Grant Thornton

The Audit Findings for Nottingham City Council

Year ended 31 March 2019

July 2020

Contents

Your key Grant Thornton team members are:

John Gregory
Key Audit Partner
T: 0121 232 5333
E: john.gregory@uk.gt.com

Helen Lillington
Manager
T: 0121 232 5312
E: helen.m.lillington@uk.gt.com

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Headlines

This table summarises the key findings and other matters arising from the statutory audit of Nottingham City Council ('the Council') and the preparation of the group and Council's financial statements for the year ended 31 March 2019 for those charged with governance. It supersedes the report we brough to the July 2019 meeting of the Audit Committee, which was written prior to the completion of the audit of the Council's subsidiary, Robin Hood Energy.

Financial Statements	Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the group and Council's financial statements: • give a true and fair view of the financial position of the group and Council and the group and Council's income and expenditure for the year; and • have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014. We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS), Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.	Our audit field work is substantially complete. The majority of our audit work was completed on site during June and July 2019, with an interim AFR being reported to the July 2019 Audit Committee meeting. As members of the Audit Committee are aware, completion of our audit was delayed significantly by the delays in BDO's audit of the Council's wholly owned subsidiary, Robin Hood Energy (RHE). RHE's accounts were eventually signed on 24 March 2020 and while an unmodified opinion was given, the opinion referred to a material uncertainty in relation to going concern. There has been a material movement of £56.3m on the group total comprehensive income and expenditure from the draft financial statements provided in May 2019 to the final financial statements. The movement relates to: • the financial performance of RHE, and the associated impairments necessary to loan balances and equity held by Nottingham City Council as the parent body. • the material change required following the national McCloud pension issue, the impact of which was to increase total expenditure in the Council and Group Comprehensive Income and Expenditure Statement by £15.3m and the net pension liability in the Balance Sheet by £30.3m. We have not raised any new recommendations in this report. The position against prior year recommendations made by the previous auditors (KPMG) is detailed in Appendix A. Audit adjustments are detailed in Appendix B. We have concluded that the other information to be published with the financial statements is consistent with our knowledge of your organisation and the financial statements we have audited.
Value for Money arrangements	Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').	Our risk based review of the Council's value for money arrangements is substantially complete. We will be reporting the outcome of this work in full to the next meeting of the Audit Committee and will only be able to issue our Value-for-Money conclusion after we have done so. The auditor's report which we will give shortly on your Statement of Accounts will therefore not include the VFM conclusion. This further delay to the VFM conclusion is because we are still in discussion with officers and other interested parties in relation to our findings in respect of one of the significant risks we identified: the Council's arrangements for governance of its companies.
Statutory duties	The Local Audit and Accountability Act 2014 ('the Act') also requires us to: • report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and • To certify the closure of the audit.	To date, we have not exercised our formal powers. We continue to review whether we need to do so, and in particular whether we need to issue statutory recommendations or a report in the public interest as a result of our work on the Council's arrangements for governance of its companies, and Robin Hood Energy in particular.

Summary

Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management and the Audit Committee. It supersedes the report which we presented to the July 2019 meeting of the Audit committee, which was written prior to the completion of BDO's audit of Robin Hood Energy.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Audit approach

Our audit approach was based on a thorough understanding of the group business and is risk based, and in particular included:

- An evaluation of the group internal controls environment, including its IT systems and controls;
- An evaluation of the components of the group based on a measure of materiality considering each as a percentage of the group's gross revenue expenditure to assess the significance of the component and to determine the planned audit response. From this evaluation we determined the following;
  - Nottingham City Council is of course a significant component of the group, with a full scope UK statutory audit to be performed by Grant Thornton UK LLP
  - Bridge Estate Trust is not a significant component, but there are material balances at the group level, where we have assessed there to be a significant risk of material misstatement. We requested specific procedures to be carried out by the component auditor (Rogers Spencer) in relation to PPE balances. This is a change from the approach as communicated in the audit plan.
  - Nottingham City Homes is not a significant component, but there are material balances at the group level, where we have assessed there to be a significant risk of material misstatement. We requested specific procedures to be carried out by the component auditor (RSM) in relation to pension liabilities and PPE balances. This is a change from the approach as communicated in the audit plan.
  - Nottingham City Transport Ltd is not a significant component but there are material balances at the group level , where we have assessed there to be a significant risk of material misstatement. We requested specific procedures to be carried out by the component auditor (BDO) in relation to turnover and PPE balances.
  - Robin Hood Energy is not a numerically significant component, but there are material balances at the group level, where we have assessed there to be a significant risk of material misstatement. We requested specific procedures to be carried out by the component auditor (BDO) in relation to turnover and operating expenses.
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks.

We have not had to alter or change our audit plan, as communicated to you on 22 February 2019, except for:

- the additional audit procedures in relation to the group components as outlined about. In addition, a further review of the group arrangements identified that the transactions in relation to the subsidiary Futures Advice, Skills and Employment Ltd fell below the group materiality level and therefore the risk in relation to this subsidiary reduced and therefore we have not asked the component auditor to perform any specified procedures.
- Identification of an additional significant risk in relation to the valuation of investment properties, which we decided to separate out from the risk previously identified in relation to property, plant and equipment. Our work in this area is included on page 9.
- Consideration of the impact of Covid-19 on the Statement of Accounts, including the Council's financial position, insofar as it required additional disclosures to be made.

Conclusion

Our audit field work is substantially complete, subject to the following outstanding matters:

- Final resolution of a technical query on the group CAA
- Finalisation of internal review processes
- Review of the final set of financial statements
- Receipt of management representation letter.

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Materiality calculations remain the same as reported in our audit plan. We detail in the table below our determination of materiality for Nottingham City Council.

	Group Amount (£)	Council Amount (£)	Qualitative factors considered
Materiality for the financial statements	18m	16m	• Materiality has been based on 1.75% of the Authority's gross expenditure
Performance materiality	11.7m	10.4	• Our performance materiality has been set at 65% of our overall materiality
Trivial matters	900k	800k	• This is set at 5% of financial statements materiality and reflects a level below which stakeholder are unlikely to be concerned by uncertainties.
Materiality for senior officer remuneration		100k	• The senior officer remuneration disclosure in the statement of accounts (remuneration of individual senior officers) has been identified as an area requiring lower materiality due to its sensitive nature

Significant findings – audit risks

	Risks identified in our Audit Plan	Commentary
1	**The revenue cycle includes fraudulent transactions** Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.	**Auditor commentary** Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Authority, we have determined that the risk of fraud arising from revenue recognition can be rebutted in relation to the Council itself, because: • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited, as the Council has a sound overall control environment. • The culture and ethical frameworks of local authorities, including Nottingham City Council, mean that all forms of fraud are seen as unacceptable Therefore we do not consider this to be a significant risk for Nottingham City Council. We have not been able to rebut the risk in relation for a number of the group companies where revenue recognition appears more susceptible to manipulation. Our work in this area has not identified any material concerns over the revenue recognition of group companies.
2	**Management override of controls** Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. . The Authority faces external scrutiny of its spending, and this could potentially place management under undue pressure in terms of how they report performance. Management over-ride of controls is a risk requiring special audit consideration.	**Auditor commentary** We have: • Gained an understanding of the accounting estimates, judgements applied and decisions made by management and consider their reasonableness; • obtained a full listing of journal entries, identified and test unusual journal entries for appropriateness; and • evaluated the rationale for any changes in accounting policies or significant unusual transactions **Findings** Our work to date has not identified any issues in respect of the management override of controls.

Significant findings – audit risks

Risks identified in our Audit Plan	Commentary
3 **Valuation of property, plant and equipment** The Authority revalues its land and buildings on an five year rolling programme basis to ensure that the carrying value is not materially different from fair value. This represents a significant estimate by management in the financial statements. We identified the valuation of land and buildings revaluations and impairments as a risk requiring special audit consideration and a key audit matter.	**Auditor commentary** We have: • Reviewed management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work; • considered the competence, expertise and objectivity of any management experts used; • reviewed the basis on which the valuation is carried out and challenged the key assumptions; • reviewed and challenged the information used by the valuer to ensure it is robust and consistent with our understanding; • employed our own valuer as an 'auditor's expert' to assist us with the above evaluation and challenge • tested revaluations made during the year to ensure they are input correctly into the Council's asset register; and • evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value. **Findings** We have reviewed the work of the Council's valuation expert, and how management have considered this estimate. There are no issues to report.
4 **Valuation of pension fund net liability** The Authority's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements. We identified the valuation of the pension fund net liability as a risk requiring special audit consideration and a key audit matter.	**Auditor commentary** We have: • Identified the controls put in place by management to ensure that the pension fund liability is not materially misstated. We will also assess whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement; • evaluated the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. We will gain an understanding of the basis on which the valuation is carried out, including what considerations the actuary has made in relation to asset valuation at the balance sheet date due to the impact of Brexit. • undertaken procedures to confirm the reasonableness of the actuarial assumptions made; and • checked the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary **Findings** We have worked with officers to ensure an appropriate resolution is reached in relation to the McCloud ruling. The Council have obtained a revised actuarial report and made the amendments to the draft financial statements. This revised actuarial estimate also used an updated figure for the rate of return on pension assets – the original report used an estimated figure of approximately 10% whereas the actual reported return was 1% lower than this. Both of these figures also include approximately 4% which is to correct an overestimate made in the 2017/18 actuary's report.

Significant findings – audit risks

	Risks identified in our Audit Plan	Commentary
5	**Accounting of Private Finance Initiative (PFI) schemes** The Authority has a number of complex PFI schemes, the largest and most complex being in relation to the tram network. This being the first year of our audit, we will need to understand these arrangements and obtain evidence to ensure there is no material misstatement in the financial statements. We identified the accounting for PFI schemes as a risk requiring special audit consideration and a key audit matter.	**Auditor commentary** We have: • Reviewed the accounting treatment of all material PFI schemes and ensure disclosures in the financial statements are in accordance with Code requirements. **Findings** Our work to date has not identified any issues in respect of PFI.
6	**Preparation of group accounts** The Authority has a relatively complex group structure. In 2017/18 the Authority consolidated within its group accounts, six subsidiaries, two joint ventures and one trust fund. There are a number of logistical challenges that need to be managed, ensuring that any third parties (subsidiaries and subsidiary auditors) involved in the production of the accounts are aware of the arrangements to provide the output of their work in accordance with the closedown timetable. We identified the preparation of group accounts as a risk requiring special audit consideration and a key audit matter.	**Auditor commentary** We have: • Reviewed consolidation procedures in place at the Authority, and the Authority's assessment of all entities over which the Authority has control or significant influence and the Authority's subsequent consideration whether or not to consolidate each entity within the group accounts; • Liaised formally with group auditors to enable us to make use of the outcomes of their audit (including their opinion) for our audit opinion on the Authority's group accounts; and • Agreed the final accounts consolidation back to audited financial statements for each subsidiary, joint venture and trust fund consolidated within the group accounts **Findings** Our work is substantially complete in this area, having been significantly delayed due to the delays in finalising the accounts of Robin Hood Energy. At the time of writing, there remains an outstanding technical query relating to adjustments made in the group Capital Adjustment Account. Further comments are included in relation to Robin Hood Energy on p 10, findings from the group audit'

Significant findings – audit risks

Risks identified in our Audit Plan	Commentary
Valuation of Investment Properties The Authority revalues its Investment Properties on an annual basis, however there have been significant additions to the portfolio this year. The valuation of investment properties represents a significant estimate by management in the financial statements. We identified the valuation of Investment Properties as a risk requiring special audit consideration.	**Auditor commentary** We have: • Reviewed management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work; • considered the competence, expertise and objectivity of any management experts used; • reviewed the basis on which the valuation is carried out and challenge the key assumptions, including the consideration of the potential impact of Brexit on asset values at year end; • reviewed and challenge the information used by the valuer to ensure it is robust and consistent with our understanding; and • tested revaluations made during the year to ensure they are input correctly into the Council's asset register. **Findings** Our work has not identified any issues in relation to Investment Properties.

Significant findings arising from the group audit

Component	Component auditor	Findings	Group audit impact
Bridge Estate Trust	Rogers Spencer	• An unqualified audit opinion of Bridge Estate Trust was issued by Rogers Spencer on 18 July 2019. No significant issues were identified.	We have reviewed the working papers of the component auditor for the areas where the audit team are seeking to place reliance on their work. We have gained sufficient assurance over the balances as required.
Nottingham City Homes	RSM	• An unqualified audit opinion on Nottingham City Homes was issued by RSM on 1 July 2019. The audit identified no significant issues.	We have reviewed the working papers of the component auditor, and raised a number of queries about the work that has been performed and how that impacts on the group consolidation. As part of this work we have identified an unadjusted error in the Group financial statements; further information is included on page 29.
Nottingham City Transport	BDO	• An unqualified audit opinion on Nottingham City Transport was issued by BDO on 14 June 2019.	We have reviewed the working papers of the component auditor for the areas where the audit team are seeking to place reliance on their work. We have gained sufficient assurance over the balances as required.
Robin Hood Energy	BDO	• An unqualified audit opinion on RHE was issued by BDO on 24th March 2020 after the company decided to reduce their accounting period by one day and therefore extend the period of time that they had to file their accounts with Companies House. While the opinion was unmodified, it did disclose a materiality uncertainty in relation to going concern, because of the Company's reliance on the council for financial support and also the possible impact of Covid-19. • The reported loss for RHE in 2018/19 was increased as a result of BDO's audit from £11.4m to £23.1m. In addition, a prior year adjustment was made to amended RHE's 2017/18 accounts, reversing the previously disclosed £200,000 profit to a £1.6m loss. • The significant delay in completion of RHE's audit stemmed from difficulties in resolving a range of audit queries and also BDO's concerns about RHE's financial position and the need for a letter of comfort from the Council providing assurance of ongoing support.	We have reviewed the working papers of the component auditor for the areas where the audit team are seeking to place reliance on their work. We have gained sufficient assurance over the balances as required.

Significant findings – key judgements and estimates

Accounting area	Summary of management's policy	Audit Comments	Assessment
Land and Buildings – Council Housing - £1,000m	The Council owns 25,535 dwellings and is required to revalue these properties in accordance with DCLG's Stock Valuation for Resource Accounting guidance. The guidance requires the use of beacon methodology, in which a detailed valuation of representative property types is then applied to similar properties. The Council has engaged Freeman Mitchell to complete the valuation of these properties. The year end valuation of Council Housing was £1,000m, a net increase of £79m from 2017/18	• We have assessed Freeman Mitchell as the valuer appointed for Council Houses and consider them to be competent, capable and objective • We have carried out completeness and accuracy testing of the underlying information provided to the valuer to determine the estimate and have no issues to report. • We confirmed the valuation method remains consistent with the prior year and assessed the reasonableness of the estimates made by management. • We have tested that properties are included in the correct beacon, and that the valuations used are appropriate. • We have engaged an external valuer as an auditors expert to help challenge the estimate made by management. There were no significant findings from the review made by the auditors expert.	●
Land and Buildings – Other - £894m	Other land and building comprises £894 million of specialised assets such as schools and libraries, which are valued at current value, which is the amount that would be paid for the asset in it existing use. Where insufficient market based evidence of current value is available because the asset is considered to be specialised a depreciated replacement cost basis has been applied. The Council use an internal valuer to complete asset valuations on a rolling programme, ensuring that all assets carried at current value are revalued at least every 5 years. In addition, the internal valuers complete reviews outside of this cycle where there has been evidence of a significant change, such as capital investment of material impairment. A desktop review is also carried out for all assets not revalued in year, and where evidence suggests a potential material difference further valuations are carried out to ensure that the year end carrying value is materially correct. 86% (by value) of other land and buildings has been revalued in the current year, resulting in a net revaluation gain of £102m.	• We have assessed the Council's internal valuer and consider them to be competent, capable and objective. • We have carried out completeness and accuracy testing of the underlying information provided to the valuer to determine the estimate and have no issues to report. • We confirmed the valuation method remains consistent with the prior year and assessed the reasonableness of the estimates made by management in determining the movement of assets that have not been revalued in the current year. • We have engaged an external valuer as an auditors expert to help challenge the estimate made by management. There were no significant findings from the review made by the auditors expert.	●

Assessment
- ● We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- ● We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- ● We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- ● We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Significant findings – key judgements and estimates

	Summary of management's policy	Audit Comments	Assessment
Net pension liability – £722m	The Council's net pension liability at 31 March 2019 as per the draft financial statements is £772m (prior year £782m) comprising the Nottinghamshire County Council Pension Fund Local Government defined benefit pension scheme obligations. The Council uses Barnett Waddingham to provide actuarial valuations of the Council's assets and liabilities derived from this scheme. A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2016. A roll forward approach is used in intervening periods, which utilises key assumptions such as life expectancy, discount rates, salary growth and investment returns. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £20m actuarial gain during 2018/19.	• We have assessed the Council's actuary to be competent, capable and objective • We have performed additional tests in relation to the actuary on contribution figures, benefits paid and investment returns to gain assurance over the 2018/19 roll forward calculation carried out by the actuary. We are working through one issue in relation to benefit payments at the time of writing this report. • The Council has considered that the impact of GMP equalisation is not material to the Statement of Accounts. Based on our review of this area, we concur with this view. • As highlighted throughout this report the net pension liability has increased as a result of a legal case (McCloud), which has national implications.	
Investment Property - £284.65m	The fair value of the Council's Investment Properties is measured annually. The Council use an internal valuer to complete the valuations, however recognising the level of specialisation needed to value these assets, some of these valuations are then subcontracted out to Savills and Lambert Smith Hampton. Investments properties are assets which are judged to be held solely to generate rental income or for capital appreciation purposes. All valuations have been assessed at level 2 for valuation purposes in the fair value hierarchy.	• We have assessed the Council's internal valuer and consider them to be competent, capable and objective. In addition we have further reviewed the arrangements for subcontracting and the competence, capability and objectivity of the further experts engaged. • We have carried out completeness and accuracy testing of the underlying information provided to the valuer to determine the estimate and have no issues to report. • We confirmed the valuation method remains consistent with the prior year.	

Significant findings – key judgements and estimates

	Summary of management's policy	Audit Comments	Assessment
Impairment of the Council's interests in RHE	In addition to the group accounts, there are a number of key entries in the single entity financial statements that relate to RHE. These are as follows; • The value of shares held in RHE, initially valued in the draft financial statements at £7.5m • The loans outstanding from RHE to Nottingham City Council. The gross balance in the draft financial statements for 31 March was £20.2m, which had been impaired down to £13.1m • Financial Guarantees given by Nottingham City Council on behalf of RHE. In the draft financial statements these were valued at £3.968m. Following confirmation of the final financial position on RHE, officers have taken the decision to further impair the value of the balances within the single entity accounts in relation to RHE, using the expected credit loss model as set out in IFRS9.. This has had the following impact on the balances in the financial statements. • The value of the shares has been impaired down to nil • The loans outstanding balance has been impaired by a further £3.4m • The financial guarantees has increased by £2.38m, to £6.348m. The total impact of these changes is £13.28m.	The calculations provided by management have been challenged by the audit team, and are considered appropriate given the audited financial results for RHE for 2018/19 and its financial performance since, as reported in its own management accounts.	

Significant findings – matters discussed with management

This section provides commentary on the significant matters we discussed with management during the course of the audit.

Significant matter	Commentary	
Disclosure of the financial performance of group companies The draft financial statement included limited information on the overall financial performance of the companies that make up the group. Paragraph 9.1.4.1 of the Code says that a reporting authority should disclose sufficient information to enable users of the financial statements to evaluate the nature and risks associated with it's interest in other entities, and the effects of those interests on its financial position, financial performance and cash flows	Given the sensitivities involved with the financial performance of RHE and its later public reporting deadline than the Council, officers did not include full disclosure of the financial performance of the group entities in the draft financial statements. Now that the financial results have been finalised for all group entities, additional disclosure has been added which is now in line with the Code.	**Auditor view** The draft financial statements have been amended to included disclosures that are now compliant with the Code.
Financial sustainability of Robin Hood Energy We had extensive discussions with management throughout the audit in relation to the financial performance of RHE, the delays in the audit of the Company, the need for the Council to provide a 'letter of comfort' to RHE and the impact of the material uncertainty outlined in RHE's audit report. Management's judgements in relation to the resulting impairment of the Councils loans to and investment in RHE are considered under 'key judgements and estimates'.	Given the letter of comfort, capped at £12.5m, and the inclusion of the material uncertainty within RHE's audit opinion, we had to carefully consider and discuss with management whether this required any modification of our audit report on the Council's accounts at group level, as well as taking it into account in our wider consideration of whether or not the Council is a 'going concern'.	**Auditor view** We are satisfied that the inclusion of the material uncertainty within the audit report on RHE does not require us to express a similar material uncertainty at the group level.

Significant findings – matters discussed with management

This section provides commentary on the significant matters we discussed with management during the course of the audit.

Significant matter	Commentary	
Subsequent events and post balance sheet event disclosures As a result of the extended period of the audit a detailed review of the events occurring since the balance sheet date has been needed. Events after the reporting period, are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements are authorised for issue. Two types of events can be identified; • Adjusting events – those that provide evidence of conditions that existed at the end of the reporting period, and • Non-adjusting events – those that are indicative of conditions that arose after the reporting period.	We have discussed with officers the types of areas that need to be considered for the post balance sheet event disclosures. These include any changes to asset or investment valuations following the impact of Covid 19.	**Auditor view** We reviewed and challenged the proposed disclosures drafted by management, resulting in additional comments being included about the position of the wider Group as well as the Council itself. We are satisfied that the final disclosures comprehensively cover the significant events which have taken place since 31 March 2019 insofar as they impact on the Council's accounts.
Potential impact of the McCloud judgement The Court of Appeal has ruled that there was age discrimination in the judges and firefighters pension schemes where transitional protections were given to scheme members. The Government applied to the Supreme Court for permission to appeal but this has now been denied by the High Court. The decision as to the appropriate accounting treatment is one for the Council, but our national technical advice is that we are expecting this adjustment to be made to the accounts if the estimated increase in liabilities is material. The legal ruling around age discrimination (McCloud - Court of Appeal) has implications not just for pension funds, but also for other pension schemes where they have implemented transitional arrangements on changing benefits.	This issue emerged during our original on-site audit in June and July 2019 and is one that by its nature is sector wide. We worked with management to determine the most effective way to deal with this issue, recognising that pension estimates are high value, complex and important figures within the financial statements. As a result they require an appropriate degree of focus and challenge from both management and auditors alike. We asked management to work with their actuary to gain the necessary information to determine whether the potential impact of this judgement would have a material impact to the financial statements. Management commissioned an updated valuation from the actuary, to take account of the impact of McCloud and also to update the report to take account of the actual rate of return on assets, rather than an estimated position which was used in the original report used for the draft financial statements.	**Auditor view** Officers have demonstrated that the impact of the revised actuary report is to increase past service liabilities by £15.3. While not material, given the magnitude of these amendments the Council have amended the draft financial statements for these movements.

Going concern

Our responsibility

As auditors, we are required to "obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern" (ISA (UK) 570).

Going concern commentary

Management's assessment process

In preparing the draft financial statements The Chief Financial Officer as s151 officer had a reasonable expectation that the Council will continue for the foreseeable future. Members concurred with this view. For this reason, the Council adopted the going concern basis in preparing the financial statements.

The extended period of the audit, has resulted in the need to further consider the going concern basis of preparation for the financial statements.

We have asked management to confirm that

- they have taken into account all available information about the future, which is at least, but is not limited to, twelve months from the date when the financial statements are authorised for issue.
- There are no material uncertainties related to events or conditions that cast significant doubt upon the Council's ability to continue as a going concern exist that require disclosure

Auditor commentary

Chapter 6 Section 3.4 of the CIPFA Code on the *"Presentation of Financial Statements for Pension Funds*" notes going concern as a particularly important reporting requirement and that para 3.4.2.23 of the Code applies. The CIPFA Code of Practice 2017/18 Code para 3.4.2.23 states "Local authorities that can only be discontinued under statutory prescription shall prepare their financial statements on a going concern basis of accounting; that is, the financial statements shall be prepared on the assumption that the functions of the authority will continue in operational existence for the foreseeable future".

In view of the Covid-19 pandemic and pressures on local authority finances, consideration of this requirement has come into sharper focus during this period. Going concern and any associated material uncertainties will need significant consideration and may have an impact on the audit report, narrative reporting and accounting policy disclosures in the accounts.

Management need to update their forecasts in the light of the current circumstances, in particular:

- Financial plans and budgets for members to approve, which continue into the medium term,
- The assessment of the level of balances and reserves held by the Council,
- The monitoring of the cash position and how this has been estimated going forward to cover the 12 months from the date of approval to the financial statements.

Work performed

We have requested the following from management so that we can complete our work in this area :

- Written assessment provided by management, including the supporting documentation provided, and
- The cash flow forecast which covers 12 months from the date of approval of the financial statements.

Auditor commentary

Management have provided us with extensive evidence of the processes now being followed to provide assurance that the authority remains a going concern. These focus on both the cash position and the maintenance of adequate reserves. Officers have provided daily cash flow forecasts up to 31 March 2021, while beyond that, the cash position is forecast through medium term predictions produced with input from the Council's Treasury Management advisors. There is no indication that maintenance of sufficient cash balances will be an issue for the Council within 12 months of our audit report.

The Council faces much more significant challenges in respect of its budget and reserves position. We will provide further commentary when we report the findings from our Value-for-Money work, but due to the impact of Covid-19 and other financial pressures, including the impact of RHE's performance, the Council is facing a budget gap of £62.3m. Bridging this gap will require difficult decisions to be taken, but failure to do so could require the section 151 officer to issue a 'section 114' notice to the effect that the Council's budget is unlawful, and/or for us to take formal audit action.

Other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

	Issue	Commentary
1	**Matters in relation to fraud**	• We have previously discussed the risk of fraud with the Audit Committee and have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
2	**Matters in relation to related parties**	• We are not aware of any related parties or related party transactions which have not been disclosed • In reviewing the disclosures made by Councillors, we noted that 10 had not returned their disclosures as required. Officers had used other sources to determine if the disclosures made in the accounts were complete.
3	**Matters in relation to laws and regulations**	• You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
4	**Written representations**	• A letter of representation has been requested from the Council.
5	**Confirmation requests from third parties**	• We requested from management permission to send confirmation requests to all institutions where the Council holds case or investment balances and those who lend the Council money. This permission was granted and the requests were sent. Of these requests all were returned with positive confirmation. • We requested from management permission to send confirmation requests to the pension fund auditor. This permission was granted and the requests were sent. We have received the necessary information from the pension fund auditor.
6	**Disclosures**	• Our initial review of the draft financial statements identified some omissions in the financial statements. We have made recommendations to assist the Council in achieving greater compliance with the Code. Where disclosure amendments have been made to the statement of accounts, these are set out in Appendix B.
7	**Audit evidence and explanations/significant difficulties**	• All information and explanations requested from management was provided, both during the original audit visit in the summer of 2019 and subsequently – most recently in relation to the impact of RHE's performance on the accounts and the impact of covid-19 in terms of going concern and post balance sheet event disclosures.

Other responsibilities under the Code

	Issue	Commentary
1	**Other information**	• We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. • Our work on the Annual Governance Statement is currently incomplete as we await a revised version from officers.
2	**Matters on which we report by exception**	We are required to report on a number of matters by exception in a numbers of areas: • If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit • If we have applied any of our statutory powers or duties The Annual Governance Statement has had to be extensively updated to reflect events which have taken place since the original version was prepared in May 2019. We are satisfied that the latest version meets the disclosure requirements and is not misleading or inconsistent with other information. As noted elsewhere, we have yet to conclude our work in relation to value-for-money and we continue to consider whether we need to apply any further powers or duties.
3	**Specified procedures for Whole of Government Accounts**	We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. As the Council exceeds the specified group reporting threshold of we examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements. • This audit work has not yet been completed. Officers have prepared a revised return based on the latest set of financial statements.
4	**Certification of the closure of the audit**	We are unable to certify the closure of the 2018/19 audit of Nottingham City Council at this stage, as work is outstanding in relation to the reporting of the VFM conclusion and the WGA procedures.

Independence and ethics

- We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. The firm, its partners, senior managers, and managers have complied with the Financial Reporting Council's Ethical Standards and confirm that we are independent and are able to express an objective opinion on the financial statements.
- We wish to highlight a judgement that we have made in relation to the independence of a former member of the audit team. The team member has a brother who is employed by Nottingham City Council. The brother's role is not in senior management, nor of a financial oversight role, therefore we have determined that he does not pose a significant independence threat to the audit. In addition, he does not meet the definition of a person 'closely associated' under the ethical standards, but is still a close family member. In consultation with our internal ethics team, we have agreed appropriate safeguards to ensure our independence is not compromised, which includes informing the whole audit team of the relationship, so that in the unlikely event that a transaction that relates to the brother is selected for audit testing, then this member of the audit team would have no involvement in its scrutiny or review.
- We confirm that we have implemented policies and procedures to meet the requirement of the Financial Reporting Council's Ethical Standard.
- We have received confirmation that component auditors BDO, RSM and Rogers Spencer are all independent.
- We have received confirmation that actuaries Barnett Waddingham LLP are independent.

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix C

Independence and ethics

Non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following non-audit services were identified, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

	Fees £	Threats identified	Safeguards
Audit related			
Certification of Teachers' Pension return	5,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is low in comparison to the total fee for the audit of £132,531 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Non-audit related			
CFO Insights	10,000	Self-Interest	This is a subscription for the CFO insights tool and represents the renewal for the third year of the contract. This is a recurring fee and therefore a small self interest threat exits. However, the level of this recurring fee taken on its own is not considered to be a significant threat to independence as the fee for this work in comparison to the total fee for the audit £132,531 for the Authority and in particular to Grant Thornton UK LLP overall turnover. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.

Follow up of prior year recommendations

The prior year auditor identified the following issues in the audit of Nottingham City Council's 2017/18 financial statements. We have considered the progress the Council has made against these recommendations in the context of our audit, and commented below.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	Sustainable financial budget CLT needs to monitor the financial position within 2018/19 and work together to deliver solutions to any issues that arise. Whenever non-recurrent measures are used to address recurrent issues there should be a clear plan as to the proposed solution for the future.	• The approach taken to the sustainability of the financial budget has been reviewed as part of the VFM conclusion.
✓	Group Governance Arrangements The Authority should ensure that the new group governance framework is in place by September 2019	• A report was taken to the Audit Committee in February 2019 which updated the position on governance of group companies. New arrangements were put in place that were implemented from May 2019.
✓	Capital Investment Strategy The Authority should develop and appropriately approve a capital investment strategy document as soon as possible, given the growth of its investment property portfolio and associated borrowing costs.	• The Capital Investment Strategy has been taken to the Executive Board in February 2019
✓	Journals Authorisation The Authority should investigate and seriously consider the implementation of electronic journal authorisation within the new general ledger system.	• As part of our work on journals during 2018/19 we have also noted that there is no journal authorisation process in place. We note that officers are looking at this in relation to the implementation of the new system, with some form of journal authorisation anticipated.
✓	Capital Cut-Off The Authority should review its process for capturing and accounting for capital accruals, to ensure costs are capitalized in the correct period, notably in relation to internally delivered schemes.	• Our testing has not identified any issues in relation to capital cut off.

Follow up of prior year recommendations

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	Capitalising project management costs and surplus recovery fees The authority should review how it calculates its capitalised project management costs, and review the basis of the 'surplus recovery fee'	• Our testing has not identified any issues in relation to capitalisation
✓	Documenting senior review and approval of actuarial assumptions Actuarial assumptions should be reviewed and signed off by senior management at the Authority before the production of draft accounts.	• We have reviewed the arrangements around approval of actuarial assumptions as part of our work on pension liabilities and have no issues to raise.
✓	Environenergy The Authority should review and confirm that the service level agreement it has with Enviroenergy is still fit for purpose. The bad debt provision against Enviroenergy should be reviewed.	• Officers have confirmed that the bad debt provision (now effectively called the loss allowance under IFRS 9) has been reviewed and adjusted,
✓	IT security policy The IT security policy should be reviewed annually as determined by the Authority.	• The IT security policy was last reviewed in September 2019.
	IT access recommendations The prior year auditor made further recommendations around IT access review. We have not specifically followed these up as we have undertaken our own review of the IT control environment. While a separate report has been produced and agreed with management, none of the recommendations are considered significant enough to warrant reporting to those charged with governance.	

Assessment
✓ Action completed
X Not yet addressed

Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements on the single entity financial statements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2019.

	Detail	Comprehensive Income and Expenditure Statement £m	Statement of Financial Position £m	Impact on total net expenditure £m
1	Following a review of the McCloud judgement, the Council have worked with their actuary to revise their estimate in respect of pension liabilities. The impact of this is to increase past service liabilities by £15.280m	30.3	30.3	30.3
2	Following a review of the financial position of RHE, the Council has made a number of impairments to the financial statements. These have been highlighted on page 13 of this report and total £13.3m.	13.3	13.3	13.3
3	We identified an unexpected discrepancy of £23m between the Capital Adjustment Account in the group accounts and that in the single entity accounts. Officers have now agreed to adjust the prior period figures to reflect consolidation adjustments made incorrectly in previous years. This only impacts on the analysis of unusable reserves within a disclosure note and not to figures disclosed on the Balance Sheet. We are still working with officers to agree the final adjustment.	-	-	-
	Overall impact	**£43.6**	**£43.6**	**£43.6**

Audit Adjustments

Impact of adjusted misstatements on the group financial statements

The adjustments highlighted above flow through into the group financial statements, however in addition to those adjustments, the group accounts have been amended to take account of final audited sets of financial statements from the subsidiaries. The impact of which was to decrease the total comprehensive income and expenditure on the group by £56.3m from (£162,015m) to (£105,758m). The only material change from draft to final group statements was in relation to RHE, who posted a loss of £11.4m in their draft accounts which were used for consolidation. This was subsequentially revised to a loss of £23.1m following receipt of the final audited accounts.

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2018/19 audit which have not been made within the final set of financial statements. The Audit Committee is required to approve management's proposed treatment of all items recorded within the table below:

	Detail	Reason for not adjusting
1	At the group level the Council consolidate the balances from Nottingham City Homes. In reviewing the auditors working papers it was identified that the impact of the McCloud decision had not been taken into account. Officers at the Council have estimated the potential impact of this for Nottingham City Homes and therefore the consolidated group position. The likely impact for Nottingham City Homes pension liability is estimated to be an increase of £3.825m	The balance is not material

Audit Adjustments

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure omission	Detail	Adjusted?
Presentation and disclosure	This year has been the first year we have worked with the Council, and as a result we have undertaken a detailed review of the draft accounts. While overall the accounts are considered to have a high degree of compliance with the Code, we have identified a number of areas where improvements could be made. In particular additional disclosure has been made in relation to the following items; • Fair Value of surplus assets. • Inclusion of an accounting policy in relation to a de minimus level for accruals • Pooled budgets • Future accounting developments In addition, the previously separate critical and other accounting policies have been brought together within the document.	Yes
Critical Judgements	The critical judgements presented in the draft financial statements in a number of cases were either not material to the financial statements, or did not clearly articulate what judgement management had made in relation to applying their accounting policies. The FRC recently carried out a thematic review in this area, and highlighted that in many cases disclosures in relation to critical judgements were not sufficient. Officers have amended the note in the final version of the accounts. There remain some disclosures that the audit team do not consider material or critical judgements, however the Council have chosen to disclose these due to the complexities associated with the balances. The audit team consider this a reasonable approach.	Yes

Audit Adjustments

Misclassification and disclosure changes continued

Disclosure omission	Detail	Adjusted?
Estimates	As for critical judgements, the FRC recently carried out a thematic review in this area, and highlighted that in many cases disclosures in relation to estimates were not clear enough. Officers have agreed to remove the disclosures in relation to both the NNDR provision and Council Dwellings. In addition some further narrative has been made to the PFI disclosure to highlight the associated sensitivities.	Yes
Financial Instruments	2018/19 saw the introduction of IFRS 9 in relation to financial instruments. This was a fundamental accounting change. The Council has reviewed the Code and associated guidance notes and generally made the appropriate disclosures within the accounts. As this is the first year of the standard it is inevitable that improvements could be made. Officers have made amendments to improve the disclosures, however this is an area that requires improvement in futures years. We do not consider this a material omission for the purpose of the opinion.	Yes
CIES comparatives	Each year the portfolios that the Council use to report against are re-aligned. The impact of this is that the CIES needs to be restated, as well as the EFA and its supporting notes. We recommended that officers improve the disclosure for the restatement and they have made the adjustments.	Yes
Council Tax Base	Note 6.2.2.2 from the draft financial statements has been corrected, as the Council Tax Base for both years had been incorrectly stated.	Yes
Specific Grants Credited to Services	The breakdown provided in the draft note has been enhanced to separately identify two material claims that had previously been included under 'other'.	Yes
Taxation and non specific grant income	£1.088m has been reclassified from top up grant to demand on collection fund line.	Yes
Senior Officer Renumeration	The original note had been completed using the post. Given changes in the holder of the post and changes in structure at the Council, additional disclosures were needed to demonstrate a clear picture of the renumeration in year.	Yes
Contingent Liabilities	The draft financial statements included a contingent liability of £5m. This did not meet the definition of a contingent liability and has been removed.	Yes

Fees

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

Audit fee	Planned 2018/19 fee	Final 2018/19 fee
Council Audit	£132,531	132,531
Additional Audit Fee		TBC*
Total audit fees (excl VAT)	**£132,531**	**TBC**

* Due to the complexity of a number of the issues on the audit, and particularly the issues in relation to Robin Hood Energy, the impact of the McCloud case on pensions liabilities and increased regulator expectations around the valuation of property, plant and equipment , we have discussed with the s151 officer the need to charge additional fees. As we have not yet completed our work fully, we have not yet discussed and agreed a final fee. This final fee will also need to be agreed by PSAA. On an interim basis, covering additional work completed up to 31 December 2019, we have agreed with both the s151 officer and PSAA an additional fee of £36,980, but there will be more to reflect work done since 1 January 2020.

The fees reconcile to the financial statements as per the reconciliation below.

- fees per financial statements £166k
- reconciling item – certification of housing benefit in relation to prior years £12k
- reconciling item – certification of other claims and returns in relation to prior years £11k
- reconciling item – fees for other audit services £10k
- total fees per above £133k

Non Audit Fees

Fees for other services	Fees
Audit related services:	
• Certification of teachers' pension return	£5,000
Non-audit services	
• CFO Insights	£10,000
	£15,000

Draft Auditor's report

The draft of our Extended Auditor's Report I set out below. We are required to produce this longer form of audit report because the Council was defined as a 'Public Interest Entity' for 2018/19 because it held listed debt, which has now been redeemed and delisted.

Please see separate document