2022/23?</p>	<p>The Statement of Accounts contains estimated figures that are based on assumptions made by the Authority about the future that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. The estimates that have the most significant impact on the accounts relate to non-current asset valuations and the pension liability. It is important to bear in mind that these assumptions are made in good faith and in good time to enable the publication of the draft accounts by the statutory deadline of 31 May 2023.</p>
<p>2. Have you considered the appropriateness of the accounting policies adopted by Nottinghamshire County Council? Have there been any events or transactions that may cause you to change or adopt new accounting policies? If so, what are they?</p>	<p>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. Other than minor amendments to dates and useful economic lives for infrastructure and IT and other equipment, it is not proposed that any Accounting Policies will be changed in preparation of the 2022/23 Statement of Accounts.</p>
<p>3. Is there any use of financial instruments, including derivatives? If so, please explain</p>	<p>The main financial instruments used by the Authority include borrowings, PFI finance lease liabilities, trade creditors and trade debtors. The Authority does not have any financial instruments that involve embedded derivatives.</p>
<p>4. Are you aware of any significant transaction outside the normal course of business? If so, what are they?</p>	<p>The Authority is not aware of any significant transactions that are outside of the normal course of business.</p>

## General Enquiries of Management

Question	Management response
5. Are you aware of any changes in circumstances that would lead to impairment of non-current assets? If so, what are they?	It is the view of the Authority's internal valuers that all elements of the property market appear to have been functioning throughout 2022/23.
6. Are you aware of any guarantee contracts? If so, please provide further details	The Authority is not aware of any material financial guarantee contracts.
7. Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements? If so, please provide further details	Any contingent assets or liabilities arising as a result of litigation, claims or assessments are notified annually in the Statement of Accounts following a request by colleagues in Financial Services
8. Other than in house solicitors, can you provide details of those solicitors utilised by Nottinghamshire County Council during the year. Please indicate where they are working on open litigation or contingencies from prior years?	The Authority uses external legal advisors where appropriate for a broad range of advice and assistance with cases and has a tendered framework agreement (the EM Lawshare Framework) which it uses for much of this. The Framework appointed 10 partner firms for a 4 year term which runs from 2022 to 2026 commencing in April 2022. In addition, Legal Services uses additional private sector firms for statutory child protection litigation work which it is unable to contain in-house and which is not covered by the above framework. The Council generally manages work on Judicial Review and Employment cases internally with advice as required from Counsel but where there may be capacity issues this can result in outsourcing through the EM Lawshare Framework.

## General Enquiries of Management

Question	Management response
<p>9. Have any of the Nottinghamshire County Council's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements? If so, please provide further details</p>	<p>We are not aware of any items of non-compliance with laws and regulations. Where advice on any matters might reveal shortcomings in the Council's practice and procedures, however, these will be identified as part of effective management of the legal case and will be drawn to the attention of the relevant management within service areas to address.</p> <p>The Authority is not aware of any frauds with suppliers. A log of any reported irregularities is maintained but there have not been any notification of fraud in relation to suppliers or service providers.</p> <p>The Authority is not aware of any uncorrected mis-statements that would affect the financial statements.</p>
<p>10. Can you provide details of other advisors consulted during the year and the issue on which they were consulted?</p>	<p>Barristers advice is sought as and when required on a variety of matters which it would be too detailed to set out. They range from simple hearings to advice on statutory responsibilities and actual or potential litigation and such advice is used as a mechanism to manage risks and cases effectively.</p>
<p>11. Have you considered and identified assets for which expected credit loss provisions may be required under IFRS 9, such as debtors (including loans) and investments? If so, please provide further details</p>	<p>To mitigate risk we only place deposits with institutions that satisfy our minimum credit ratings as per the Treasury Management Strategy. We do not further analyse any of the institutions beyond this, and have no bad debt provision to cover loss of principal.</p>

# Fraud

## Matters in relation to fraud

ISA (UK) 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 & Ethics Committee and management. Management, with the oversight of the Governance & 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 & Ethics Committee should consider the potential for override of controls and inappropriate influence over the financial reporting process.

As Nottinghamshire County Council's external 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 & Ethics Committee regarding its processes for identifying and responding to risks of fraud, and
- communication to employees regarding business practices and ethical behaviour.

We need to understand how the Governance & Ethics Committee oversees the above processes. We are also required to make inquiries of both management and the Governance & 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 below together with responses from Nottinghamshire County Council's management.

# Fraud risk assessment

Question	Management response
<p>1. Has Nottinghamshire County Council assessed the risk of material misstatement in the financial statements due to fraud?</p> <p>How has the process of identifying and responding to the risk of fraud been undertaken and what are the results of this process?</p> <p>How do the Council's risk management processes link to financial reporting?</p>	<p>The Authority has undertaken an overall assessment of the risk of material misstatement in the financial statements by fraud 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)</p> <p>An Annual Fraud Risk Assessment has been carried out. This identified common fraud areas and areas for consideration of proactive counter-fraud work during the year ahead. 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.</p> <p>Current fraud risks identified have been 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 2022/23 (and will again be reported as part of the Annual Fraud Report 2023/24) 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 Termly planning processes. We have completed proactive work in relation to National Fraud Initiative, Mandate Fraud and grant funding payments.</p>
<p>2. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?</p>	<p>Internal Audit consider the following classes of accounts to be at most risk of fraud: Cash, Investments, Payroll, Stock, Creditors, Income Collection and Debt Recovery. These areas are considered during the Internal Audit Planning process and as part of the Counter Fraud Risk assessment. The risks to cash, investment, income collection also consider the impact of Cyber fraud from the access to accounts to the processing of banking and payment mandates that can be used to divert funds.</p> <p>Other classes of accounts are considered from disclosure within the financial statements such as related parties, investments, asset valuation etc which are covered within other sections and subject to the established Internal Audit risks assessment processes.</p> <p>Accounting treatment, such as accruals, prepayments and accounting estimates are considered through</p>

## Fraud risk assessment

Question	Management response
<p>4. As a management team, how do you communicate risk issues (including fraud) to those charged with governance?</p>	<p>Awareness of fraud risk has been raised through Team Talk and on the intranet to promote the work undertaken in line with the Fraud Response Plan. The Annual Fraud Report is presented to the Governance and Ethics Committee, together with updates and sets out fraud risk and how management has responded to cases arising over the previous year. This is supported by the fraud awareness e-learning module.</p>
<p>5. Have you identified any specific fraud risks? If so, please provide details</p> <p>Do you have any concerns there are areas that are at risk of fraud?</p> <p>Are there particular locations within Nottinghamshire County Council where fraud is more likely to occur?</p>	<p>Please refer to above where the planning process expands into risk areas and work undertaken to identify and mitigate.</p> <p>The general fraud risks considering the environment in which the Council operate are in relation to Procurement, Contract Management, Cyber, Social Care Expenditure, Blue Badge, Concessions and Licence issues.</p> <p>The Fraud Risk assessment for 2022/23 considered each element of these risks and highlights specific risks in relation to:-</p> <ul style="list-style-type: none"> <li>• National Fraud Initiative</li> <li>• Mandate Fraud</li> <li>• Fraud Root Cause Analysis</li> <li>• Grant Payment Fraud</li> <li>• Adult Care Payment Processes</li> <li>• Cyber Fraud</li> </ul>
<p>6. What processes do Nottinghamshire County Council have in place to identify and respond to risks of fraud?</p>	<p>Annual Fraud Risk Assessment carried out by Internal Audit. Risks are scored to identify material and sensitive risks. The Fraud Risk Assessment informs the Counter Fraud Plan which in turn results in completion of the Annual Fraud Report.</p> <p>During 2022/23, Internal Audit has engaged with the following pro-active counter-fraud activities:</p>

# Fraud risk assessment

Question	Management response
<p>7. How do you assess the overall control environment for Nottinghamshire County Council, including:</p> <ul style="list-style-type: none"> <li>the existence of internal controls, including segregation of duties; and</li> <li>the process for reviewing the effectiveness the system of internal control?</li> </ul> <p>If internal controls are not in place or not effective where are the risk areas and what mitigating actions have been taken?</p> <p>What other controls are in place to help prevent, deter or detect fraud?</p> <p>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)? If so, please provide details</p>	<p>The application of internal controls, including segregation of duties, is reviewed annually as part of the Annual Governance Statement and supported by Assurance Mapping activities. Weaknesses are captured in the document and the work undertaken by the HOIA to form the Annual Opinion.</p> <p>The PDT processes outlined above in 6, describe processes which are in place in relation to internal controls including segregation of duties and a process of continuous assurance.</p> <p>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.</p> <p>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 or its work as part of the Termly Plan which are 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 areas. 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.</p> <p>The council continues to review matches through the NFI exercise and reports these along with other irregularities to the Governance and Ethics Committee as part of the fraud progress report and work is underway to make controls more robust to prevent this from happening again.</p>
<p>8. Are there any areas where there is potential for misreporting? If so, please provide details</p>	<p>The Governance control processes in place for the completion of the Annual Governance Statement for 2022/23 confirms 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</p>

## Fraud risk assessment

Question	Management response
<p>9. How does Nottinghamshire County Council communicate and encourage ethical behaviours and business processes of it's staff and contractors?</p> <p>How do you encourage staff to report their concerns about fraud?</p> <p>What concerns are staff expected to report about fraud? Have any significant issues been reported? If so, please provide details</p>	<p>Ethical principles are outlined in the Officers' and Members' Codes of Conduct. Staff are also required to adhere to the personnel handbook which is embedded as part of the induction process and general policies and procedures. The Council's Constitution provides the framework for a 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.</p> <p>Internal Audit have an annual programme of work which is agreed with the Governance and Ethics Committee and this programme of work provides assurance that these controls are in place, effective and complied with. Awareness has been raised through Team Talk and on the intranet 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.</p> <p>Issues are reported via the Group Manager, Assurance, Monitoring Officer and Line Managers. These are escalated to Internal Audit for consideration or investigation. Internal Audit have been 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.</p> <p>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 and the Whistle Blowing Policy to the attention of officers and staff along with the provision of an e-learning training course which was recently refreshed and relaunched.</p>
<p>10. From a fraud and corruption perspective, what are considered to be high-risk posts?</p> <p>How are the risks relating to these posts identified, assessed and managed?</p>	<p>High risk posts are assessed as part of the vacancy management processes and the recruitment needs such as exposure to financial, safeguarding, vulnerable persons risks etc. These are mitigated through enhanced recruitment and management checks as part of the recruitment processes and processes put in place to check for identify fraud along with obtaining additional reference and DBS checks etc.</p>

## Fraud risk assessment

Question	Management response
<p>12. What arrangements are in place to report fraud issues and risks to the Governance &amp; Ethics Committee?</p> <p>How does the Governance &amp; Ethics Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control?</p> <p>What has been the outcome of these arrangements so far this year?</p>	<p>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 (including a 6 monthly progress 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 (most recently in March 2023).</p> <p>Termly plans incorporate both proactive and reactive counter fraud work and represents the Section's assessment of the key areas that need to be audited in order to satisfy the Authority's statutory responsibility to undertake an adequate and effective internal audit of its accounting records and its system of internal control. 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.</p> <p>Internal Audit termly plans continue to be determined on a risk basis. The consideration of risks involves consultation with senior managers and taking account of external sources of assurance, including the work of external inspectorates. The corporate risk register, assurance mapping process and continuous assurance exercise is also now providing an important flow of intelligence to inform Internal Audit's planning. The Team's coverage was complementary to the ongoing cross-Council pandemic response and continues to be delivered through a flexible and agile approach.</p>
<p>13. Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?</p>	<p>The County Council County Council logs concerns it receives centrally on its corporate register. All matters which fall under the Whistleblowing Policy are required to be reported to the Monitoring Officer.</p> <p>.</p> <p>The Monitoring Officer compiles an annual report in relation to Whistleblowing which was presented to the Governance and Ethics Committee on 22nd February 2023. During 2022, two matters were reported</p>

# Law and regulations

## Matters in relation to laws and regulations

ISA (UK) 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 & Ethics Committee, is responsible for ensuring that Nottinghamshire County 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 & Ethics Committee as to whether the body is in compliance with laws and regulations. Where we become aware 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 below together with responses from management.

# Impact of laws and regulations

Question	Management response
<p>1. How does management gain assurance that all relevant laws and regulations have been complied with?</p> <p>What arrangements does Nottinghamshire County Council have in place to prevent and detect non-compliance with laws and regulations?</p> <p>Are you aware of any changes to the Council's regulatory environment that may have a significant impact on the Council's financial statements?</p>	<p>Decision making is undertaken by Cabinet, Cabinet Members, Committees and other meetings of the County Council based on reports following standardised 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 Cabinet, Full Council and Governance and Ethics Committee. The Council approved a change to its governance model from the Committee to the Executive (Leader and Cabinet) model on 12 May 2022. The change maintains equivalent systems as per the above on which training has been given and further training is provided as required.</p>
<p>2. How is the Governance &amp; Ethics Committee provided with assurance that all relevant laws and regulations have been complied with?</p>	<p>Decision making is by Cabinet, Cabinet Members, 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 as may be required, HR procedures, terms and conditions of employment including disciplinary procedures etc.</p>
<p>3. Have there been any instances of non-compliance or</p>	<p>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</p>

## Impact of laws and regulations

Question	Management response
<p>5. What arrangements does Nottinghamshire County Council have in place to identify, evaluate and account for litigation or claims?</p>	<p>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.</p>
<p>6. Have there been any reports from other regulatory bodies, such as HM Revenues and Customs, which indicate non-compliance? If so, please provide details</p>	<p>The Authority is currently subject to a Business Risk Review &amp; VAT Audit which began on the 20th of July 2022 with completion of questionnaires/requests for information covering VAT, Corporation Tax &amp; Governance . This was followed up by a 2-day visit to County Hall by HMRC on 17th &amp; 18th Of November 2022. As part of this process no issues of non-compliance have so far been flagged by HMRC. We now await their final report &amp; risk rating</p>

# Related Parties

## Matters in relation to Related Parties

Nottinghamshire County Council are required to disclose transactions with bodies/individuals that would be classed as related parties. These may include:

- bodies that directly, or indirectly through one or more intermediaries, control, or are controlled by Nottinghamshire County Council;
- associates;
- joint ventures;
- a body that has an interest in the authority that gives it significant influence over the Council;
- key management personnel, and close members of the family of key management personnel, and
- post-employment benefit plans (pension fund) for the benefit of employees of the Council, or of any body that is a related party of the Council.

A disclosure is required if a transaction (or series of transactions) is material on either side, i.e. if a transaction is immaterial from the Council's perspective but material from a related party viewpoint then the Council must disclose it.

ISA (UK) 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
<p>1. Have there been any changes in the related parties including those disclosed in Nottinghamshire County Council's 2020/21 financial statements? If so please summarise:</p> <ul style="list-style-type: none"> <li>the nature of the relationship between these related parties and Nottinghamshire County Council</li> <li>whether Nottinghamshire County Council has entered into or plans to enter into any transactions with these related parties</li> <li>the type and purpose of these transactions</li> </ul>	<p>There are no new related party relationships in 2022/23.</p>
<p>2. What controls does Nottinghamshire County Council have in place to identify, account for and disclose related party transactions and relationships?</p>	<p>The Financial Statements identify all the related parties for the Council and the Pension Fund. 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 a position with bodies receiving grants. These are updated on the Authority's website. CLT Officers make an annual declaration.</p> <p>Related transactions related to Arc, Via, Nottinghamshire (Futures), Inspire and LGPS Central (PF) 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 annually prior to declaration.</p>
<p>3. What controls are in place to authorise and approve significant transactions and arrangements with related parties?</p>	<p>All transactions go through an approved process. Larger values have additional layers of authorisation as noted in the Scheme of Delegation. Procurement rules within Financial Regulations <a href="#">Financial Regulations   Nottinghamshire County Council Intranet (nottsc.gov.uk)</a></p>

# Going Concern

## Matters in relation to Going Concern

The audit approach for going concern is based on the requirements of ISA (UK) 570, as interpreted by Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020). It also takes into account the National Audit Office's Supplementary Guidance Note (SGN) 01: Going Concern – Auditors' responsibilities for local public bodies.

Practice Note 10 confirms that in many (but not all) public sector bodies, the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the body's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist.

For this reason, a straightforward and standardised approach to compliance with ISA (UK) 570 will often be appropriate for public sector bodies. This will be a proportionate approach to going concern based on the body's circumstances and the applicable financial reporting framework. In line with Practice Note 10, the auditor's assessment of going concern should take account of the statutory nature of the body and the fact that the financial reporting framework for local government bodies presume going concern in the event of anticipated continuation of provision of the services provided by the body. Therefore, the public sector auditor applies a 'continued provision of service approach', unless there is clear evidence to the contrary. This would also apply even where those services are planned to transfer to another body, as in such circumstances, the underlying services will continue.

For many public sector bodies, the financial sustainability of the body and the services it provides are more likely to be of significant public interest than the application of the going concern basis of accounting. Financial sustainability is a key component of value for money work and it is through such work that it will be considered.

## Going Concern

Question	Management response
<p>1. What processes and controls does management have in place to identify events and / or conditions which may indicate that the statutory services being provided by Nottinghamshire County Council will no longer continue?</p>	<p>A rigorous review of the Council's Medium Term Financial Strategy assumptions takes place on an annual basis. This reviews such assumptions as pressures, savings, income streams, pay awards and other areas. The results of this review is reported to Cabinet in the first instance and approved by Full Council in February of each year. The Cabinet Member for Finance has responsibility for management of the Council's finances and budget reports are regularly reported to Cabinet, the Cabinet Member for Finance as well as to the Corporate Leadership Team.</p> <p>It is acknowledged in the 2023/24 Annual Budget Report that adequate levels of balances and contingency are being maintained. There are no indications coming from these processes that the statutory services provided by the Council will no longer continue.</p>
<p>2. Are management aware of any factors which may mean for Nottinghamshire County Council that either statutory services will no longer be provided or that funding for statutory services will be discontinued? If so, what are they?</p>	<p>There are no factors that management are aware which may mean that the Council statutory services will no longer be provided or funding for statutory services will be discontinued.</p>
<p>3. With regard to the statutory services currently provided by Nottinghamshire County Council, does Nottinghamshire County Council expect to continue to deliver them for the foreseeable future, or will they be delivered by related public authorities if there are any plans for Nottinghamshire County Council to cease to exist?</p>	<p>The Council expects to continue to deliver statutory services for the foreseeable future.</p>
<p>4. Are management satisfied that the financial reporting</p>	<p>Management is satisfied that the financial framework permits the Council to prepare its financial</p>

# Accounting estimates

## Matters in relation to accounting estimates

ISA (UK) 540 (Revised December 2018) requires auditors to understand and assess a body's internal controls over accounting estimates, including:

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

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

Specifically do Governance & Ethics Committee members:

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

We would ask the Governance & Ethics Committee to satisfy itself that the arrangements for accounting estimates are adequate.

# Accounting Estimates - General Enquiries of Management

Question	Management response
<p>1. What are the classes of transactions, events and conditions, that are significant to the financial statements that give rise to the need for, or changes in, accounting estimate and related disclosures?</p>	<p>The main classes of transactions that are significant to the financial statements and give rise to the need for accounting estimates are land and building valuations and pension liabilities.</p>
<p>2. How does the Council's risk management process identify and address risks relating to accounting estimates?</p>	<p>In identifying and addressing these accounting risks sufficient knowledge and an appropriate level of professional expertise is required. In both of the main areas of accounting estimates, the Authority uses internal professionally qualified RICS valuers with regard to land and building valuations and professional actuaries, Barnett Waddingham for the pension liability.</p>
<p>3. How does management identify the methods, assumptions or source data, and the need for changes in them, in relation to key accounting estimates?</p>	<p>For land and buildings the appropriateness of assumptions used in valuing the Authority's land and buildings requires judgment and sufficient knowledge of the asset being measured and an appropriate level of professional expertise regarding valuation techniques. For the pension liability, management are guided by the professional advice of the Fund's actuaries in respect of the assumptions used.</p>
<p>4. How do management review the outcomes of previous accounting estimates?</p>	<p>Estimates that have changed significantly year on year are challenged as part of the year- end accounting process. Working papers are set out which aim to explain the reasons for any such variation.</p>
<p>5. Were any changes made to the estimation processes in 2022/23 and, if so, what was the reason for these?</p>	<p>No changes were made to the estimation process in 2022/23.</p>

# Accounting Estimates - General Enquiries of Management

Question	Management response
<p>6. How does management identify the need for and apply specialised skills or knowledge related to accounting estimates?</p>	<p>Where a significant accounting estimate is identified, professionally qualified experts are commissioned or internally sourced to provide sufficient advice and guidance to the Authority.</p>
<p>7. How does the Council determine what control activities are needed for significant accounting estimates, including the controls at any service providers or management experts?</p>	<p>The process for land and buildings is governed by formal Terms of Engagement that reflect the expectations in relation to the relevant outputs / estimates. Valuations are undertaken by designated surveyors and separately approved by a Principal Valuer to ensure compliance and accuracy.</p>
<p>8. How does management monitor the operation of control activities related to accounting estimates, including the key controls at any service providers or management experts?</p>	<p>In managements' opinion, there are adequate controls in place over the calculations of these accounting estimates. The robustness of these controls can be assessed with reference to robust analytical review processes undertaken by professionally qualified staff.</p>
<p>9. What is the nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates, including:</p> <ul style="list-style-type: none"> <li>- Management's process for making significant accounting estimates</li> <li>- The methods and models used</li> <li>- The resultant accounting estimates included in the financial statements.</li> </ul>	<p>In management's opinion there are adequate controls in place over the accounting estimates used in Authority's financial accounts. The robustness of these controls can be assessed with reference to robust analytical review processes undertaken by professionally qualified internal staff or external specialists. Any change in the methods or models used in arriving at accounting estimates will be subject to Section 151 officer approval. Sensitivity analysis is undertaken on the major accounting estimates and disclosed in the statements of accounts.</p>

## Accounting Estimates - General Enquiries of Management

Question	Management response
<p>10. Are management aware of any transactions, events, conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement (other than those in Appendix A)? If so, what are they?</p>	<p>Land and building estimates are considered annually throughout the valuation process culminating with a consolidated Valuation Certificate which indicates the Valuer's opinion of the value of specified properties pertaining to the process and the basis of valuation, any assumptions which have been made or limitations, including those as to accuracy of data and any other significant matters. If the Valuer considers that circumstances render it inappropriate for the valuation to be made wholly in accordance with the Red Book a clear statement to this must be given in the Valuation Certificate, together with reason for such departure, the extent of the departure which the Valuer must be able to justify. For the pension liability, Management use the figures provided by the professionally qualified specialist actuary in respect of the estimate. Detailed information in respect of the assumptions chosen and the sensitivity of the estimate to changes in these assumptions is provided in the relevant note to the accounts.</p>
<p>11. Why are management satisfied that their arrangements for the accounting estimates, as detailed in Appendix A, are reasonable?</p>	<p>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.</p>
<p>12. How is the Governance &amp; Ethics Committee provided with assurance that the arrangements for accounting estimates are adequate ?</p>	<p>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.</p>

## Appendix A Accounting Estimates

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?
Land and buildings valuations	The valuations methods are as defined in the RICS Valuation-Global Standards .These standards are mandated by the IFRS-based Code of Practice on Local Authority Accounting ("the Code") published by CIPFA.	<p>The process is governed by formal Terms of Engagement that reflect the expectations in relation to the relevant outputs/estimates. Valuations are undertaken by designated surveyors and separately approved by a Principal valuer to ensure compliance and accuracy.</p> <p>All controls can also be assessed with reference to robust analytical review processes undertaken by professionally qualified</p>	Professionally qualified RICS valuers are commissioned and sourced internally.	<p>Degree of uncertainty inherent with any revaluation. We employ professional valuers and rely on appropriate level of professional expertise regarding valuation techniques.</p> <p>Sensitivity analysis is undertaken to consider the impact of a potential marginal error and is disclosed annually in the accounts.</p>	No

## Appendix A Accounting Estimates

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?
Valuation of defined benefit net pension fund liabilities	Management work closely with the funds actuaries and discuss the impact of any changes to this valuation.	The actuary is subject to rigorous professional standards and is also required to provide information to the Government Actuary.	Yes – Barnett Waddingham	Management use the figures provided by the specialist actuary in respect of this estimate. Detailed information in respect of the assumptions chosen and the sensitivity of the estimate is set out in the notes to the accounts,	No
Level 2 Financial Instruments	Financial liabilities are held at amortised costs in the balance sheet. Fair values are calculated and shown as a comparison within the notes to the accounts	Management use published 31 March PWLB and other appropriate loan rates based on the same length as the underlying financial instrument.	No	Material risks relate to incorrect rates used in calculations. These are addressed by the calculations being performed by an accountant, comparisons made with previous year and calculations/ working papers being reviewed by another accountant.	No
Level 3 Financial Instruments	Financial assets are held at amortised cost in the balance sheet. Fair values are calculated and shown as a comparison in the notes to the accounts.	Management use published 31 March PWLB and other appropriate loan rates based on the same length as the underlying financial instrument.	No	Material risks relate to incorrect rates used in calculations. These are addressed by the calculations being performed by an accountant, comparisons made with previous year and calculations/ working papers being reviewed by another accountant.	No

## Appendix A Accounting Estimates

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?
Provisions	Provisions are identified through detailed monthly management accounts which flags any potential issues to management.	Each provision is separately reviewed by financial accounts and a working paper is put together to support the calculation.	As necessary on an individual basis	Each provision is assessed on an individual basis to ensure that it meets the criteria of a provision per IAS 37. The degree of uncertainty is assessed when determining whether a provision is the correct treatment for an item.	No
Accruals	Standard accrual accounting is used – accruals are based on expenses incurred that have not yet been paid.	Monthly management accounts provides rigorous analysis so that any accruals are highlighted and actioned throughout the year.	n/a	n/a	No
Credit loss and impairment allowances	Debts are reviewed on a monthly basis and any debts that are deemed to be irrecoverable are written off.	Knowledge by the Accounts Receivables team in likelihood of recoverability and the aging of the debts. Nottinghamshire County Council signs off the write off.	n/a	n/a	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?
PFI Liabilities	The PFI models used to calculate the PFI liabilities were established following the introduction of IFRS and are updated as required.	The source data used for this accounting estimate are set out in the Council's PFI models and are updated as appropriate to reflect any inflationary impacts	Yes – in the initial setting up of the PFI models	Any estimation uncertainty relates to rates used. Management believes that the rates used are the best estimates available.	No



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