

Informing the audit risk assessment for Nottinghamshire County Council 2020/21

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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 and Ethics Committee, as 'those charged with governance'. The report covers some important areas of the auditor risk assessment where we are required to make inquiries of the Governance and Ethics Committee under auditing standards.

Background

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

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

Communication

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

- General Enquiries of Management
- Fraud,
- Laws and Regulations,
- Related Parties, 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 and 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 2020/21?</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 and these are being reviewed in the light of COVID19 to assess their impact on the financial statements.</p>
<p>2. Have you considered the appropriateness of the accounting policies adopted by Nottinghamshire County Council?</p> <p>Have there been any events or transactions that may cause you to change or adopt new accounting policies?</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. It is not proposed that any Accounting Policies will be changed in preparation of the 2020/21 Statement of Accounts.</p>
<p>3. Is there any use of financial instruments, including derivatives?</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?</p>	<p>The Authority is not aware of any significant transactions that are outside of the normal course of business.</p>

Question	Management response
5. Are you aware of any changes in circumstances that would lead to impairment of non-current assets?	It is the view of the Authority's internal valuers that the property market remained generally stable throughout 2020/21. However, current insight in relation to the outbreak of COVID19 indicates that many markets can be defined as uncertain in the weeks leading up to the effective valuation date of 31st March 2021. The potential impact of this is yet to be understood in terms of severity and longevity. In this regard, the absence of direct observable market data does not give rise to a general market impairment at this stage. It was confirmed that there were no impairment of specific assets to factor into the revaluation process.
6. Are you aware of any guarantee contracts?	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?	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 appoints 7 partner firms for a 4 year term which runs from 2018 to 2022. In addition, Legal Services has used additional private sector firms for statutory child protection litigation work which it was unable to contain in-house last year and which is not covered by the above framework. We are not aware of external solicitors working on open litigation (other than child protection as above) or contingencies from prior years save for external advice provided via the Local Government Association in respect of group legal action which are often on a "no win no fee" basis. 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?</p>	<p>The Authority is 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>

Fraud

Issue

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 and Ethics Committee and management. Management, with the oversight of the Governance and Ethics Committee, needs to ensure a strong emphasis on fraud prevention and deterrence and encourage a culture of honest and ethical behaviour. As part of its oversight, the Governance and Ethics Committee should consider the potential for override of controls and inappropriate influence over the financial reporting process.

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

Fraud risk assessment

Question	Management response
<p>1. Have 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 records 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. Fraud has been considered in the risk register update processes and is referred to under specific risk headings – the most obvious one being in relation to the procurement risk, where the risk of supplier fraud is specifically noted.</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 2019/20 (and will again be reported as part of the Annual Fraud Report 2020/21) to the Governance and Ethics Committee. The Annual Fraud Risk Assessment is used to drive the coverage of Counter Fraud work, both proactive and reactive as part of the overall Internal Audit Universe and Termly planning processes. We have completed a number of post payment reviews (and continue to do so) in relation to COVID19 payments.</p>

Fraud risk assessment

Question	Management response
<p>2. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?</p>	<p>Internal Audit considers 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 and income collection also considers 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 corporate finance in relation to potential misstatement rather than fraud.</p> <p>PF - Potential fraud through unreported deaths, or payment fraud where payments out of the Fund might be directed to bogus accounts.</p>
<p>3. Are you aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within Nottinghamshire County Council as a whole or within specific departments since 1 April 2020? As a management team, how do you communicate risk issues (including fraud) to those charged with governance?</p>	<p>Yes, such cases have been identified as part of internal audit work and cases have been subject to appropriate action. Cases have been recorded in the Annual Fraud Report. Cases have also been reviewed and actioned by departments: Adults, Social Care & Health and Trading Standards with appropriate input from Senior Managers and Police.</p> <p>Internal Audit have been involved in referrals in relation to a number of cases involving suspected fraud as maintained on the investigations register. All cases have been valued under £100k both individually and collectively and have been either investigated by Internal Audit, the Department or both and some cases have been referred to the Police or Action Fraud. Work has been undertaken and recovery action instigated for deprived asset cases and Direct Payment misuse.</p>

Fraud risk assessment

Question	Management response
<p>4. Have you identified any specific fraud risks?</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 in 2020/21 considered each element of these risks and highlights specific risks in relation to:-</p> <ul style="list-style-type: none"> • Procurement Fraud • COVID19 – Procurement, economic and voluntary sector support or grant fraud • Cyber Fraud • Schools – BACS/Cheque/Mandate Risks <p>Implication for Criminal Finance Act 2017: undertook a risk assessment of areas at highest risk of impact – this identified Income Tax IR35; Direct Payments and Grants as being at risk. Risk assessment or Money Laundering identified External Sales, Income collation, debt recovery and cash handling as being areas of higher risk.</p>

Fraud risk assessment

Question	Management response
<p>5. What processes do Nottinghamshire County Council have in place to identify and respond to risks of fraud?</p>	<p>The 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 2020/21, Internal Audit has engaged with the following pro-active counter-fraud activities:</p> <ul style="list-style-type: none"> • Promotion of the Council's Counter Fraud and Counter Corruption Strategy in line with the Fraud Response Plan. • E-learning – Fraud Awareness Course was promoted during International Fraud Week • Alerts from intelligence sources National Anti-Fraud Network, CIPFA etc. have been reviewed and disseminated. • Serious & Organised Crime – Home Office – Data sharing has been undertaken with GAIN; • National Fraud Initiative (NFI) data matches have been completed and reports shared with other bodies. • NFI re-check has been completed for mortality data and pensions • Engagement with Local Government Association Procurement Review; CIPFA's development of Local Government Tools and Fighting Fraud and Corruption strategy and CIPFA Survey Workshops in relation to Counter Fraud. • Completion of Annual Fraud Report for 2019/20 (2020/21 Report will completed for June 2021) and reported to the Governance & Ethics Committee. <p>Risk and Insurance have continued to be engaged with the Association of British Insurers (ABI) to review claims received against a 48 point checklist to screen against fraud risks. This has reduced the number of high risk claims being considered by the Council and prevented fraudulent claims being paid.</p>

Fraud risk assessment

Question	Management response
<p>5. What processes do Nottinghamshire County Council have in place to identify and respond to risks of fraud?</p>	<p>The CIPFA Accredited Counter Fraud Specialist has continued to work with the CIPFA Counter Fraud Centre to ensure current practice, risk and knowledge sharing is undertaken. Work has also continued with Action Fraud and GAIN for the completion of data washing exercises.</p> <p>We have also reviewed current local practices against the National Audit Office guidance for audit committees on cyber security with a report taken to the Governance and Ethics Committee in September 2020.</p> <p>Profile Tailor Dynamics (PTD) software is used by the BSC Authorisation & Security Team. This detects any unusual access to the SAP accounting system, including the detection of Segregation of Duties violations. This would help detect if someone accessed two different parts of SAP system. Since July 2020 every month Internal Audit has looked at every potential violation and have so far concluded that there have been no concerns.</p> <p>The system also reports on Security Events. These detect inappropriate accesses to SAP such as the data, or the employee's own personnel details, etc. From an audit point of view we have only been examining the 6 types of Event that we considered most sensitive, every month since July 2020, and from these have concluded there have been no concerns. In addition, the BSC has been examining the full set of events (approximately 70) for a longer period, but none of the events have resulted in any fraudulent access being identified but do help to ensure the security within SAP is developed and maintained to a high degree.</p> <p>A process of continuous assurance is currently under development –The Business Intelligence Unit is to set up systems to routinely capture the data such as that produced by PTD . This will monitor a variety of data that might indicate fraud – or the lack of fraud – such as expense claims, cash float usage, leavers not removed from the payroll, and there are plans to expand it into specific fraud indicators such as disallowed purchase card use, excessive overtime claims, etc.</p> <p>Proactive work on Bank Mandate checks have continued to prevent significant payments being made as a result of attempted fraud.</p>

Fraud risk assessment

Question	Management response
<p>6. How do you assess the overall control environment for Nottinghamshire County Council, including:</p> <ul style="list-style-type: none"> the existence of internal controls, including segregation of duties; and the process for reviewing the effectiveness the system of internal control? <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)?</p>	<p>The application of internal controls, including segregation of duties, is reviewed annually as part of the processes employed to complete the Annual Governance Statement and supported by Assurance Mapping activities. Weaknesses are captured in the document and the work undertaken by the Head Of Internal Audit to form the Annual Opinion.</p> <p>The PDT processes outlined above in 5 describe processes which are in place in relation to internal controls including segregation of duties and a process of continuous assurance which is currently under development.</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 locations using aspects such as turnover, cash transactions etc. Risks from processes such as payments and payroll systems are high due to value. A Fraud Risk assessment analyses the key areas of risk for the Council, which is revised annually to inform the counter fraud plan and inform the termly planning process.</p> <p>There are a small amount of cases of employees entering and approving their own overtime, and those that we investigated as part of a Payroll audit in 2018 were not fraudulent – it is usually at locations with limited numbers of staff with BMS access, especially schools, and so they cannot separate the duties. We recommended that the Payroll department get regular reports on these and look into them. In Feb 2021 we confirmed with the Payroll Manager that he ran his first report on these – and intends to issue some communication to schools to ensure this only happens where it is unavoidable, and that an audit trail is kept when it does happen.</p>

Fraud risk assessment

Question	Management response
<p>7. Are there any areas where there is potential for misreporting?</p>	<p>The governance control processes in place for the completion of the annual governance statement for 2020/21 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 approved. This process is controlled and reported to the Governance and Ethics Committee on an annual basis. There are no areas that have been identified for the override of controls due to the inappropriate influence.</p> <p>The Head of Internal Audit is not aware of any inappropriate over rides of management controls in the past year.</p> <p>A monthly budget monitoring process is undertaken to ensure that any variances to the budget are identified and reported to both the Corporate Leadership Teams and Finance and Major Contracts Management Committee on a timely basis. All variations are therefore considered by management as part of an open and transparent process.</p> <p>An audit of Budget Forecasting was carried out (March 2020) and more robust processes have since been introduced concerning failure to accurately provide budget forecasts.</p>

Fraud risk assessment

Question	Management response
<p>8. How do 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?</p> <p>Have any significant issues been reported?</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>Internal Audit has completed an audit of ethics. Issues are reported by the Head of Internal Audit, Monitoring Officer and Line Managers. These are escalated to Head of Internal Audit for consideration of investigation. Internal Audit are engaged in a number of investigations where compliance issues have been identified and departmental action has been taken. None are significant to the Financial Statements. Awareness training is provided through My Learning, Team Talk and Intranet news articles. These have included counter fraud awareness articles to bring the Counter Fraud Response Plan to the attention of officers and staff along with the provision of an e-learning training course.</p>

Fraud risk assessment

Question	Management response
<p>9. 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> <p>From a fraud perspective the roles that involve payment (raising and collection) are considered a risk due to fraud and or theft. This includes staff involved in corporate roles (BSC payroll, pensions, vendor management, Investment, Pension Fund Management) and also in relation to establishments such as school (Office Administration) and care facilities (Care Home Managers) etc. This extends to debt collection staff with the ability to credit, suspend or cancel debt payments etc.</p> <p>Staff involved in care roles pose a risk in terms of safeguarding and fraud, especially if they have responsibility for commissioning / providing care services or are involved in the management of individuals' funds. This extends to staff involved in protecting assets of vulnerable people and / or dealing with the possession of valuables after death.</p> <p>Staff involved in the procurement and handling of stock and consumables such as Stocks and Stores in relation to maintenance, ICT, catering functions and PPE. This would also extend to staff involved in the use of tangible assets and consumables owned by the council to ensure appropriate use.</p>

Fraud risk assessment

Question	Management response
<p>10. Are you aware of any related party relationships or transactions that could give rise to instances of fraud?</p> <p>How do you mitigate the risks associated with fraud related to related party relationships and transactions?</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) Relationships in relation to members are identified where they held position with bodies receiving grants.</p> <p>Related transactions related to Arc, Via, Nottinghamshire (Futures), Inspire and LGPS Central for the PF are detailed within notes to the financial statements.</p> <p>Departments are required to identify related parties that they have in operation in addition to the corporate requirements. Related parties in relation to individuals are identified during the financial statements generation and are reviewed prior to declaration.</p> <p>Whilst processes are in place to mitigate against the risk of fraud, where we are made aware of any significant or unusual transactions that would give rise to fraud, these would be investigated as appropriate. This may include:</p> <ul style="list-style-type: none"> • the department • Internal Audit • Police • Action Fraud <p>No significant, unusual transactions have been entered into during 2020/21.</p>

Fraud risk assessment

Question	Management response
<p>11. What arrangements are in place to report fraud issues and risks to the Governance and Ethics Committee?</p> <p>How does the Governance and Ethics Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control?</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 November 2020).</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. These considerations have focused on emerging risks from the COVID19 pandemic and how the Internal Audit termly plans can be flexed to accommodate assurance, advisory and follow-up activities in Term 3.</p>

Fraud risk assessment

Question	Management response
<p>12. 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 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. During 2020, two matters were reported under the Whistleblowing Policy .</p> <p>The Monitoring Officer compiles an annual report in relation to whistleblowing which was presented to the Governance and Ethics Committee on 31st March 2021. The report outlines the actions taken in relation to each of these.</p> <p>When appropriate, the issues raised may include referral to Internal Audit for potential fraudulent activity.</p> <p>The Governance and Ethics Committee have endorsed that actions taken by officers to respond to whistleblowing cases and continued to promote the policy to staff and departments through the Team Talk intranet articles.</p>
<p>13. Have any reports been made under the Bribery Act?</p>	<p>No cases identified, however, any reported cases would be included as above.</p>

Law and regulations

Issue

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 and 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 and Ethics Committee as to whether the entity is in compliance with laws and regulations. Where we become aware of information of non-compliance or suspected non-compliance we need to gain an understanding of the non-compliance and the possible effect on the financial statements.

Risk assessment questions have been set out 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 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 Policy Committee and Full Council.</p>
<p>2. How is the Governance and Ethics Committee provided with assurance that all relevant laws and regulations have been complied with?</p>	<p>Decision making by Committees and other meetings at the Council subject to appropriate advice via standardised committee reports covering relevant issues for consideration. The Annual Governance Statement summarises the processes and procedures in place that govern the arrangements. Internal Audit procedures, legal advisory support from in-house and (where necessary) external advisors on different areas of service delivery. Training and development of staff from both internal and external sources, accreditation with relevant professional bodies, whistle-blowing policy, Financial Regulations, contract procedures, complaints procedures, internal and external investigations, HR procedures, terms and conditions of employment including disciplinary procedures etc.</p>
<p>3. Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2020 with an on-going impact on the 2020/21 financial statements?</p>	<p>Internal Audit deal with allegations of fraud or criminal behaviour which is reported to the relevant authorities for investigation. Any instances of concern about potential non-compliance with laws and regulations which are raised are carefully considered and appropriate actions taken where considered necessary, such as by making changes to policy or procedure to reflect changes in the law or its interpretation by the Courts.</p> <p>The Council is not aware of any instances where non-compliance has been identified which would have an ongoing impact on the financial statements.</p>

Impact of laws and regulations

Question	Management response
4. Is there any actual or potential litigation or claims that would affect the financial statements?	Any contingent assets or liabilities arising as a result of litigation, claims or assessments are notified annually in the annual statement of accounts following a request by colleagues in Financial Services.
5. What arrangements does Nottinghamshire County Council have in place to identify, evaluate and account for litigation or claims?	Risk and Insurance manage insurance claims, together with the Council's insurers and having taken external legal advice where appropriate. Non-insured cases are managed by Legal Services together with external advisory support where appropriate with claims being pursued or settled on the basis of legal advice in accordance with provisions within the Constitution. Any contingent assets or liabilities arising as a result of litigation, claims or assessments are notified annually in the annual statement of accounts.
6. Have there been any report from other regulatory bodies, such as HM Revenues and Customs which indicate non-compliance?	<p>A virtual BACs Inspection took place on 3 March 2021. The outcome of the Inspection has resulted in a number of recommendations and requirements being raised which the Council has used to develop an Action Plan (copy available on request). The organisation currently meets the standard required to maintain its Bacs Approved Bureau status.</p> <p>HMRC Compliance check took place on 19 June 2019 followed by a site visit to 2 schools (Ordsall Primary and Ranby C of E Primary) on 8 October 2019. The outcome of the Inspection was "Nottinghamshire County Council has been designated a low risk rating.</p>

Related Parties

Issue

Matters in relation to Related Parties

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

- entities that directly, or indirectly through one or more intermediaries, control, or are controlled by Nottinghamshire County Council;
- associates;
- joint ventures;
- an entity 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 entity 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 disclosed in Nottinghamshire County Council's 2019/20 financial statements? If so please summarise:</p> <ul style="list-style-type: none"> • the nature of the relationship between these related parties and Nottinghamshire County Council • whether Nottinghamshire County Council has entered into or plans to enter into any transactions with these related parties • the type and purpose of these transactions 	<p>There have been no changes in the related parties disclosed in the 2020/21 Statement of Accounts.</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. 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 prior to declaration.</p>

Related Parties

Question	Management response
3. What controls are in place to authorise and approve significant transactions and arrangements with related parties?	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 Financial Regulations Nottinghamshire County Council Intranet (nottscc.gov.uk)
4. What controls are in place to authorise and approve significant transactions outside of the normal course of business?	If there are any transactions outside of the normal course of business a waiver process allows additional scrutiny.

Accounting estimates

Issue

Matters in relation to Related Accounting estimates

ISA (UK) 540 (Revised December 2018) requires auditors to understand and assess an entity'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 entity's risk management process identifies and addresses risks relating to accounting estimates;
- The entity's information system as it relates to accounting estimates;
- The entity'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 and 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 and Ethics Committee to satisfy itself that the arrangements for accounting estimates are adequate.

Accounting Estimates - General Enquiries of Management

Question	Management response
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?	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.
2. How does the Authority's risk management process identify and addresses risks relating to accounting estimates?	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.
3. How do management identify the methods, assumptions or source data, and the need for changes in them, in relation to key accounting estimates?	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.
4. How do management review the outcomes of previous accounting estimates?	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.
5. Were any changes made to the estimation processes in 2020/21 and, if so, what was the reason for these?	No changes were made to the estimation process in 2020/21.

Accounting Estimates - General Enquiries of Management

Question	Management response
<p>6. How do 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 Authority 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 do 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"> - Management's process for making significant accounting estimates - The methods and models used - The resultant accounting estimates included in the financial statements. 	<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>

Accounting Estimates - General Enquiries of Management

Question	Management response
10. Are management aware of 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)?	<p>The Statement of Accounts contains estimated figures that are based on assumptions made by the Authority about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors.</p> <p>PF The statement of accounts includes valuations of Level 2 and Level 3 financial instruments which involve an element of judgement</p>
11. Are the management arrangements for the accounting estimates, as detailed in Appendix A reasonable?	It is the view of the Section 151 Officer that the estimates made within the Statement of Accounts are consistent with the Local Authority Accounting Code of Practice and are both prudent and reasonable.
12. How is the Governance and Ethics Committee provided with assurance that the arrangements for accounting estimates are adequate ?	The Accounting Policies which set out the specific principles , rules and practices applied by the Authority in preparing and presenting the financial statements are approved each year by the Governance and Ethics Committee. The financial statements are presented to Governance and Ethics Committee each year which set out the accounting estimates used.

Appendix A Accounting Estimates

Note: this appendix must be included unless Those Charged with Governance consider the PSA significant judgements and estimates management response for each material estimate

Estimate [Examples]	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.	Valuations are performed annually to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. For land and buildings all material assets will be considered in 2020/21.	Professionally qualified RICS valuers are commissioned and sourced internally.	Degree of uncertainty inherent with any revaluation. We employ professional valuers and rely on appropriate level of professional expertise regarding valuation techniques	No
Investment property valuations	As per L&B	Valuations are performed annually to ensure that the fair value of a revalued asset does not differ materially from its carrying amount	As per L&B	As per L&B	No
Depreciation	Each part of an item of PPE with a significant cost in relation to the total cost is depreciated separately.	Depreciation methods, useful lives and residual values are reviewed each financial year and adjusted if appropriate	As per L&B	Depreciation is calculated on a straight line basis as this reflects consumption of assets and is a reasonable assumption	No

Appendix A Accounting Estimates

Estimate [Examples]	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	The actuarial gains and losses figures are calculated by the actuarial expert. These figures are based on making % adjustments to the closing values of assets/liabilities.	Nottinghamshire County Council responds to queries raised by the administering body.	Nottinghamshire County Council are provided with an actuarial report by the appointed actuaries, Barnett and Waddington.	The nature of these figures forecasting into the future are based upon the best information held at the current time and are developed by experts in their field.	No.
Level 2 investments	Level 2 investments are carried in the balance sheet at amortised cost including impairments.	Closing balances on Level 2 investments are reconciled to the opening balances and transactions in the year. Amortisations and impairments are reviewed.	Reviews are undertaken by accountants within Finance.	Most figures comprise actual external transactions. Amortisation schedules are set up and checked to reduce to zero over the timescale. Initial assumptions on set up are reviewed.	No.
Level 3 investments	Level 3 investments are carried in the balance sheet at amortised cost including impairments.	Closing balances on Level 3 investments are reconciled to the opening balances and transactions in the year. Amortisations and	Reviews are undertaken by accountants within Finance.	Most figures comprise actual external transactions. Amortisation schedules are set up and checked to reduce to zero over the timescale. Initial assumptions on set up are reviewed.	No.

Appendix A Accounting Estimates

Estimate [Examples]	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?
Finance lease liabilities	The Finance Lease models were established and introduced as was required following the adoption of IFRS.	Each Finance Lease model is compared annually to actual transactions	The model was set up by an accountant within the FS&A team.	The Finance Lease models have been set up in accordance with IAS 17 such that the initial liability is equivalent to the asset value and payments are split between interest and liability reduction using a single rate of interest over the life of the finance lease such that the liability reaches zero after the final payment.	No.
PFI Liabilities	The PFI models were established and introduced as was required following the adoption of IFRS.	The outputs of the model are compared annually to actual transactions.	A PFI expert was used in setting up the Council's three PFI models.	The assumptions used in the PFI models are set out in the individual schemes' PFI Model.	No.



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