Independent auditor's report to the members of Nottingham City Council

Report on the Audit of the Financial Statements

Opinion

Our opinion on the financial statements is unmodified

We have audited the financial statements of Nottingham City Council (the 'Authority') and its subsidiaries (the 'group') for the year ended 31 March 2019 which comprise the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Movement in Reserves Statement, the Cash Flow Statement, the Housing Revenue Income and Expenditure Account, the Movement on the HRA Statement, the Collection Fund Statement, the Group Comprehensive Income and Expenditure Statement, the Group Balance Sheet, the Group Movement in Reserves Statement and the Group Cash Flow Statement and notes to the financial statements, including a summary of significant accounting policies. The notes to the financial statements include the Notes to the Financial Statements (section 4), the Notes to the HRA Financial Statements (within section 5), the notes to the Collection Fund Statement (within section 5), the Accounting Policies used in preparing the Group Financial Statements (within section 6), the notes to the Core Group Financial Statements (within section 6), and the Pension Schemes notes in Appendix A. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the group and of the Authority as at 31 March 2019 and of the group's expenditure and income and the Authority's expenditure and income for the year then ended;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the group and the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Chief Finance Officer's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Chief Financial Officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Grant Thornton	**Overview of our audit approach** **Financial statements audit** • Overall materiality: £18 million, which represents 1.66% of the group's Cost of Services Gross Expenditure. • Key audit matters were identified as: – Valuation of pension fund net liability – Valuation of property, plant and equipment – Preparation of group accounts and related disclosures – Accounting for PFI schemes • We did not identify any of the subsidiaries or other consolidated entities as being individually financially significant to the group, but identified specific risks in relation to four of them for which we instructed the component auditors to carry out specified audit procedures We carried out analytical procedures on the remaining components.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current year and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those that had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter – Group and Authority	How the matter was addressed in the audit – Group and Authority
Risk 1 Valuation of pension fund net liability The Authority's pension fund net liability of £758 million, as reflected in its balance sheet, represents a significant estimate in the financial statements The group accounts also include a further £[x million] in respect of Nottingham City Homes Ltd. The pension fund net liability is considered a significant estimate due to the size of the numbers involved and the sensitivity of the estimate to changes in key assumptions. During the audit, we identified the need for the pension liability to be restated to take into account the impact of the McCloud case. The Court of Appeal had previously 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 this ruling but, in July 2019, the Government was refused leave to appeal. This case will now be remitted to an employment tribunal for remedy. The legal ruling has implications for other pension schemes which have implemented transitional arrangements on changing benefits, including the Local Government Pensions Scheme, of which the Authority	Our audit work included, but was not restricted to: • understanding the processes and controls put in place by management to ensure that the pension fund net liability is not materially misstated and evaluating the design of the associated controls; • obtaining assurance from the auditors of Nottinghamshire Pension Fund in relation to the controls in place at the Pension Fund over the submission of information to the Authority's actuary and the accuracy and completeness of that information; • assessing the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation; • critically evaluating the reasonableness of the actuarial assumptions made for the Authority's liability, including those relating to the accounting estimate for the McCloud ruling; • checking the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the report from the Authority's actuary; and

Key Audit Matter – Group and Authority	How the matter was addressed in the audit – Group and Authority
is part. The ruling will result in an increase in the Authority's pension fund net liability, which the Authority's actuary has estimated at £15.3 million. We therefore identified valuation of the pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.	• issuing group audit instructions to the auditors of Nottingham City Homes Ltd and evaluating the work they performed in relation to this risk. The group's accounting policy on valuation of the pension fund net liability is shown in note 8.3.11 to the financial statements and related disclosures are included in note 3.2.2 and note 9.2. **Key observations** The Authority obtained an updated valuation from their actuary in relation to the McCloud judgement, which has increased the Authority's net pension liability by £30.3. We also identified that the actual rate-of-return on the pension fund assets in the year was 1% lower than that assumed by the actuary when estimating the pension liability. The Authority obtained an updated valuation from their actuary which increased the net pension liability by £x. The net pension liability figure in the balance sheet was adjusted on audit to reflect these updated valuations. Our review of the work performed by the auditors of Nottingham City Homes Ltd….Subject to the above adjustments, we obtained sufficient audit assurance to conclude that: • the basis of the valuation in the Authority and group financial statements was appropriate, and the assumptions and processes used by management in determining the estimate were reasonable; • the valuation of the net pension liability recognised in the financial statements is reasonable.
Risk 2 Preparation of group accounts and related disclosures The Authority has a relatively complex group structure, with six subsidiaries, two Joint Ventures and a Trust Fund consolidated into the Group Accounts. In addition to the logistical challenges for the compilers of the accounts associated with this consolidation process, there are financial challenges within one of the subsidiary companies which have an impact on the disclosures made in both the Group and Authority financial statements. We therefore identified preparation of group accounts and the completenessof related disclosures in the financial statements as a significant risk, which was one of the most significant assessed risks of material misstatement.	Our audit work included, but was not restricted to: • evaluating the adequacy of the consolidation procedures in place at the Authority and the Authority's assessment of whether or not to consolidate each entity within the Group Accounts; • liaising formally with component auditors to enable us to make use of the outcomes of their audits for our audit opinion on the Authority's group accounts; and • agreeing the final accounts consolidation back to audited financial statements for each subsidiary, joint venture and trust fund consolidated within the group accounts. The group's accounting policy on group accounts is shown in note [**X**] to the financial statements. **Key observations** The disclosures included within the draft group accounts in respect of Robin Hood Energy did not include sufficient information about the risks associated

Key Audit Matter – Group and Authority	How the matter was addressed in the audit – Group and Authority
	with the Authority's holding of the company. We therefore asked management to revisit this and to make further disclosures. The disclosures in the notes to the group accounts were enhanced on audit. Subject to the above adjustment, we obtained sufficient audit assurance to conclude that: • the Authority's assessment of which entities should be consolidated within the group was reasonable; • The Authority's consolidation process was appropriate.

Key Audit Matter – Authority	How the matter was addressed in the audit – Authority
Risk 1 Valuation of property, plant and equipment The Authority revalues its 'other land and buildings' on a five year rolling programme and reviews the carrying values each year to ensure that the carrying values for those not formally revalued are not materially misstated. Council dwellings are valued separately using a beacon basis. Valuation of property, plant and equipment is considered a significant estimate due to the size of the numbers involved (£2,926 million) and the sensitivity of this estimate to changes in key assumptions. We therefore identified valuation of property, plant and equipment as a significant risk, which was one of the most significant assessed risks of material misstatement.	Our audit work included, but was not restricted to: • assessing management's processes and assumptions for the Authority's valuation process, including the instructions issued to the valuer; • evaluating the basis on which the Authority's valuation is carried out and challenging the key assumptions; • challenging the information used by the valuer to ensure it is robust and consistent with our understanding; • testing revaluations made during the year to check that they are correctly entered in the Authority's asset register and gains and losses are properly accounted for; and • evaluating the assumptions made by management for those assets of the Authority not revalued during the year and how management has satisfied themselves that these are not materially different to current value. The group's accounting policy on valuation of property, plant and equipment is included in notes 3.1.4 and 8.3.1 to the financial statements and related disclosures are included in notes 3.2.2 and 5.3.1. **Key observations** The Authority's internal valuer revalued x% by value of the Authority's Other Land and Buildings, in accordance with a five yearly rolling programme, which also includes revaluing the top 20 assets by value each year. Housing Stock was revalued using the normal beacon approach. We challenged the valuer in respect of….
Risk 2 Accounting for PFI schemes The Authority has a number of complex Private Finance Initiative (PFI) schemes, the largest and most complex being in relation to the tram network. As this is the first year of our audit, we will need to understand these arrangements in detail and obtain sufficient evidence that there is no material misstatement in the financial statements in respect of PFI schemes.	Our audit work included, but was not restricted to: • assessing the Authority's accounting treatment of all material PFI schemes • confirming that all disclosures in the financial statements are in accordance with relevant financial reporting requirements and are supported by the Authority's PFI accounting models.

Key Audit Matter – Authority	How the matter was addressed in the audit – Authority
The assets and liabilities associated with the PFI schemes are significant elements within the Authority's balance sheet, with the assets amounting to x% of non-current assets and the associated liability to £xxm. We therefore identified Accounting for PFI schemes as a significant risk, which was one of the most significant assessed risks of material misstatement.	The Authority's accounting policy on accounting for PFI schemes is shown in note [**X**] to the financial statements and related disclosures are included in note [**Y**]. **Key observations** We obtained sufficient audit assurance to conclude that the PFI transactions and disclosures in the financial statements are in accordance with the underlying accounting models.

Our application of materiality

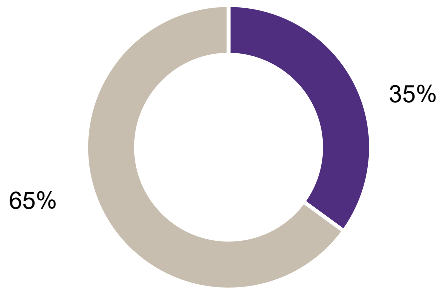
We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality in determining the nature, timing and extent of our audit work and in evaluating the results of that work.

Materiality was determined as follows:

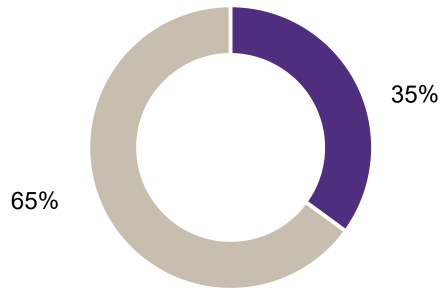
Materiality Measure	Group	Authority
Financial statements as a whole	£18 million which is 1.66% of the group's Cost of Services Gross Expenditure. This benchmark is considered the most appropriate because we consider users of the financial statements to be most interested in how the group has expended its revenue and other funding. Your previous auditors applied a materiality level of £11m in their audit of the Group for the year ended 31 March 2018.	£16 million which is 1.73% of the Authority's Cost of Services Gross Expenditure. This benchmark is considered the most appropriate because we consider users of the financial statements to be most interested in how the Authority has expended its revenue and other funding. Your previous auditors applied a materiality level of £10.5m in their audit of the Authority for the year ended 31 March 2018.
Performance materiality used to drive the extent of our testing	65% of financial statement materiality	65% of financial statement materiality
Specific materiality	.No specific materiality levels were determined at a group level.	We determined a lower level of specific materiality for the table of remuneration of individual senior officers.
Communication of misstatements to the Audit Committee	£900,000 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.	£800,000 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.

The graph below illustrates how performance materiality interacts with our overall materiality and the tolerance for potential uncorrected misstatements.

Overall materiality – Group



Overall materiality – Authority



▪ Tolerance for potential uncorrected mis-statements ▪ Performance materiality

An overview of the scope of our audit

Our audit approach was a risk-based approach founded on a thorough understanding of the group's business and in particular included:

- As this was our first year as auditors of the Authority and group, meeting with the previous auditors and considering key documents held in their audit files;
- Gaining an understanding of and evaluating the group's internal control environment, including its financial and IT systems and controls;
- Evaluation by the group audit team of identified components to assess the significance of that component and to determine the planned audit response based on a measure of materiality and significance of the component as a percentage of the group's current assets, total assets, current liabilities, total liabilities, equity, income and expenditure;
- Performance of full scope audit procedures for the Authority, which represents x% of the group's total income, x% of its total expenditure and x% of its net assets;
- We identified specific risks in relation to four of the components: Bridge Estate, Nottingham City Transport Ltd, Robin Hood Energy Ltd and Nottingham City Homes Ltd and issued group audit instructions to the auditors of these entities and then visited the offices (or in two cases carried out remote file reviews) of these auditors to evaluate the work they had performed in relation to the identified risks. These four bodies represent x% of the total income of the group, x% of its expenditure and x% of its total net assets; and
- For the remaining components in the group, we obtained their latest audited accounts, checking that they were appropriately consolidated in the group accounts and subjecting them to analytical procedures.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

The objectives of our audit are to identify and assess the risks of material misstatement of the financial statements due to fraud or error; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud or error; and to respond appropriately to those risks. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

In identifying and assessing risks of material misstatement in respect of fraud, including irregularities and non-compliance with laws and regulations, our procedures included the following:

- We obtained an understanding of the legal and regulatory frameworks applicable to the Authority and the group and sectors in which they operate. We determined that the following laws and regulations are most relevant:
    - The Accounts and Audit Regulations 2015
    - Local Government Act 2003

- Local Government Finance Act 2012

- We understood how the Authority and the group are complying with those legal and regulatory frameworks by making inquiries to the Authority's monitoring officer and internal auditors. We corroborated our inquiries through our review of minutes and papers provided to full Council, Executive Board and the Audit Committee.

- We assessed the susceptibility of the Authority's and group's financial statements to material misstatement, including how fraud might occur. Audit procedures performed included:

  – identifying and assessing the design effectiveness of controls management has in place to prevent and detect fraud, in particular those relating to journals and management override of controls;

  – understanding how Those Charged With Governance considered and addressed the potential for override of controls or other inappropriate influence by management over the financial reporting process;

  – considering the arrangements the Authority has in place to prevent and detect non-compliance with laws and regulations and understanding how those charged with governance are provided with assurance that such laws and regulations have been complied with;

  – challenging assumptions and judgments made by management in its significant accounting estimates, in particular those relating to property, plant and equipment valuations and net pension liability valuations

  – identifying and testing journal entries, in particular any journal entries posted which we deemed to be unusual in size or nature.

  - No instances of non-compliance with laws and regulations were communicated to us by component auditors or highlighted by their work; and

  - We did not identify any key audit matters relating to irregularities, including fraud.

Other information

The Chief Finance Officer is responsible for the other information. The other information comprises the information included in the Statement of Accounts and the Annual Governance Statement, other than the Authority and group financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge of the group and Authority obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with the 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

Opinion on other matter required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements the other information published together with the financial statements in the Statement of Accounts and the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters.

Responsibilities of the Authority, the Chief Finance Officer and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities [set out on page(s) x to x], the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Chief Finance Officer. The Chief Finance Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19, for being satisfied that they give a true and fair view, and for such internal control as the Chief Finance Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Chief Finance Officer is responsible for assessing the group's and the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the Authority will no longer be provided.

The Audit Committee is Those Charged with Governance. Those Charged with Governance are responsible for overseeing the Authority's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Other matters which we are required to address

We were appointed by Public Sector Audit Appointments in December 2017 to audit the financial statements for the year ending 31 March 2019 and subsequent financial periods. The period of total uninterrupted engagement is one year., .

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Authority or its subsidiaries and we remain independent of the Authority and the group in conducting our audit.

The following service has been provided, in addition to the audit, to the group and Council since December 2017 that has not been disclosed separately in the Statement of Accounts:

- The Council pays an annual subscription to the CFO Insights service provided by Grant Thornton.

Our audit opinion is consistent with the additional report to the Audit Committee.

Report on other legal and regulatory requirements - Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed our work to give our conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources. We are unable to issue our conclusion until we have completed our consideration of matters that have come to our attention. We are satisfied that these matters do not have a material effect on the financial statements for the year ended 31 March 2019.

In addition, we cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the Authority for the year ended 31 March 2019. We are satisfied that this work does not have a material effect on the financial statements for the year ended 31 March 2019.

Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

[Signature**]**

John Gregory, Key Audit Partner
for and on behalf of Grant Thornton UK LLP, Local Auditor

Birmingham
[Date**]**