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This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report. This draft has been created from the template dated DD MMM YYYY

Grant Thornton

The Audit Findings Report for Nottingham City Council

Year ended 31 March 2020

18 September 2024

Contents

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Headlines

On 30 July 2024, Jim McMahon, the Minister of State for Local Government and English Devolution, informed Parliament about the government's plan to set a backstop date for English local authority audits. The backstop date for financial year 2019/20 is set for 13 December 2024. A copy of the Ministerial Statement is included in Appendix F for information.

The 2019/20 audit has been challenging due to various reasons. Firstly, the audit was delayed due to significant issues identified in the prior year, including the issuance of a Public Interest Report in August 2020, which meant that the 2018-19 audit was not concluded until April 2021. Additionally, the audit was conducted against a backdrop of concerns over the Council's governance and internal control procedures, including the failure of Robin Hood Energy, an unlawful breach of Housing Revenue Account ringfence, and the loss of PPE valuation records. Furthermore, initial audit testing revealed a high volume of errors in the Council's draft accounts. All these factors necessitated a revision of our audit risk assessment and the extension of procedures across multiple account balances in the draft financial statements. Our audit work has been undertaken in this context. We have identified significant issues regarding management override of controls, PPE valuations, and group accounts. There are also errors and evidence gaps in journals, the Housing Revenue Account, operating expenditure, accounts payable, grants, and cut-off testing.

We have completed a significant amount of audit work; however, we recently identified changes to some areas of the accounts that now require additional audit work. In light of this, discussions were held with the Finance Commissioner, Chair of Audit Committee, and Director of Finance and Resources to discuss the resourcing implications. It was agreed that it was no longer feasible to complete the 2019/20 audit ahead of the backstop date, leading to a decision to prioritise resources on the recovery of assurance, starting with the audit of the Council's 2023/24 financial statements.

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 2020 for those charged with governance.

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 its 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) and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We began our year-end audit work in July 2021, and due to the consideration of several complex issues and challenges, this work has been ongoing until September 2024. Although a significant amount of audit work has been completed, the additional work required between now and the proposed backstop date of 13 December 2024 makes it unfeasible to fully complete the audit before that date.

There has been ten adjustments to the Comprehensive Income and Expenditure Statement that have resulted in a £14.7m adjustment, which increases the Council's year end surplus position for 2019/20. All adjustments to the draft accounts are detailed in Appendix B. In total, we have also raised 24 recommendations for management as a result of our audit work in Appendix A and Appendix B.

Prior to the signing of the audit opinion, we need the following items from the Council:

- receipt of a signed management representation letter; and
- receipt of a signed set financial statements with all audit amendments correctly posted.

Given that several key audit areas remain outstanding, then we are expecting our auditor report to be issued as a disclaimer of opinion. In plain terms, a disclaimer means that we have been unable to form an opinion. In this instance, the reason for this will be the limitation of scope imposed by statute (not by the local authority). However, we have identified significant issues relating to management override of control and operating expenditure which ordinarily would have impacted our opinion, and therefore these matters will also be reported in the disclaimer of opinion.

We are unable to sign our auditor's report until after the Accounts and Audit (Amendment) Regulations 2024 are passed by Parliament and the National Audit Office Code of Audit Practice is approved, a process we anticipate will be completed by the end of October. We will share the proposed wording of our auditor's report with you before signing.

Headlines

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').	In accordance with the Code, we have assessed the arrangements the Council had in place during 2019/20 to ensure: • Informed decision making • Sustainable resource deployment • Effective working with partners and other third parties We have concluded that Nottingham City Council did not have proper arrangements to secure economy, efficiency and effectiveness in its use of resources for 2019-20. The matters we reported relating to the prior year also existed in the 2019-20 financial year. The weaknesses that existed in 2018-19 included financial sustainability, company governance, and the management of major projects. Our ongoing review of these areas during 2019-20 did not identify any improvement in arrangements, and as a result, we expect to issue an Adverse Value for Money conclusion for the 2019-20 financial year.

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Headlines

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.

Use of wider powers

During the period we have used our wider powers twice, both in relation to Robin Hood Energy Limited (RHE).

In December 2019, we issued a formal recommendation to the Council. While we were of the view that the situation merited a Statutory Recommendation under schedule 7 of the Local Audit and Accountability Act 2014, we chose not to make it a statutory recommendation so that the recommendation could be considered in private session, and therefore limit the risk that the discussion of the recommendation publicly would impact adversely on RHE's financial position.

In August 2020, we issued a Report in the Public Interest on the Council's Governance arrangements for RHE. The report highlighted the following key issues:

- There was insufficient appreciation within the Council of the huge risks involved in ownership of, and investments in RHE.
- There was insufficient understanding within the Council of RHE's financial position, partly due to delays in the provision of information by RHE and the quality and accuracy of that information.
- There was insufficient sector (or general commercial), expertise at non-executive Board level.
- There was a lack of clarity in relation to roles within the governance structure.
- The arrangements did not establish an appropriate and consistent balance between holding to account and allowing the Company freedom to manage, and this worsened as levels of trust decreased and the financial position deteriorated.

Elector challenge

During the period, we also received an objection from a local elector in relation to the 2019/20 accounts. This related to the Council's licensing scheme for private landlords. While the request did not meet the statutory requirements for a formal objection, given the subject matter of the objection request, it was felt appropriate to conduct a review and report to the Audit Committee. The report identified several issues which were planned to be addressed as part of implementation of the new scheme being launched.

Certification of the closure of the audit

We expect to be able to certify the closure of the 2019/20 audit of Nottingham City Council at the same time of signing our backstop disclaimer opinion on the financial statements.

Acknowledgements

We would like to express our gratitude for the support extended by the finance team and other officers during a challenging and prolonged audit. The audit presented several challenges, including periods of limited capacity within the financial team prior to 2023, heightened audit risks necessitating increased sample testing, and the requirement for specialist skills, particularly in valuations and the financial control environment, which the Council had to commission.

Audit approach

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.

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's business and is risk based, and in particular included:

- An evaluation of the group's 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; and
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

Conclusion

Under the Accounts and Audit (Amendment) Regulations 2024, a publication date for the financial statements in respect of 2019/20 has been set at 13 December 2024. The introduction of the backstop date has impacted on your audit.

We have been unable to complete our audit work in the following areas:

- Additional sample testing of fees and charges, debtors, and creditors is necessary due to the extent of errors identified to date. This is required to obtain sufficient evidence that the account balances are free from material misstatement.
- Further work is needed to verify the completeness and accuracy of certain adjustments made to the draft accounts. In Appendix B, we have indicated which adjustments require additional audit work.
- Re-performing audit work superseded by changes to draft accounts or due to the passage of time in relation to going concern, depreciation, movement in reserves statement, capital financing requirement, leases, litigation and claims, subsequent events, and other information, including the Annual Governance Statement and Narrative Report.
- Finalisation of audit work in relation to the Collection Fund, Housing Benefits, and Plant, Property, and Equipment.

Given that several key audit areas remain outstanding, then we expect our auditor report to be issued as a disclaimer of opinion. In plain terms, a disclaimer means that we have been unable to form an opinion. In this instance, the reason for this will be the limitation of scope imposed by statute (not by the local authority). However, we have identified significant issues relating to management override of control and operating expenditure which ordinarily would have impacted our opinion, and therefore these matters will be reported in the disclaimer of opinion. Prior to the signing of the audit opinion, we need the following items from the Council:

- receipt of a signed management representation letter; and
- receipt of a signed and dated revised set of financial statements.

Our audit has identified errors in the draft accounts that have been adjusted by the Council. Further details are provided at Appendix C and D.

We are unable to sign our auditor's report until after the Accounts and Audit (Amendment) Regulations 2024 are passed by Parliament and the National Audit Office Code of Audit Practice is approved, a process we anticipate will be completed by the end of October. We will share the proposed wording of our auditor's report with you before signing.

Audit approach

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 levels remain the same as reported in our audit plan. We have kept this level under review during the audit, based on the risks identified, and consider that this remains appropriate.

	Group Amount (£m)	Council Amount (£m)	Qualitative factors considered
Materiality for the financial statements	15.0	12.75	Materiality has been based on 1.4% of your prior year expenditure, we reconsidered this on receipt of the draft financial statements and based on the risks identified determined it appropriate to leave materiality unchanged. The benchmarked used is in line with the range applied across the sector.
Performance materiality	10.5	8.925	This is determined by applying 70% to headline materiality.
Trivial matters	0.75	0.637	This is set at 5% of financial statements materiality and reflects a level below which stakeholders are unlikely to be concerned by uncertainties
Materiality for Senior Officer Remuneration		0.1	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 audit risks

Risks identified in our Audit Plan	Auditor commentary
The revenue cycle includes fraudulent transactions (Risk applies to both the Group and the Authority) Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.	Having considered the risk factors set out in ISA 240 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; • the culture and ethical frameworks of local authorities, including Nottingham City Council, mean that all forms of fraud are seen as unacceptable. Our assessment remains consistent with our initial planning, and we do not view this as a significant risk for Nottingham City Council. However, we have noted that due to the diverse nature of revenue streams in some subsidiary companies, we were unable to fully address this risk in relation to Robin Hood Energy and Nottingham Ice Centre. Fees and charges represent a substantial revenue stream for the Council, and despite expanding our testing in this area, we have been unable to attain the required level of assurance to finalize this balance. Details of our testing results are provided in Appendix B and will remain unadjusted in the final financial statements. Similarly, we have conducted extensive work on the debtors balance and found errors in the sample testing. These errors, when assessed, indicate that there is inadequate assurance that this balance is free from material misstatement. Due to time constraints imposed by statutory audit deadlines, we were unable to complete the extended testing required to conclude on the balance being free from material misstatement. The results of our testing are outlined in Appendix B and, as an extrapolated error, will remain unadjusted in the final financial statements.
Management override of controls (Risk applies to both the Group and the Authority) Under ISA (UK)240 there is a non-rebuttable presumed risk that the risk of management override 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. We identified management override of controls as a risk requiring special audit consideration.	As part of our planned procedures, we have: • evaluated the design effectiveness of management controls over journals. analysed the journals listing and determined the criteria for selecting high risk and unusual journals; • tested high risk and unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration; • gained an understanding of the accounting estimates made and critical judgements applied by management and considered their reasonableness with regard to corroborative evidence; and • evaluated the rationale for any changes in accounting policies or significant unusual transactions. We identified the Council did not have a journals authorisation control in place during 2019/20. We have raised a recommendation in Appendix A to address this significant control weakness. We have not identified any significant changes in accounting policies since the prior year.

Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
Management override of controls (continued)	In December 2021, the Interim Chief Finance Officer issued a s114 notice after discovering that the Council had unlawfully breached the ring-fencing requirement for the Housing Revenue Account over a period of seven years, including the 2019-20 financial year. Most of the breaches occurred before 2019/20, with the Council continuing to breach the HRA ringfence into 2021/22. Additionally, the Council identified the misuse of ring-fenced public health grant funds over several years to support General Fund expenditure, raising concerns about the Council's control environment and potential management override to manipulate reserves. In response to the HRA ringfence breach, we wrote to the Chief Executive to make inquiries as to whether these events indicate a broader culture of management override of controls within the Council. To address this, the Council procured an independent review from Ernst & Young (EY) to investigate the misuse of ringfenced funds. The scope of work differed from our expectations, as management declined to pursue an independent forensic review, leading to concerns about the ability of the Council to address our audit inquiries over the possibility of management override of control. EY's report, issued in May 2023, highlighted several key observations: • An ineffective audit trail that did not provide appropriate evidence to support transactions, with extensive records either incomplete, onerous to draw from systems or in many cases, missing. • A high incidence of issues across the sample tested with a wide range of causes from transactions classification, application of accounting policy, and transaction timing through to more substantive control weaknesses in transaction recording, approvals, and error. • Ineffective means to reconcile and identify process error, resulting in limited preventative and detective controls. This is further compounded by limited means to extract relevant management information from systems to help inform management of control breaches. • A culture where policy adherence along with process and control knowledge is weak. • A high risk of controls being circumnavigated through management override Although we were unable to reperform EY's work as we were not provided with access to their detailed supporting working papers, the finance team had kept a detailed record of the information provided to EY, and therefore the audit team were able to use this as the basis for some reperformance work. The audit team concurred with EY's findings, particularly the ineffective audit trail, and concluded that we were able to place reliance on their work. The Council has accepted the findings from the EY report and initiated a financial controls remediation project, identifying 38 necessary actions. While progress has been made in implementing these actions, it is imperative that this work is completed and its lessons integrated throughout the Council.

Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
Management override of controls (continued)	Due to the HRA breach and EY's findings, we revised our journals testing strategy and extended our testing of high risk and unusual journals. Our testing of 253 journals revealed 12 incorrectly posted fails totalling £14.3m, with £12.2m related to HRA/General Fund entries. Many of the misstatements were due to erroneous accounting, indicating a lack of understanding within the wider finance team at the Council. Due to the absence of a forensic investigation, the findings from our journals work and the findings of EY on the Council's control environment, we have been unable to obtain sufficient assurance that management override of controls is absent within the 2019/20 financial statements. Due to the material and pervasive nature of the issue, we intend to report this matter in the disclaimer of opinion.

Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
Valuation of property, plant and equipment (Risk applies to both the Group and the Authority) The Authority revalues its land and buildings on a 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 revaluation and impairments as a risk requiring special audit consideration.	We have: • evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work; • evaluated the competence, capabilities and objectivity of the valuation expert; • discussed with the valuer the basis on which the valuation was carried out; • engaged our own valuer to assess the instruction to the authority's valuer, the authority's valuer's report and the assumptions that underpin the valuation; • tested revaluations made during the year to see if they have been input correctly into the asset register; and • evaluated the assumptions made by management for those assets not revalued during the year end how management has satisfied themselves that these are not materially different to current value at year end. The Council owns 75 specialist properties, which must be valued on a depreciated replacement cost basis and had an estimated value of £714m in the draft accounts. Our initial review, carried out in Autumn 2020, revealed significant issues in the valuations that could not be explained by management. These issues were partly due to the disbandment of the internal team responsible for the original valuations as part of the emergency budget process in Autumn 2020 and partly due to the Council's inability to locate the records supporting the original valuations. New valuations, commissioned by the Council on a multi-year basis, were provided to the audit team in December 2022. These valuations raised concerns about the methodology used, particularly the absence of a functional obsolescence factor, which differed from other valuers in the sector. To address this, we engaged our own valuation expert to verify the methodology and ensure compliance with the Code. Our testing also revealed errors in the floor areas used by the valuer, necessitating the remeasurement and revaluation of several properties, resulting in significant changes. Although this was a complex and time-consuming process, it is expected to provide a more reliable basis for valuing these properties in the future. The errors identified have been adjusted in the final financial statements, and details of these adjustments are provided in Appendix B. While we have received high-level working papers supporting these adjustments, additional substantial work is required to ensure the completeness and accuracy of the changes. However, due to time constraints imposed by the statutory audit backstop, we are unable to conclude our work in this area.

Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
Valuation of Investment Properties (Risk applies to the Authority only) The Authority revalues its Investment Properties on an annual basis, however there have been significant additions to the portfolio this year. We identified the valuation of investment properties as a risk requiring special audit consideration.	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 was carried out and challenged the key assumptions; • reviewed and challenged the information used by the valuer to ensure it was robust and consistent with our understanding, and • tested revaluations made during the year to ensure that they were correctly input into the Council's asset register. There are no issues to report following the work undertaken.
Valuation of pension fund net liability (Risk applies to both the Group and the Authority) The Authority's pension fund asset and liability as reflected in its balance sheet represents a significant estimate in the financial statements and group accounts. 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. We identified the valuation of the pension fund net liability as a risk requiring special audit consideration.	We have: • updated our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluate the design of the associated controls; • evaluated the instructions issues by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assessed the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation; • assessed the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability; • tested the consistency of the pension fund asset and liability and disclosure in the notes to the core financial statements with the actuarial report from the actuary; • undertaken procedures to confirm the reasonableness of the actuarial assumptions made by revieing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; and • obtained assurances from the auditor of Nottingham Pension Fund as to the controls surrounding the validity and accuracy of membership data, contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements. There are no issues to report following the work undertaken.

Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
Preparation of group accounts (Risk applies to both the Group and the Authority) The Authority has a relatively complex group structure. In 2018/19 the Authority consolidated within its group accounts six subsidiaries, two joint ventures and one trust fund. The Authority have acquired a further subsidiary this year that will require consolidation into the group. 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. As the audit committee is aware, there were specific issues in relation to consolidation for one of the subsidiaries, Robin Hood Energy (RHE), in 2018/19 due to severe delays in the audit of the company. We identified the preparation of group accounts as a risk requiring special audit consideration.	We have: • Reviewed the 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 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. • Agreed the final accounts consolidation back to audited financial statements for each subsidiary, joint venture and trust fund consolidated within the group accounts. • Liaised closely with the external auditor of Robin Hood Energy to try to minimise any audit delays in the provision of audited information in respect of that company, following, the ongoing issues encountered in 2018/19. RHE entered administration in January 2021. While RHE's auditors had completed their detailed work on the 2019/20 accounts, they had not yet issued their audit opinion. Furthermore, the accounts had been prepared on a 'going concern' basis, although it was evident that RHE was no longer a going concern at that point. The absence of a finalised RHE audit required us to reassess how we could obtain adequate assurance over the RHE figures consolidated into the Council's group accounts. Following discussions with the Council finance team, the audit team reviewed the interim work of RHE auditors to gain some level of assurance on the consolidated balances. We also examined the work of the component auditors of NCH and found that NCH had not revalued assets in the current year, resulting in accounting policies that were not aligned with those of the single entity. Our estimation suggests that assets are likely understated by £6.7m, which is currently recorded as an unadjusted misstatement. Moving forward, the finance team must ensure that appropriate assurance is in place for consolidated balances and have a clear understanding of the required consolidation adjustments. They should also anticipate the impact of varying accounting frameworks and thoroughly document judgments. The final set of group financial statements has been updated to reflect the balances from the signed financial statements of the components, as detailed in Appendix C. Although we have received high-level working papers supporting these adjustments, additional work is needed to ensure the completeness and accuracy of the changes. Unfortunately, due to the statutory audit backstop, we lack sufficient time to complete the planned audit procedures in this area. As a result, we are unable to conclude our work in this area.

Other audit risks

Risks identified in our Audit Plan	Auditor commentary
International Financial Reporting Standard (IFRS) 16 Leases – (issued but not adopted) (Risk applies to both the Group and the Authority) The public sector will implement this standard from 1 April 2020. It will replace IAS 17 Leases, and the three interpretations that supported its application (IFRIC 4, Determining whether an Arrangement contains a Lease, SIC-15, Operating Leases – Incentives, and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease). Under the new standard the current distinction between operating and finance leases is removed for lessees and, subject to certain exceptions, lessees will recognise all leases on their balance sheet as a right of use asset and a liability to make the lease payments. In accordance with IAS 8 and paragraph 3.3.4.3 of the Code disclosures of the expected impact of IFRS 16 should be included in the Authority's 2019/20 financial statements. The Code adapts IFRS 16 and requires that the subsequent measurement of the right of use asset where the underlying asset is an item of property, plant and equipment is measured in accordance with section 4.1 of the Code.	We planned to: • Evaluate the processes the Authority has adopted to assess the impact of IFRS16 on its 2020/21 financial statements and whether the estimated impact on assets, liabilities and reserves has been disclosed in the 2019/20 financial statements. • Assess the completeness of the disclosures made by the Authority in its 2019/20 financial statements with reference to The Code and CIPFA/LASAAC Local Authority Leasing Briefings. During the period following the completion of the 2019/20 audit plan, CIPFA announced the decision to defer the implementation of IFRS 16 until the 1 April 2024, and therefore no further work was undertaken in this area as the Authority have decided not to voluntarily adopt this standard earlier than 2024/25 when it will form part of the Code.

Other audit risks

New issues and risks	Auditor commentary
Infrastructure Assets	
(Risk applies to the Authority only) Infrastructure assets includes carriageways, footways, street lighting and street furniture. In accordance with The CIPFA Code of Practice on Local Authority Accounting, Infrastructure assets are measured using depreciated historical cost. Historical cost is deemed to be the carrying amount of an asset as of 1 April 2007 (i.e. brought forward from 31 March 2007) or at the date of acquisition, whichever date is the later and adjusted for subsequent depreciation or impairment. Per draft accounts published on 29 May 2020, the gross cost was £740.3m, accumulated depreciation was £264.4m and the net book value was £475.9m. Per final accounts dated 8 November 2023, the net book value is £557.1m. Two associated risks have emerged during the audit in relation to Infrastructure assets: • The risk that the presentation of the Property, Plant and Equipment disclosure is materially misstated insofar as the gross cost and accumulated depreciation of Infrastructure assets is overstated. Overstatement will occur if assets have not been derecognised on replacement. • The risk that the value of infrastructure assets are materially misstated because of applying inappropriate Useful Economic Lives (UELs) to components of infrastructure assets or failure to identify and account for impairment.	CIPFA established a Task and Finish Group to address the issue regarding derecognition of elements of infrastructure following “replacement” expenditure. CIPFA worked with the government and a statutory instrument was issued gaining royal assent on 25 December 2022 and updated the Code of Practice on Local Authority Accounting following the outcome of consultations that removed the need to report gross cost and accumulated depreciation. In response to the statutory instrument, management have: • Adjusted the statement of accounts and disclosed infrastructure assets at net book value and removed gross cost and accumulated depreciation. • Updated their accounting policy and reviewed the useful economic lives of infrastructure assets to bring into line with CIPFA prescribed UELs. • Completed an existence review and derecognised £1.1m of infrastructure assets. The adjustments detailed are documented in Appendix C. While we have received high-level working papers supporting these adjustments, additional substantial work is necessary to ensure the completeness and accuracy of the changes. Unfortunately, due to the statutory audit backstop, we lack sufficient time to complete the planned audit procedures in this area. Consequently, we are unable to conclude our work in this area.

Other audit risks

New issues and risks	Auditor commentary
Operating expenditure and accounts payable	
(Risk applies to both the Group and the Authority) There is a risk that inadequate evidence and controls within the Council's operating expenditure and accounts payable processes may lead to errors, omissions, or misstatements in the recording of operating expenses, thereby increasing the risk of incomplete or inaccurate reporting of operating expenditure in the financial statements The audit team conducts expenditure testing using various methods, including sampling from the CIES and the creditor balance in the balance sheet, as well as reviewing payments made after the balance sheet date to ensure completeness. Errors were identified in all these samples.	Due to the unlawful HRA ringfence breach and the identification of errors during our initial sample testing of operating expenditure, we reevaluated our risk and subsequently expanded our sample testing for operating expenditure on two occasions. In total, we reviewed 301 debits with a sample value of £152.2m and 49 credits with a sample value of £16.6m. Even after the third round of testing, errors continued to be uncovered in both credit and debits testing. Although the extrapolated errors are not deemed material, our sampling calculator indicates that we still lack the necessary assurance over the account balance. While the audit team could potentially conduct a fourth round of testing by increasing the sample size in hopes of not identifying further errors, it is highly probable that additional errors will be found. This judgement is based on EY's conclusions regarding the financial control environment, which align with the issues identified by the audit team. Consequently, there are doubts that further testing would successfully provide sufficient assurance over operating expenditure. Therefore, this will be included in the modified disclaimed opinion. During our initial testing of creditors, we identified an error of £340k related to adult social care. Subsequent significant additional work by the Council revealed an overstatement of social care creditors by £11.6m. The overstatement was determined using an estimation technique, as the Council's systems do not allow for a direct determination of the final position. The Council has adjusted the final version of the financial statements to reflect this amendment, detailed in Appendix C. Additionally, in the initial testing of creditors, a balance was identified that should have been classified as a Grants Receipt in Advance. Following a thorough review, the Council identified a further £4.7m that was misclassified. This misclassification has been rectified in the final set of financial statements, as reported in Appendix C.

Other matters for communication

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	Auditor commentary
Going concern	The Council's financial statements have been prepared on a going concern basis. 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). The assessment of going concern must cover a period of 12 months from the date of approval of financial statements and therefore would need to assess the Group's and Council's financial outlook for 2024/25 and 2025/26. The risk that a local authority would be unable to continue is lower than for many other public sector bodies. However, this does not mean that the concept of going concern in local authorities can be ignored. In recent years, local authority funding has been reduced substantially and many local authorities face significant financial challenges. In extreme cases, this could result in material uncertainties about whether a local authority is able to continue for the foreseeable future. As we have been unable to form an opinion on the financial statements, we are therefore unable to draw a conclusion in relation to going concern.
Matters in relation to fraud	In late 2021, an unlawful breach of legislation concerning the ringfencing of the Housing Revenue Account was identified. Following legal advice on this matter, the s151 officer of the Council decided to issue a s114 notice. This matter raised serious concerns about the possibility that management had overridden controls to manipulate the Council's general fund reserves. In response, in early 2022, we wrote to the Chief Executive to inquire whether the series of events represented a broader culture and environment of management override of controls within the Council, indicating a willingness to divert funds from ring-fenced grants and similar regimes away from their intended purpose and towards the General Fund to minimise the impact of funding reductions. In response to our audit inquiries, the Council commissioned EY to assess the Council's control arrangements over ringfenced funds. However, the scope of work differed from the expectations, as management declined to pursue an independent forensic review, leading to concerns about the ability of the Council to address our audit inquiries over the possibility of management override of control. EY conducted the review and reported their findings in May 2023. EY's findings revealed weak financial control, ineffective systems, and a culture of non-compliance with a high risk of management override of controls. EY's findings are consistent with our findings from our journals work, which are set out on page 8. The absence of a forensic review, EY's conclusions on the inadequate financial control environment and the errors identified in our journals work mean we not been able to sufficient audit evidence regarding management override of controls and journals. We are therefore unable to provide assurance that management override has not occurred during 2019/20. As a result, we intend to report this matter in the disclaimer of opinion We have not been made aware of any other significant fraud incidents in the period and no others issues have been identified during our audit procedures completed to date.

Other matters for communication

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	Auditor commentary
Matters in relation to related parties	Disclosure amendments have been made to the related parties disclosure note. Our audit procedures identified interests that had not been declared by member in 2019/20. As a result, we have raised an audit recommendation to improve processes and controls around related parties. This recommendation is set out in Appendix B.
Matters in relation to laws and regulations	As noted above, in December 2021, the s151 officer issued a report under Section 114 (2) of the Local Government Act 1988, citing specific acts of unlawfulness as follows: • Nottingham City Council (NCC) treated annual 'management fee rebates' from Nottingham City Homes (NCH) since 2014/15 (funds derived from the Housing Revenue Account (HRA)) as General Fund (GF) income, breaching the HRA Ring Fence under the Housing Act 1989 (s74). • NCC received annual 'management fee rebates' since 2014/15, paid by NCH Limited (a wholly owned and controlled company of NCC), in breach of its Articles of Association. This situation came to light when the s151 officer sought assurances over the legitimacy of transactions between NCC and NCH. They commissioned the Chartered Institute of Public Finance and Accountancy (CIPFA) to undertake investigatory work on these transactions. CIPFA's report on 10 December 2021 concluded that 'the payments made by NCH to NCC since 2014-15, totalling £15.8m, are defined or described, and the GF has benefited from these payments. As discussed, this appears to be a breach of the HRA ring-fence, potentially unlawful.' CIPFA also concluded that 'furthermore, if it is determined, on the basis of legal advice, that the payments NCH has made to NCC are prohibited distributions of surpluses, these are also, potentially, unlawful.' Legal advice received by NCC supported CIPFA's conclusions as acts of unlawfulness. The Council has taken steps to rectify the situation of the ring-fenced funds, and a prior period adjustment has been reported within these accounts. Subsequent investigations across the Council led to the commissioning of a fundamental review of internal control. EY were engaged, and they reported their conclusions in May 2023.
Written representations	A signed management representation letter is required before we can proceed with signing a backstop disclaimer opinion on the Council's 2019/20 accounts. The representation letter needs to include a reference to the Accounts and Audit (Amendment) Regulations 2024. It is important to note that this legislation will not be passed by Parliament until late October, and unfortunately, the letter cannot be approved and signed before that occurs. As a result, the Audit Committee will need to review and approve the 2019/20 management representation letter at its scheduled meeting in November, unless an extraordinary meeting can be arranged before then. On pages 39, 47 and 49, we report details of prior period adjustments that have been made to the accounts. The management representation letter will include specific representations regarding these prior period adjustments.
Confirmation requests from third parties	We requested from management permission to send confirmation requests to Nottinghamshire Pension Fund. This permission was granted, and the requests were sent, and the request returned with positive confirmation. We also obtained direct confirmations from banks and other institutions for confirmation of the year-end balance. These requests were returned with positive confirmations.
Disclosures	A significant number of disclosure issues were identified during the audit. To address these issues, management has agreed to make amendments to the financial statements and Narrative Report. A summary of these disclosure issues are set out in Appendix D.

Other responsibilities under the Code

Issue	Commentary
Audit evidence and explanations/significant difficulties	The 2019/20 audit has been challenging due to various reasons. Firstly, the audit was delayed due to significant issues identified in the prior year, including the issuance of a Public Interest Report in 2020, which meant that the 2018-19 audit was not concluded until April 2021. Additionally, the audit was conducted against a backdrop of concerns over the Council's governance and procedures, including the failure of Robin Hood Energy, an unlawful breach of Housing Revenue Account ringfence, and the loss of PPE valuation records. Furthermore, initial audit testing revealed a high volume of errors. All these factors necessitated a revision of our audit risk assessment and the extension of procedures across multiple account balances in the draft financial statements. Our audit work has been undertaken in this context. We have identified significant issues regarding management override of controls, PPE valuations, and group accounts. There are also errors and evidence gaps in journals, Housing Revenue Account, operating expenditure, accounts payable, grants, and cut-off testing. Most notably, we believe that the gaps in evidence regarding management override of controls are material and pervasive to the Council's financial statements. As previously advised, due to this matter, we would likely need to disclaim the audit opinion even if the audit could be completed before the backstop date on 13 December 2024.
Other information	Due to the limitations imposed by the backstop, we have been unable to fully assess whether the Annual Governance Statement complies with the 'delivering good governance in Local Government Framework 2016 Edition' published by CIPFA and SOLACE or if it is misleading or inconsistent with the information of which we are aware from our audit. It is important to note that we are not required to assess whether the Annual Governance Statement covers all risks and controls or whether risks are adequately addressed by internal controls. The Chief Finance Officer is accountable for the other information. In the case of the Annual Governance Statement, we are unable to finalise our evaluation on the consistency of the other information published together with the financial statements.
Matters on which we report by exception	We are required to report on certain matters by exception : • 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 We have exercised our wider powers twice, both in relation to Robin Hood Energy, (RHE). In December 2019, we issued a formal recommendation to the Council, and in August 2020, we issued a Report in the Public Interest on the Council's Governance arrangements for RHE Ltd, highlighting key governance issues. Additionally, we received an objection from a local elector regarding the Council's licensing scheme for private landlords, prompting a review and report to the audit committee, which identified issues to be addressed as part of the implementation of a new scheme. We have no other matters to report by exception.
Specified procedures for Whole of Government Accounts	As the 2019/20 Whole of Government accounts have been closed, specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions are no longer required.
Certification of the closure of the audit	We expect to be able to certify the closure of the 2019/20 audit of Nottingham City Council at the same time of signing our backstop disclaimer opinion on the financial statements.

Value for Money

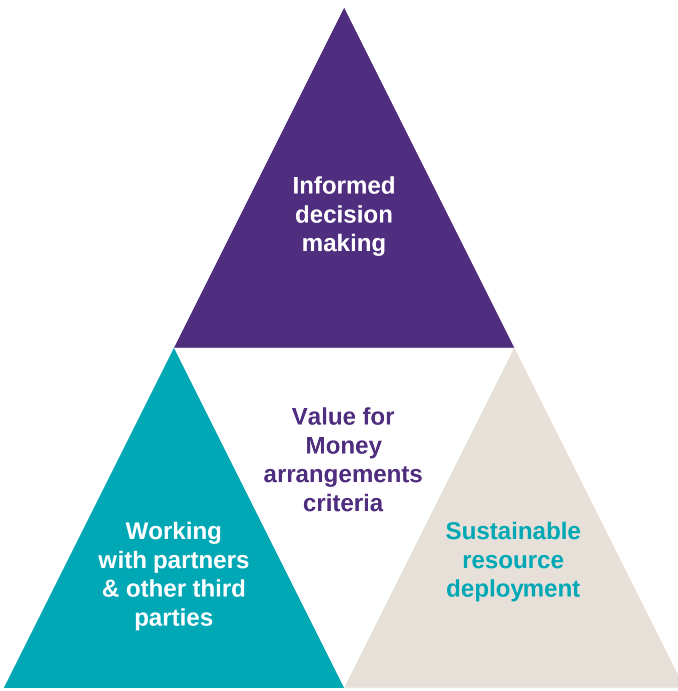
Background to our VFM approach

We are required to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in April 2020. AGN 03 identifies one single criterion for auditors to evaluate:

"In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people."

This is supported by three sub-criteria, as set out below:



Risk assessment

In the 2019/20 audit plan dated February 2020, we highlighted that a detailed risk assessment had yet to be undertaken as the VFM work relating to 2018/19 had not been fully concluded. We indicated that as a minimum we would anticipate risks on both financial sustainability and company governance for 2019/20 as a minimum.

The work on the VFM conclusion for 2018/19 concluded during March 2021 and while our assessment was focused on the arrangement in place in that year, under the NAO guidance we were required to consider events since the end of the year that would give us further insight into the arrangements.

As you are aware we issued a Report in the Public Interest in relation to the Council's Governance of RHE and its other companies in August 2020. This was a culmination of a substantial volume of work we undertook on this issue as the situation developed. Following the issuing of our Report, the Council agreed to undergo a non-statutory review, which was led by Max Caller and this reported in November 2020.

In light of the previous issues reported as part of our VFM work, and the subsequent reporting on RHE and the outcome of the Best Value inspection, it remains appropriate that we should give an 'adverse' conclusion, which says that your arrangements overall are inadequate.

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work in respect of 2019/20.

We carried out further work only in respect of the significant risks we identified from our initial and ongoing risk assessment. Where our consideration of the significant risks determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.

Significant difficulties in undertaking our work

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention. There were no matters where no evidence was available. Also, there are no matters of such significance to our conclusion that we require written representation from management or those charged with governance.

Value for Money

Significant matters discussed with management

Due to the protracted nature of the audit, we have maintained regular review and engagement with officers, the Improvement and Assurance Board and more recently Commissioners.

The Best Value report in December 2020, which led to the Improvement and Assurance Board, and establishment of the Improvement Plan, echoed the concerns raised by our previous VFM work as well as raising wider issues. As a result, the focus of our VFM work for 2019/20 has been on reviewing progress against the plan and highlighting concerns via regular reporting.

The reporting, of the 2018/19 VFM opinion reported in March 2021 and that included an updated assessment of our consideration of financial sustainability and going concern.

We reported further in February 2022 to the Audit Committee, and this identified continuing weakness in financial sustainability and company governance, while also adding in weaknesses in the resources available to produce timely financial statements. Both key recommendations and improvement recommendations have been made in these areas.

Under the new Code of Audit Practice, which has applied since the 2020/21 financial year, we are required to report significant weaknesses promptly, rather than waiting for all the audit work to be completed, as a result members have received regular reports on these and emerging issues, and therefore it is not intended to provide further detail here. With the latest position being reported as part of our combined Auditors Annual Report on 24 March 2024.

Other statutory powers and duties

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

Issue	Commentary
Formal recommendation	In December 2019, we issued a formal recommendation to the Council. While we were of the view that the situation merited a Statutory Recommendation under schedule 7 of the Local Audit and Accountability Act 2014, we chose not to make it a statutory recommendation so that the recommendation could be considered in private session, and therefore limit the risk that the discussion of the recommendation publicly would impact adversely on RHE's financial position.
Public Interest report	In August 2020, we issued a Report in the Public Interest on the Council's Governance arrangements for RHE Ltd. The report highlighted the following key issues; • There was insufficient appreciation within the Council of the huge risks involved in ownership of, and investments in RHE, • There was insufficient understanding within the Council of RHE's financial position, partly due to delays in the provision of information by RHE and the quality and accuracy of that information, • There was insufficient sector (or general commercial), expertise at non-executive Board level, • There was a lack of clarity in relation to roles within the governance structure, and • The arrangements did not establish an appropriate and consistent balance between holding to account and allowing the Company freedom to manage, and this worsened as levels of trust decreased and the financial position deteriorated.
Objections from local electors	During the period, we also received an objection from a local elector in relation to the 2019/20 accounts. This related to the Council's licensing scheme for private landlords. While the request did not meet the statutory requirements for a formal objection, given the subject matter of the objection request, it was felt appropriate to conduct a review and report to the audit committee. The report identified a number of issues; • There were problems with the application process, • The planned number of inspections was not being carried out, • The Council was struggling to monitor the outcomes of the scheme, which was a common issue identified in a national review of Selective Licensing schemes across the country; and • There was some supporting evidence to show unintended consequences in terms of rent increases, but it was difficult to conclude that these were solely due to the Selective Licensing scheme. A revised scheme was due to be launched and learning from the previous scheme was to be taken into account in the development of the new scheme.

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

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 May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix E.

As part of our assessment of our independence we note the following matters:

Matter	Conclusion
Relationships with Grant Thornton	We are not aware of any relationships between Grant Thornton and the Council that may reasonably be thought to bear on our integrity, independence and objectivity.
Employment of Grant Thornton staff	We are not aware of any former Grant Thornton partners or staff being employed, or holding discussions in respect of employment, by the Council as a director or in a senior management role covering financial, accounting or control related areas.
Business relationships	We have not identified any business relationships between Grant Thornton and the Council.
Contingent fees in relation to non-audit services	No contingent fees have been charged in relation to non-audit services provided since 1 April 2019.
Gifts and hospitality	We have not identified any gifts or hospitality provided to, or received from, a member of the Council, senior management or staff.

Independence and ethics

Audit and Non-audit services

For our audit, we have inquired with all Grant Thornton UK LLP teams providing services to the Council. The following non-audit services were identified and billed from the beginning of the 2019/20 financial year to September 2024. Our assessment of the threats to our auditor independence, along with the safeguards implemented to mitigate these threats, is outlined below.

	Fees £	Threats identified	Safeguards
Audit related			
2019/20 - Certification of Teachers Pension Return	£5,000 (complete and billed)	Self-Interest (because this is a recurring fee)	The total of this recurring fee is not considered a significant threat to our independence. This fee, in comparison to the total audit fee and particularly in relation to Grant Thornton UK LLP's overall turnover, is not substantial. Moreover, these are fixed fees with no contingent element, which mitigates the perceived self-interest threat to an acceptable level.
		Self-Review	The low materiality of the Teachers' Pensions to our opinion, the unlikely occurrence of material errors, and the fact that the Council has informed management, who will decide whether to amend returns based on our findings and agree on the accuracy of our reports on grants, all work to mitigate the self-review threat.
2020/21 - Certification of Teachers Pension Return	£10,000 (complete and billed)	Management	To mitigate the management threat (i.e., acting in the capacity of management), the scope of the work does not involve making decisions on behalf of management or recommending a specific course of action for management to follow.
2021/22 - Certification of Teachers Pension Return	£7,500 (complete and billed)		
Non-audit related			
CFO Insights Subscription 2019/20 to 2024/25 inclusive (5 years @ £10k per year)	£50,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee is not considered a significant threat to independence when compared to the total audit fee and Grant Thornton UK LLP's overall turnover. Additionally, as it is a fixed fee with no contingent element, these factors mitigate the perceived self-interest threat to an acceptable level.
		Self-Review	As the Council has the autonomy to decide how to utilise the subscription service and make independent decisions, we do not believe it creates a self-review threat to the Value for Money conclusion.

Appendix A - Action plan

We have identified 15 recommendations for the group as a result of issues identified during our audit. We have agreed our recommendations with management. The matters reported here are limited to those deficiencies that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
● High risk	**Strengthening the financial control environment** An unlawful breach of the Housing Revenue Account ringfence was identified. Additionally, we found a high volume of errors, largely due to missing information in the Council's audit trail to support transactions recorded in the ledger. Furthermore, EY conducted a review of the Council's controls over ringfenced funds and discovered significant weaknesses in the Council's financial control environment. The Council has acknowledged the findings from the EY report, which were presented to the Audit Committee in June 2023. Immediate actions were taken, and a financial controls remediation project was launched, resulting in the identification of 38 necessary actions. The Council has made progress in implementing these actions, but it is crucial that this work is completed, and the lessons learned are integrated throughout the Council.	The Council needs to promptly implement the recommendations from the EY report. Once the financial controls remediation project is finished, the Audit Committee should seek assurance to verify that the financial controls are effectively designed and operating as intended. **Management response** TBC
● High risk	**Fixed asset register and management review of valuations** Management has had to made material amendments to the accounts regarding PPE, including obtaining revised valuations due to assets being valued on an incorrect basis. The current process is overly complex, and the asset register is challenging to navigate, leading to additional audit time being needed to validate and understand the logic of transactions.	The Council should ensure its PPE valuation accounting process includes sufficient time to review the completeness and reasonableness of the valuations received from external experts. The Council should also seek to simplify its fixed asset register and for final accounts purposes provide a more condensed working paper to support the financial statements which excludes superfluous information. **Management response** TBC

Controls

- ● High – Significant effect on control system
- ● Medium – Effect on control system
- ● Low – Best practice

Appendix A - Action plan

Assessment	Issue and risk	Recommendations
● High risk	**Journal authorisation** The Council did not have a journals authorisation control in place for manual journals during 2019/20. Journals are self-authorised, meaning they are created and posted by the same individual to the general ledger without review. The lack of authorisation process is a significant segregation of duties deficiency and heightens the Council's exposure to the risk of fraud or error in the Councils' financial statements	The Council should introduce formal procedures for the authorisation of journals. **Management response** TBC
● High risk	**Undisclosed member interests** Our audit procedures identified 51 directorships held by 31 members during FY 2019/20 that were not included in their declared interests (register of interests). Most of the omitted interests relate to companies that are not owned by the Council. It is essential that all interests are declared to facilitate their consideration in the Council's decision-making processes, prevent potential conflicts of interest, and ensure the disclosure of all related party transactions in the accounts.	We recommend that the register of interests be regularly updated by members and monitored by management and TCWG to ensure it accurately reflects all interests held by members. Additionally, it is considered good practice for the Council to audit the completeness of the register of interests by conducting a check for directorships held by officers and members on Companies House. **Management response** TBC
● High risk	**Expenditure cut-off procedures** During our testing of operating expenditure and payables, we have found items of expenditure that were recorded in the wrong financial year in the Council's financial statements. The frequency of these errors suggests a systemic weakness in processing transactions within the correct financial period.	We recommend the Council reviews its cut-off accounting procedures to ensure expenditure is recorded in the correct financial period. **Management response** TBC

Controls

- ● High – Significant effect on control system
- ● Medium – Effect on control system
- ● Low – Best practice

Appendix A - Action plan

Assessment	Issue and risk	Recommendations
● High risk	**Audit trail to support income transactions recorded in the financial ledger** Through substantive testing of fees and charges, in particular an item relating to court fines income, we identified that supporting evidence for the balance at 31 March 2020 had not been maintained by the Council. As a result, we have been unable to gain sufficient assurance over court fines income. We encountered similar issues regarding HRA charges for services and facilities income through testing of services charges and facilities income on the HRA we identified that certain transactions could not be supported by a breakdown of individual transactions. We identified that supporting evidence for the balance at 31 March 2020 had not been maintained by the Council. The report for charges is at a point in time and where records are not saved they are no longer accessible at a later date.	We recommend that the Council maintain the appropriate records and listings which support balances in the accounts to enable sample testing and disseminates this message to all relevant departments well in advance of its financial statement close process. **Management response** TBC
● High risk	**Final accounts closedown and evidence** We continue to engage well with the central finance team .There are departments, however, where there has been a lack of engagement in the audit process and evidence provided has been of poor quality resulting in additional explanations being required. We appreciate the priorities and pressures on departments do fluctuate and the turnover in however we have been unable to progress our work efficiently in some areas incurring additional audit time and effort. We are working with the Council's finance team in this area moving into the 23/24 financial year.	The Council should ensure all key departments are involved at an early stage of the financial statements accounts planning process and their role in the audit process discussed in order to address any expectation gaps. **Management response** TBC

Appendix A - Action plan

Assessment	Issue and risk	Recommendations
● Medium risk	**Exit packages disclosure/provisions** As part of our work regarding exit packages, we identified a redundancy payment made in FY 2019/20 where evidence supports that redundancy was initiated and accepted in the financial year 2018/19 via formal notification and redundancy meeting. The compensation calculation was completed in February 2019 and as such appropriate provision should have been made in the 2018/19 financial year.	The Council should review its procedures regarding the completeness of provisions, in particular those in relation to exit packages, to ensure these are complete and reflected in the appropriate financial year. **Management response** TBC.
● Medium risk	**Heritage assets – de-minimis** It is the Council's policy not to capitalise heritage assets with a value under £5,000 (de-minimis) The total value of these assets is £3.542m. With the largest categories being Decorative Art (£1.4m) and Fine art (£1.1m). Upon further review assets could be grouped based on type and acquisition date and thus included in the balance sheet up to the estimated value of £2.204m.	The Council should review its grouping arrangements for Heritage assets and ensure it reviews the value of de-minimis assets not capitalised to ensure this does not become a material omission in the financial statements. **Management response** TBC
● Medium risk	**Group accounting** A number of issues were identified regarding the group consolidation process. The Council should plan for the level of information required to produce its group accounts and the source of this information.	The Council should ensure that appropriate assurance is in place for consolidated balances and have a clear understanding of the required consolidation adjustments. They should also anticipate the impact of varying accounting frameworks and thoroughly document judgments. **Management response** TBC

Appendix A - Action plan

Assessment	Issue and risk	Recommendations
Medium risk	**Capital additions** We identified four assets (with a combined value of £1.6m) capitalised in 2019/20 had been approved by individuals who did not have the required level of authorisation (or any authorisation) per the approval listing provided by the Council.	The Council should review its capital approvals listing to ensure it is up to date and fit for purpose. It should ensure capital expenditure is only capitalised with appropriate approval in place. **Management response** TBC
Medium risk	**Accounting for grants** Several misstatements have been identified regarding the accounting for grant income, including items being recorded in the incorrect financial reporting period	We recommend the Council reviews its grant accounting procedures to ensure it is recorded accurately, in accordance with the CIPFA code and in the correct accounting period. **Management response** TBC
Low – Best Practice	**Immaterial balances – supporting notes** The accounts include several immaterial balances where a supporting note has been included.	The Council should consider removing notes relating to immaterial balances to 'de-clutter' its accounts. **Management response** TBC

Appendix A - Action plan

Assessment	Issue and risk	Recommendations
● Low - Best Practice	**Housing benefit year end reconciliation process** As part of year end housing benefit reconciliation process, the benefits system provider releases a suite of year end procedures and reconciliation spreadsheets to support the Authority's year-end process. The Council does not use these documents and has implemented an alternative reconciliation process. Whilst we are satisfied this alternative reconciliation supports Housing benefit balances within the financial statements, not using the supplier year end reconciliations is not in line with standard practice across the sector.	We recommend the Council regularly reviews its current reconciliation process alongside Northgate recommended procedures to ensure no steps are being missed in the year end closedown process as recommended by the software supplier. **Management response** TBC
● Low – Best Practice	**Heritage asset valuation** The Council's balance sheet includes £60.9m of heritage assets. Per the CIPFA Code 'Heritage assets are carried at valuation rather than current or fair value, reflecting the fact that sales and exchanges of heritage assets are uncommon. Valuations may be made by any method that is appropriate and relevant. There is no requirement for valuations to be carried out or verified by external valuers, nor is there any prescribed minimum period between valuations. In some cases, it may not be practicable to establish a valuation for a heritage asset, in which case the asset is carried at historical cost if this information is available' Through sample testing of Heritage asset valuations, we have identified that some assets have not been revalued for over 20 years.	Whilst not prescribed by the code, due to the value of heritage assets held by the Council it is recommended a review is undertaken to ensure values recorded within the financial statements remain valid. **Management response** TBC

Appendix B – IT recommendations

We have identified 9 recommendations for the group because of issues identified during our IT audit work. The matters reported here are limited to those deficiencies that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
Significant deficiency	**System administrator staff self-assigning responsibilities in Oracle without approval or subsequent timely removal** We noted two system administrators from the EMSS team had self-assigned additional responsibilities within Oracle during the 2019/20 financial year. Specifically: • GL User-Strategic Finance FAIT • GL User-Strategic Finance TAT • NCC OTL Application Developer. Whilst it was confirmed that only the EMSS team (comprising 5 members) can self-assign responsibilities to carry out their duties, there was no evidence that these additional responsibilities had been approved by management. Furthermore, the additional privileges were not end dated or removed. Where self-assignments of additional access occur and there are no documented approvals / the access is not end dated following the completion of requirement the risk of users bypassing system enforced access controls due to segregation of duties conflicts is significantly increased. This subsequently increases to the risk of fraud or misstatement.	Management should ensure that where IT administrative staff require additional functionality; they should be required to request this formally. Approval should be documented, and only granted by a separate individual. Such access should also be end-dated accordingly. Periodic monitoring controls should be introduced to ensure compliance with this process. Any incidence of non-compliance should be investigated. **Management Response** TBC

Appendix B – IT recommendations

Assessment	Issue and risk	Recommendations
Significant deficiency	**Critical segregation of duties conflict between Oracle system administration and finance and developer responsibilities** We noted seven user accounts that as well as being Oracle system administrators have been allocated elevated finance / business responsibilities. This included: • NCC GL Superuser • NCC Purchasing Superuser • NCC Payables Manager We also noted that the seven system administrators have been assigned Application Developer responsibilities. The combination of financial reporting / IT programming duties and the ability to administer system security is considered a segregation of duties conflict. Users granted administrative access should not have the ability to modify financial information, process financial controls or modify live data. Users with both System Administrator and other elevated responsibilities can perform unsegregated functions, increasing the risk of bypass of system enforced access controls due to segregation of duties conflicts is significantly increased. This subsequently increases to the risk of misstatement due to fraud or error.	All financial and IT programming responsibilities should be removed from all Oracle system administrators. Should management choose to accept the risks associated with this, formalised controls should be implemented to monitor the use of finance super user and IT programming functionalities within the systems. This monitoring should be achieved through after-the-fact reports listing management approval for the actions (e.g. transactions posted, queries executed, records updated) performed by the system administrator. **Management Response** TBC

Appendix B – IT recommendations

Assessment	Issue and risk	Recommendations
Significant deficiency	**Generic / built in Oracle account with additional responsibilities assigned and the ability to bypass workflows** We noted an Oracle built-in / generic system administrator account had: • 24 responsibilities other than 'System Administrator' and 'User Management' privileges assigned to it. None of these responsibilities were end dated. • 4 developer responsibilities which is a segregation of duties risk due to the combined ability to develop changes and modify live data. • 2 processes tabs which allow bypass of key Finance cycles (e.g. Inventory). We found that the password for the system administrator account does not expire which is a breach of NCC's 'Password Standards' policy. This requires that passwords should be regularly changed with a configuration of 120 days for default accounts. Given this account is commonly known to exist and be privileged good practice to minimise risk is to keep the privileges assigned to the minimum so that in the event of the account being compromised impact is minimised. We acknowledge that access to the account is appropriately restricted to the members of the EMSS system administrator team. However, the password to the account is set to never expire or need changing so users may access the account for longer than required to carry out their responsibilities. We also noted that user activity for this account is not logged or monitored to determine whether the account activities were performed as expected and the above responsibilities were not misused. Generic accounts create an increased risk of inappropriate access to / changes to systems and data therein as there is an inherent awareness that the account will exist within the system and therefore can be targeted for inappropriate access attempts / attack. A risk is also created due to the inability to link actions performed using them to individual named users. This risk is increased when these accounts have elevated privileges such as the 'System Administrator' responsibility assigned.	a) The system administrator account cannot be disabled due to system restrictions. To ensure that this account does not present an unnecessary risk of misuse, it should have the minimum level of responsibilities assigned to it. Management should review the responsibilities assigned to it and remove all other than 'System Administrator' and 'User Management' responsibilities from it. b) Management should ensure that all accounts within Oracle EBS adhere to the password policy requirements. c) Management should also consider implementing formally documented, proactive reviews of activity logs for the system administrator account on a periodic basis to identify any inappropriate usage or suspicious activity in a timely manner. **Management Response** TBC

Appendix B – IT recommendations

Assessment	Issue and risk	Recommendations
Significant deficiency	**Generic system administration accounts with a lack of monitoring of user activity** We found that, in addition to the standard system administration account, there are two extra general system administrator accounts: One of these administrator accounts had several Finance and HR responsibilities, which created conflicts in job duties. We also noticed that one administrator account had not been used since 2008 but remained active, leading to conflicts in duties between system administration and IT programming. These accounts are not being logged or monitored for activity, which increases the risk of unauthorised access and changes to the system and its data. Additionally, using these accounts makes it difficult to trace actions back to individual users, especially when the accounts have high-level privileges like the 'System Administrator' responsibility.	a) Management should review the responsibilities assigned to the system administrator accounts to ensure it has the minimum level of privileges possible. b) Any unused generic administrator accounts should be end dated and removed from the system. c) In addition, use of generic accounts should be logged to enable a link to the user and the actions performed on each use of such accounts. **Management Response** TBC

Appendix B – IT recommendations

Assessment	Issue and risk	Recommendations
Significant deficiency	**Users with access to Oracle functions that allow workflows to by bypassed** There are 169 users assigned access which could potentially allow them to bypass workflows within Oracle. This includes Inventory, Payables and Procurement. These users gain this privilege through being assigned responsibilities which include access to the 'Processes tab' (AZN Menu). There are currently 10 responsibilities in use that grant this access. This allows workflows to be displayed diagrammatically with users able to access individual steps. Whilst this ability is useful as part of development and implementation of Oracle functions, if it remains active in the production environment it can be abused to bypass internal controls. This access allows users to have unsegregated access to full business processes. Having this access creates the risk of users being able to perform end-to-end transactions that could be used to commit fraudulent activity. The risk of such changes not being detected is increased by the absence of audit logging.	Management should review the affected Oracle users / responsibilities and exclude the functions allowing 'process tab' functionality (AZN menu) from as many of the 169 users identified as possible. If this is retained for certain accounts, a risk assessment should be undertaken to consider routes to mitigate this risk through implementing other controls or compensatory processes. For example, increased monitoring of user activity. **Management Response** TBC
Significant deficiency	**Users with Oracle access that allow high risk activity to occur (Critical Security Functions and SQL Injection)** We observed that users (including those outside of IT) had access to functions that allowed high risk activity to occur. Specifically: • 101 end users have access to the critical security function, Cross Validation rules. • 156 users have access to perform SQL injection into the system. Oracle contains several user input forms that can allow SQL code to be executed. This is a high-risk activity because SQL code injection could be used to change data within the system without formal approval or audit trail. Users can take advantage of critical function access to make changes to the system and potentially bypass or override internal controls. This then increases the risk of fraud or other inappropriate use of the system. Where users have access to potentially inject SQL code the risk is increased that unauthorised access to or modification of confidential or sensitive data within the system occurs. This subsequently increases to the risk of fraud or misstatement.	Management should review the users who have access to critical Oracle functions. Any users that do not require these functions to perform their job should have this access removed. For those users that do require this access, especially outside IT, consideration should be given to the risk created and whether additional compensatory controls (i.e. high-risk activity monitoring) are required. For SQL, management should review the affected Oracle responsibilities and exclude the functions allowing SQL code to be executed in Oracle where possible. **Management Response** TBC

Appendix B – IT recommendations

Assessment	Issue and risk	Recommendations
Deficiency	**Oracle EBS application and database passwords not compliant with best practice** Oracle application password settings do not comply with good practice to ensure strong passwords are consistently used. Specifically: • For one user, 10 failed login attempts are allowed and there is no set period in which passwords cannot be reused, therefore old passwords can be reused. We were unable to find the user concerned. • At the site level, passwords can be reused after 13 days. • Sign-On Audit Notify is not enabled, so administrators are not notified of failed logon attempts. The default Oracle database security profile assigned to active users does not comply with best practice to ensure usage of strong passwords and system security, specifically: • Unlimited failed login attempts are allowed. • Idle sessions are not automatically terminated. • Passwords are not required to be changed after a set period. • No requirement for password complexity. • Unlimited sessions per user are allowed. • The password reader does not discriminate between capital and lower-case letters. In addition, it was observed that passwords within both the database and application when stored are not hashed. These are encrypted using 2-way encryption which can be reversed and is a known security vulnerability. Improperly configured password settings increase the risk of unauthorised access on the system which may lead to bypass of controls and or unauthorised modifications of the application data. Passwords to sensitive accounts could be easily decrypted increasing the risk of inappropriate access to / changes to systems and data therein. This then increases the risk of fraud or misuse. Any user who has access to the Oracle database can decrypt user passwords.	Management should review the Oracle configuration, including but not limited to, password configuration, to align with the following standards: • Passwords should not be allowed to be reused for at least 90 days. • Sign-On Audit Notify should be enabled. • Database accounts should automatically lock after 5 failed logon attempts. • Inactive database sessions should lock out after a pre-determined, risk assessed period. • Database passwords should be required to be changed at least every 90 days. • Password complexity enabled where possible. • Accounts are restricted to one session by default within exceptions requiring approval. • Management should also review options to apply the Oracle patch to hash stored passwords, rather than encrypt them. A hash is a one-way process, meaning that passwords that have been hashed cannot be decrypted. • If the above settings are not possible for operational reasons, a risk assessment should be undertaken to identify risks and introduce mitigating controls. **Management Response** TBC

Appendix B – IT recommendations

Assessment	Issue and risk	Recommendations
Deficiency	**Leavers are not removed in a timely manner from Oracle EBS** The process in place for terminating access rights for leavers relies on monthly leavers report. This allows for users to retain Oracle access for up to a maximum of one month since their leaving date. The test performed for one sample of a terminated user identified that Oracle access was not disabled in a timely manner. One user had a leaving date of 2 February 2020. However, the user's account was still active in Oracle at the time of the audit 27 February 2020, which is 25 days since the user's last day of employment. In this case, we observed that the user account was not accessed after the user's leaving date. Nevertheless, no-longer-needed user accounts that remain active may be misused by valid system users to circumvent internal controls. Terminated employees may continue to access information assets through active user accounts.	All leavers accounts identified should be disabled in a timely manner to prevent abuse and ensure user accountability. Security administrators should also use the HR notifications to either: • end-date user accounts associated with anticipated leavers or • immediately disable user accounts associated with unanticipated leavers. **Management Response** TBC

Appendix B – IT recommendations

Assessment	Issue and risk	Recommendations
Deficiency	**Third party assurance reports are not reviewed for Velocity regarding database management** Management do not pro-actively obtain assurance reports (such as ISAE3402 / SOC) that are available from the third-party provider Velocity regarding management of the Oracle database, covering the integrity of IT and financial controls. We noted that only generic accounts are used on the Oracle database which leads to an inherent lack of accountability for the actions performed. Furthermore, audit logging had not been enabled on the Oracle database, so management are not able to review whether the activities of the third-party vendor are in line with expectations. Management is unaware of the IT controls that are put in place to ensure the integrity of financial data.	Management should validate on a routine basis that essential IT security controls and processes are in place to safeguard the council's financial information. This can be achieved through annual reviews of service attestation reports. These reports provide independent assurances on the adequacy of internal controls put in place by third parties. **Management Response** TBC

Appendix C - Summary of audit and issues identified (by exception)

Financial statement area	Summary of work to date and findings
Property Plant and Equipment (PPE) £2,660m per draft accounts published on 29 May 2020. £2,642m per final accounts dated 8 November 2023.	As previously mentioned in the report, the area of Property, Plant, and Equipment (PPE) has experienced numerous delays and errors, especially concerning assets valued at Depreciated Replacement Cost (DRC). Throughout the audit process, we have conducted extensive audit procedures related to the Council's PPE balance, including scrutiny of the floor areas used in determining the valuation, the economic useful lives used for depreciation, and the treatment of infrastructure assets. As a result of our challenges, the Council has initiated a comprehensive review of the asset register, leading to several adjustments being made to the financial statements. While we have received high-level working papers supporting these adjustments, additional substantial work is necessary to ensure the completeness and accuracy of the changes. Unfortunately, due to the statutory audit backstop, we lack sufficient time to complete the planned audit procedures in this area. Consequently, we are unable to conclude our work in this area. The findings of our work carried out to date are summarised below: **Adjustments made to the draft financial statements by management** Management has made several adjustments to the draft financial statements regarding Property, Plant, and Equipment. The net total of these adjustments decreases the PPE balance as reported in the draft financial statements by £18.5m compared to the updated version of the financial statements. The adjustments made to the financial statements, which exceed our reporting threshold, are as follows: **1) Classification adjustments- £72.9m** Through our testing of PPE, several assets have been identified which were incorrectly classified. The Council has reviewed balances within the financial statements and reclassified assets totalling £72.9m. The largest movement being £64.4m of assets reclassified from Vehicles, Plant and Equipment to Infrastructure Assets. **2) Prior period adjustment of £20.284m** Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Where a change is made, it is applied retrospectively by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied. An error was identified in relation to building floor areas used in the DRC valuation process. Evidence could not be provided to support some floor areas and as such revised valuations were obtained by the Council. As the same floor areas had been used as part of the 2018/19 revaluation process the carrying value of PPE on the balance sheet was found to be materially overstated by £20.284m as at 31 March 2019, with opposite entry impacting unusable reserves. **3) New valuations obtained in year - £15.7m** Part way through the 2019/20 audit, the Council instructed new valuation experts to reperform DRC valuations. As part of this process, it was identified several assets had been revalued using the incorrect valuation basis for the type of asset. All DRC assets were subsequently revalued by the Council' expert resulting in valuation adjustments being processed through the financial statements. The total impact on the account balance is a reduction in PPE balance of £15.7m.

Appendix C - Summary of audit and issues identified (by exception)

Financial statement area	Summary of work to date and findings
Property Plant and Equipment continued £2,660m per draft accounts published on 29 May 2020. £2,642m per final accounts dated 8 November 2023.	**4) Depreciation amendment of £14.7m.** As a consequence of the adjustments made above. Management have also adjusted the relevant depreciation change for each asset category. The total impact of these adjustments on the 2019/20 financial statements resulted in an increase in PPE balance of £14.7m and reduction in deprecation charged in year of same amount. **5) PFI additions adjustment £7.234m** The Council carried out a review of the Nottingham Express Transit (NET) PFI scheme. It was identified that lifecycle additions included within the PFI accounting model had not been included within the asset register. This was adjusted within the financial statements resulting in a £7.234m increase in PPE additions. **6) REFCUS additions - £2.534m** The Council have identified capital additions in year that should have been charged to revenue as REFCUS in year. This has been adjusted within the financial statements resulting in a decrease in PPE balances of £2.534m. **7) PPE existence review - £1.326m** The Council completed an existence review of infrastructure assets. A number were identified as being replaced or at the end of their UEL. The assets have been derecognised within the financial statements resulting in a £1.326m reduction in PPE balance. **Factual and extrapolated unadjusted misstatements** Our testing to date has also identified one extrapolated misstatement based on auditor judgement, which results in a net overstatement to PPE totalling £0.6m and two factual unadjusted misstatement which results in a net overstatement to PPE totalling £1m. No unadjusted misstatements identified are individually above our determined materiality threshold

Appendix C - Summary of audit and issues identified (by exception)

Financial statement area	Summary of work to date and findings
Cost of service- Fees and Charges Income £292m per draft accounts published on 29 May 2020. £292m per final accounts dated 8 November 2023.	To date, we have carried out substantial work in relation to the Council's Fees and Charges Balance. As a result of the errors identified in our sample testing thus far, we are unable to conclude that the balance is free from material misstatement. Due to the audit backstop imposed by statute we do not have sufficient time to complete audit procedures in this area. As such we are unable to conclude the balance is free from material misstatement. The findings of our work carried out to date are summarised below. **Factual and extrapolated unadjusted misstatements** Our testing to date has identified one extrapolated misstatement based on auditor judgement, which results in an overstatement of income totalling £1.6m. Our testing has also identified two factual misstatements relating to specific transactions, resulting in a net overstatement of income totalling £1m. No unadjusted misstatements identified are individually above our determined materiality threshold.
Cost of service- Grant Income £446.5m per draft accounts published on 29 May 2020. £445.8m per final accounts dated 8 November 2023.	To date, we have carried out substantial work in relation to the Council's Grant Income balance. Adjustments made are listed below and, although we have received high level working papers to support amendments made, significant additional work would be required to gain assurance over the completeness and accuracy of the adjustments made. Due to the audit backstop imposed by statute we do not have sufficient time to complete planned audit procedures in this area. As such we are unable to conclude the balance is free from material misstatement. The findings of our work carried out to date are summarised below: **Adjustments made to the draft accounts** Management have made one adjustment to the draft financial statements in relation to Housing Benefit Income. The total of the adjustment decreases the income balance by £0.7m. **Factual and extrapolated unadjusted misstatements** Our testing to date has also identified one factual misstatement resulting is a net overstatement to grant income totalling £1.2m. The adjustment is not significant. No unadjusted misstatements identified are individually above our determined materiality threshold.

Appendix C - Summary of audit and issues identified (by exception)

Financial statement area	Summary of work to date and findings
Total Expenditure £1,077m per draft accounts published on 29 May 2020. £1,053m per final accounts dated 8 November 2023.	We have carried out extensive audit procedures in relation to the Council's Operating Expenditure balance. As a result of the errors identified in our sample testing thus far, we are unable to conclude that the balance is free from material misstatement. Adjustments made by management are listed below. We have received high level working papers to support amendments made. However, significant additional work would be required to gain assurance over the completeness and accuracy of the adjustments made. Due to the audit backstop imposed by statute we do not have sufficient time to complete audit procedures in this area. As such we are unable to conclude the balance is free from material misstatement. The findings of our work carried out to date are summarised below: **Adjustments made to the draft financial statements by management** Management have made several adjustments to the draft financial statements in relation to expenditure. The net total of adjustments decrease the expenditure balance by £24m, when compared to the updated version of the financial statements. Adjustments made to the financial statements above our reporting threshold are as follows: **1) Depreciation amendment of £14.7m.** As a consequence of PPE related adjustments. Management have also adjusted the relevant depreciation change for each asset category. The total impact of these adjustments on the 2019/20 financial statements resulted in decrease in depreciation expenditure balance of £14.7m. **2) Adult social care £11.6m.** Through testing of the adult social care year end accrual, we identified that the related transactions had not occurred in 2019/20. The Council have reviewed its year-end balance and adjusted the full amount from the ledger, reducing in year expenditure and the related creditor. **3) PFI additions adjustment £7.234m** The Council carried out a review of the Nottingham Express Transit (NET) PFI scheme. It was identified that lifecycle additions included within the PFI accounting model had not been included within the asset register. This was adjusted within the financial statements resulting in a £7.234m reduction in expenditure. **4) New valuations obtained in year - £6.5m** Part way through the 2019/20 audit the council instructed new valuation experts to reperform DRC valuations. As part of this process, it was identified a number of assets had been revalued using the incorrect valuation basis for the type of asset. All DRC assets were subsequently revalued by the Council' expert and Management have made an adjustment to account for errors identified in the 2019/20 valuations. The total impact on the account balance is an increase in year-end expenditure by £6.5m. This is the portion of the revaluation adjustment which has been charged to cost of sales.

Appendix C - Summary of audit and issues identified (by exception)

Financial statement area	Summary of work to date and findings
Total Expenditure **Continued** £1,077m per draft accounts published on 29 May 2020. £1,053m per final accounts dated 8 November 2023.	**5) REFCUS additions - £2.534m** The Council have identified capital additions in year that should have been charged to revenue as REFCUS in year. This has been adjusted within the financial statements resulting in an increase of expenditure £2.534m. **6) Housing benefit expenditure £1.5m** Through reconciliation of the revenues system to the general ledger the Council identified a journal posted in error. The journal was subsequently reversed and adjusted for. The total impact is a reduction in year-end housing benefit expenditure and related creditor. **7) PPE existence review - £1.326m** The Council completed an existence review of infrastructure assets. A number were identified as being replaced or at the end of their UEL. The assets have been derecognised within the financial statements resulting in a £1.326m increase in year-end expenditure. **Factual or extrapolated unadjusted misstatements** Our testing to date has also identified seven extrapolated misstatements based on auditor judgement. They result in a net overstatement of creditors totalling £5.1m and three factual unadjusted misstatement which results in a net overstatement of creditors totalling £3.3m. No unadjusted misstatements identified are individually above our determined materiality threshold.

Appendix C - Summary of audit and issues identified (by exception)

Financial statement area	Summary of work to date and findings
Short Term Debtors £150m per draft accounts published on 29 May 2020. £150m per final accounts dated 8 November 2023.	To date, we have carried out substantial work in relation to the Council's debtor balance. As a result of the errors identified in our sample testing thus far, we are unable to conclude that the balance is free from material misstatement. Significant additional work would be required to gain assurance over the completeness and accuracy of the account balance. Due to the audit backstop imposed by statute we do not have sufficient time to complete audit procedures in this area. As such, we are unable to conclude the balance is free from material misstatement. The findings of our work to date are summarised below: **Factual or extrapolated unadjusted misstatements** Our testing to date has also identified one extrapolated misstatements based on auditor judgement. They result in a net overstatement of debtors totalling £0.8m and one factual unadjusted misstatement which results in a net overstatement of debtors totalling £1m. No unadjusted misstatements identified are individually above our determined materiality threshold.

Appendix C - Summary of audit and issues identified (by exception)

Financial statement area	Summary of work to date and findings
Short-Term Creditors £133.5m per draft accounts published on 29 May 2020. £122.3m per final accounts dated 8 November 2023.	We have carried out extensive audit procedures in relation to the Council's Short-Term Creditor balance. As a result of the errors identified in our sample testing thus far, we are unable to conclude that the balance is free from material misstatement. Several adjustments have been made to the financial statements by management, which are listed below. We have received high level working papers to support amendments made. However, significant additional work would be required to gain assurance over the completeness and accuracy of the adjustments made. Due to the audit backstop imposed by statute we do not have sufficient time to complete audit procedures in this area. As such, we are unable to conclude the balance is free from material misstatement. The findings of our work carried out to date are summarised below: **Adjustments made to the draft financial statements by management** The net total of adjustments decrease the Short-Term Creditors balance as reported in the draft accounts by £11.2m, when compared to the latest version of the financial statements. Adjustments made to the financial statement above our reporting threshold are as follows: **1) Adult social care £11.6m.** Through testing of the adult social care year end accrual, we identified that the related transactions had not occurred in 2019/20. The Council have reviewed its year-end balance and adjusted the full amount from the ledger, reducing in year expenditure and the related creditor **2) PFI reclassification £5.63m** The Council identified an inaccuracy with the initial split of PFI liabilities between long and short term presented on the face of the balance sheet. The Council have adjusted part of the long-term liability into short term creditors to reflect the model. The adjustment increases the creditors balance by £5.6m **3) RIA Reclassification £4.7m** Through testing of short-term creditors, we have identified a £4.7m misclassification between creditors and receipts in advance. Management have adjusted the amount and reclassified the balance. The adjustment reduces the short-term creditor year-end balance. **4) Housing benefit expenditure £1.5m** Through reconciliation of the revenues system to the general ledger, the Council identified a journal posted in error. The journal was subsequently reversed and adjusted for. The total impact is a reduction in year-end housing benefit expenditure and related creditor. **Factual or extrapolated unadjusted misstatements** Our testing to date has also identified seven extrapolated misstatements based on auditor judgement. They result in a net overstatement of creditors totalling £5.02m and one factual unadjusted misstatement which results in a net overstatement of creditors totalling £1m. No unadjusted misstatements identified are individually above our determined materiality threshold.

Appendix C - Summary of audit and issues identified (by exception)

Financial statement area	Summary of work to date and findings
Revenue Grants Received in Advance £21.2m per draft accounts published on 29 May 2020. £25.6m per final accounts dated 8 November 2023.	We have carried out extensive audit procedures in relation to the Council's revenue grants RIA balance. An adjustment has been made to the financial statements, listed below. Although we have received high level working papers to support amendments made, significant additional work would be required to gain assurance over the completeness and accuracy of the adjustments made. Due to the audit backstop imposed by statute we do not have sufficient time to complete audit procedures in this area. As such, we are unable to conclude the balance is free from material misstatement. The findings of our work carried out to date are summarised below: **Adjustments made to the draft financial statements by management** **1) RIA Reclassification £4.7m** Through testing of short-term creditors, we have identified a £4.7m misclassification between creditors and receipts in advance. Management have adjusted the amount and reclassified the balance. The adjustment increase the revenue grants RIA yearend balance. **Factual or extrapolated unadjusted misstatements** None identified
Other Long-Term Liabilities £191.4m per draft accounts published on 29 May 2020. £185.3m per final accounts dated 8 November 2023.	We have carried out extensive audit procedures in relation to the Council's other long term liabilities balance. An adjustment has been made to the financial statements, listed below. Although we have received high level working papers to support amendments made, significant additional work would be required to gain assurance over the completeness and accuracy of the adjustments made. Due to the audit backstop imposed by statute we do not have sufficient time to complete audit procedures in this area. As such we are unable to conclude the balance is free from material misstatement. The findings of our work carried out to date are summarised below: **Adjustments made to the draft financial statements by management** **1) PFI reclassification £5.63m** The Council identified an inaccuracy with the initial split of PFI liabilities between long and short term presented on the face of the balance sheet. The council have adjusted part of the long-term liability into short term creditors to reflect the model. The adjustment decreases the Other Long term Liabilities balance by £5.6m **Factual or extrapolated unadjusted misstatements** None identified

Appendix C - Summary of audit and issues identified (by exception)

Financial statement area	Summary of work to date and findings
Usable Reserves £238m per draft accounts published ion 29 May 2020 £250m per final accounts dated 8 November 2023	We have carried out extensive audit procedures in relation to the Council's usable reserves. As a consequence of audit adjustments detailed on pages 39 to 48, the financial statement balance has increased by £12m. Although we have received high level working papers to support amendments made, significant additional work would be required in order to gain assurance over the completeness and accuracy of the adjustments made. Due to the audit backstop imposed by statute we do not have sufficient time to complete planned audit procedures in this area. As such we are unable to conclude the balance is free from material misstatement.
Unusable Reserves £917m per draft accounts published on 29 May 2020 £899m per final accounts dated 8 November 2023.	We have carried out extensive audit procedures in relation to the Council's unusable reserves. As a consequence of audit adjustments detailed on pages 39 to 48, the financial statement balance has decreased by £18m. Although we have received high level working papers to support amendments made, significant additional work would be required in order to gain assurance over the completeness and accuracy of the adjustments made. Due to the audit backstop imposed by statute we do not have sufficient time to complete planned audit procedures in this area. As such we are unable to conclude the balance is free from material misstatement.
Housing Revenue Account	In December 2021, the Interim Chief Finance Officer issued a s114 notice after they identified that over a seven-year period, including the 2019/20 financial year, the council had unlawfully breached the ring-fencing requirement for the Housing Revenue Account. A full review and work undertaken by the Council has resulted in an adjustment to the 2019/20 financial statements and also a prior period adjustment. We have received high level working papers to support amendments made, significant additional work would be required in order to gain assurance over the completeness and accuracy of the adjustments made. Due to the audit backstop imposed by statute we do not have sufficient time to complete planned audit procedures in this area. As such we are unable to conclude that the balance is free from material misstatement. **Adjustments made to the draft financial statements by management** **1) Prior period adjustment (PPA)** Prior period adjustments may arise as a result of a change in accounting policies or to correct a material misstatement. Where a change is made it is applied retrospectively by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied. As referred to above a PPA has been triggered based on the incorrect use of HRA funds since 2014/15. The adjustment is a reclassification between the General Fund and the HRA for £21.4m. **2) 2019/20 Adjustment** As referred to above, an in-year adjustment has been triggered based on the incorrect ringfencing of HRA funds. The adjustment is a reclassification between the General Fund and the HRA for £5.1m.

Appendix C - Summary of audit and issues identified (by exception)

Financial statement area	Summary of work to date and findings
Group Accounts	We have carried out extensive audit procedures in relation to the Council's group accounts. Although we have received high level working papers to support amendments made, significant additional work would be required in order to gain assurance over the completeness and accuracy of the adjustments made. Due to the audit backstop imposed by statute we do not have sufficient time to complete planned audit procedures in this area. As such we are unable to conclude the balance is free from material misstatement. The findings of our work carried out to date are summarised below: **Adjustment made to the draft financial statements by management** **1) Robin Hood Energy Limited (Group Only)** Robin Hood Energy (RHE) Limited is a wholly owned subsidiary of the Council, as such the accounts of RHE Limited are consolidated on a line-by-line basis into the Council's group accounts. At the time the Council's financial statements were prepared, 2019/20 RHE values included were based on RHE sage account system and were used as the basis for consolidation. At a later stage updated RHE financial statements were received and as such the Councils financial statements were updated to reflect these values. Group accounts expenditure was adjusted by £6.2m, with corresponding credit entries to the balance sheet; intangible assets (£2.7m), short term debtors (£1.9m), PPP (£0.6m), current provisions (£0.4m) and short-term creditors (£0.4m). **Factual and Extrapolated unadjusted misstatements** No adjustments have been made to the group financial statements for entities that are on different financial reporting frameworks. It is the Council's view that this would not have a material impact on reported values. The Council have reviewed PPE and Investment accounting and determined from this review that no adjustments were required. We have been provided with working papers to support the valuation of Nottingham City Homes (NCH) property, this projects that group properties could be understated in value by £6.7m.

Appendix D - Misclassification and disclosure changes (by exception)

The table below provides details of misclassification and disclosure changes identified during the audit which have been made between the draft financial statements and final set of financial statements. Due to the audit backstop imposed by statute we do not have sufficient time to complete planned audit procedures regarding accounts disclosures.

Disclosure/issue/omission	Auditor recommendations	Adjusted?	Reason for not adjusting
Prior Period adjustment– primary statements Errors have been identified which related to prior year, impacting on primary financial statements (PPE and HRA) . In accordance with IAS 8 the Council should disclose full details for prior period adjustments to enable the reader to understand the extent of such changes.	In accordance with IAS 8 revised disclosures are required in relation to changes made to the comparatives.	Yes	N/A
Prior Period adjustment– Leases A disclosure misstatement has been identified relating to comparative disclosure within note 4.7.10. Future minimum lease payments receivable under non- cancellable leases have been restated from £420.792m to £308.857m, a difference of £111.935m. In accordance with IAS 8 the Council should disclose full details for prior period adjustments to enable the reader to understand the extent of such changes.	The Council should ensure this change is clear to reader of the financial statements given it is a material disclosure change	No	TBC
Note 4.7.10 Future minimum lease payments receivable A disclosure misstatement has been identified relating to note 4.7.10. Future minimum lease payments receivable under non- cancellable leases have been miscalculated and should total 299.257m, not £406.821m.	Amend note 4.7.10 to recalculated values	Yes	N/A
Narrative report changes A number of changes have been made to the financial statements which alter reported values within the narrative report	Update narrative report to ensure consistent with updated financial statements.	Yes	N/A
Note 4.7.13 - PFI Future Payments A calculation error was identified in the disclosure. The impacted line items within the disclosure are 'LIFT Unitary Charge' and disclosure total. Total adjustment is £1.71 decrease in future payments from £45.279 to £43.570m and for the total disclosure draft £832.234 and adjusted figure is £830.525. This is a disclosure amendment only and does not impact the primary financial statements	The council should amend PFI Future payments note.	Yes	N/A

Appendix D - Misclassification and disclosure changes (by exception)

Disclosure/issue/omission	Auditor recommendations	Adjusted?	Reason for not adjusting
Note 4.10 – Estimation uncertainty disclosures Per IAS 1, this disclosure should include the carrying amount of the relevant assets/liabilities for each source of estimation uncertainty described, including relevant sensitivity analysis. At present this is disclosed for some, primarily pension liability , but not all areas of estimation uncertainty.	The Council should review its disclosures relating to estimation uncertainty against the requirements of IAS1.	No	The Council will review its estimation uncertainty disclosure as part of its preparation of the draft Accounts 2023/24.
Officer remuneration - senior officer remuneration Restatement of 2018/19 disclosure from draft to final accounts to include 2 additional senior officers to ensure comparatives are consistent with 2019/20 reporting. The two additional officers added to the restatement of comparatives are the Director for Legal and Monitoring officer and the Director of Public Health, as these posts both now report to the Chief Executive for 2019/20.	Restate comparative	Yes	N/A
Collection Fund Accounts- Note 5.2.2.1- National Non-Domestic Rates Net debit after adjustments and reliefs draft financial statements balance of £138.432m did not reconcile with Delta QRC4 document from the revenues system, the council have adjusted the amount to £141.622m to ensure it reflects the net collectable amount for 2019/20.	Update net debit to ensure agrees to Delta report	Yes	N/A
Note 4.2 .1 Expenditure and Funding Analysis The EFA per draft financial statements does not meet requirements of IFRS 8- Operating Segments. The council should include additional columns for: 1) General Fund Revenue Outturn reported to members and 2) Adjustments to arrive at the net expenditure chargeable to GF and HRA balances.	We recommended that the Council adjust to a 5 column EFA to ensure that requirements of financial reporting standards were met.	Yes	N/A
Accounting policies – Infrastructure The Council has adopted the statutory override in relation to the reporting of infrastructure assets and will provide an additional accounting policy for the 2019/20 Statement of Accounts. In addition, the council will need to update the PPE note to exclude the reporting of gross carrying value and accumulated depreciation, but will instead report the net carrying value and in year movements to arrive at the NBV as at 31 March 2020.	Update accounting policies and PPE note regarding statutory override	Yes	N/A

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Appendix D - Misclassification and disclosure changes (by exception)

Disclosure/issue/omission	Auditor recommendations	Adjusted?	Reason for not adjusting
Note 4.7.6 Dedicated Schools Grant Disclosures in relation to dedicated Schools Grant do not agree to supporting working papers. Carry forward balance per supporting working papers are £7.244m (draft £6.99m). Impacted by adjustments to: 1) In year adjustments Final £0.245 (draft £0.019) 2) Final Distribution for 2019/20- final £111.001 (draft £110.775) 3) Total DSG after academy recoupment final £109.789 (draft £109.544)	Amend DSG disclosure to ensure agree to supporting working papers	Yes	N/A
Capital commitments Our testing of this balance identified items where there was no contractual commitment. The draft financial statements disclosure has reduced by £3.8m from £153.828m to £150.078m The adjustments relate to the following projects: £1.730m decrease in 'Decent Homes-Safe' £0.807m decreased in 'Additional Tenant priorities' £1.114m decrease in 'Building a better Nottingham	Amend capital commitment note to ensure this reflects only contractual commitments in place	Yes	N/A
Related parties A number of changes have been made to the financial statements in relation to group transactions. Disclosures linked to this included within related party transactions should also be updated Disclosure table detailing RP transactions where a member has interest Payments decrease by £11.2m (draft £137m, adjusted £125.9m)	Update related party transactions following group financial statements amendments	Yes	N/A

Appendix E - Fees

We confirm below our final fees charged for the statutory audit service.

Audit fees	Proposed fee	Final fee
Council Audit	£159,881	£224,881
Total audit fees (excluding VAT)	**£159,881**	**£224,881**

The scale fee is set and agreed by Public Sector Audit Appointments Ltd (PSAA), with all variations to the scale fee subject to a formal agreement process. Since the setting of the scale fee, there have been several local risk factors and national developments, which have significantly increased the cost of delivering the Council's audit. These are set out in more detail on the next page. The fee variations were agreed with management and approved by PSAA.

Non-audit fees for other services	Proposed fee	Final fee
Audit Related Services		
Certification of Teacher's pension return 2019/20	£5,000	£5,000
Non- Audit Related Services		
CFO Insights	£10,000	£10,000
Total non- audit fees (excluding VAT)	**£15,000**	**£15,000**

Audit and non-audit fees reconcile to the financial statements.

Appendix E - Fees

Planned audit fees

The table below shows the fee variations to the original scale fee published by PSAA for 2019/20.

Audit area	£	Rationale for fee variation
Scale fee	**132,531**	
Raising the bar	9,000	Additional audit work to increase challenge and scepticism in areas such as journals, key accounting estimates and information provided by the entity.
Materiality	3,000	Additional audit work due to reduced audit materiality level, reflecting the higher risk profile of local audit.
Pensions – valuation of net pension liabilities under International Auditing Standard (IAS) 19	3,500	We have increased the granularity, depth and scope of coverage, with increased levels of sampling, additional levels of challenge and explanation sought, and heightened levels of documentation and reporting.
PPE Valuation – additional audit work	9,350	We have increased the granularity, depth and scope of coverage, with increased levels of sampling, additional levels of challenge and explanation sought, and heightened levels of documentation and reporting.
Impact of new standards/developments	2,500	Note that PSAA's original scale fee for this contract was set in March 2018, so any new developments since that time need to be priced in.
Proposed audit fee	**159,881**	
Group accounts	8,000	Additional audit work on group accounts due to failure of RHE
PPE valuation – cost of audit expert	5,000	We have engaged our own audit expert and increased the volume and scope of our audit work to ensure an adequate level of audit scrutiny and challenge over the assumptions that underpin PPE valuations.
Extended sample testing due to errors	15,000	Extended sample testing due to errors identified in our initial testing of fees and charges, debtors, creditors, operating expenditure and grants.
Additional risk-based VFM work	12,000	Additional risk-based VFM work due to concerns identified in the Council's arrangement regarding financial sustainability, company governance and management of major projects.
Additional work on PPE, management override of control and journals	25,000	Additional work is needed on PPE due to the loss of valuation records. Furthermore, extra work necessary due to management override of controls and journals following the unlawful breach of the HRA ringfence.
Final audit fee	**224,881**	

Appendix F – Ministerial Statement on Local Audit Backlog

Statement made by Jim McMahon (Minister of State for Local Government and English Devolution) on 30 July 2024

Local authorities and other local bodies, including police, fire, transport and waste authorities, as well as national parks, provide vital public services to local communities. Effective local audit ensures transparency and accountability for public money spent on these vital services, and builds public confidence.

The Government has inherited a broken local audit system in England. This is evidenced by a significant backlog of outstanding unaudited accounts. Last year, just one per cent of councils and other local bodies published audited accounts on time. The backlog is likely to increase again to around 1000 later this year, and without decisive action will continue to rise further. This is not acceptable, and it cannot continue.

This government's manifesto committed to overhaul the local audit system to enable taxpayers to get better value for money. A growing backlog will severely hamper necessary fundamental reforms to repair the system, and will continue to undermine local accountability and governance. We must act now to get the house in order and to rebuild the system so that it is fit, legal, and decent, and the public have an effective early warning system.

This statement outlines immediate actions the Government – together with the Financial Reporting Council (FRC), the National Audit Office (NAO), and organisations in the wider system – is taking, which are designed to address the backlog and put local audit on a sustainable footing. The previous Government launched a welcome consultation on this issue in February. Despite a lack of action, there was clear support for the core elements of the approach to clearing the backlog. All key local audit organisations support these bold measures, recognise their exceptional nature, and continue to share the conviction that this urgent and decisive action is needed to reset the system and repair the foundations of local government.

Local authorities and other local bodies, alongside their auditors, are our partners in this plan to restore a system of high-quality and timely financial reporting and audit, while managing the impact of this in a sustainable way. I commend the commitment of local finance teams and auditors in their work to date.

Proposed secondary legislation

I intend to lay secondary legislation when parliamentary time allows, and, at the point at which the Comptroller and Auditor General requests, I would also lay a new Code of Audit Practice (again, subject to parliamentary time). Taken together, these measures aim to facilitate a return to timely, purposeful audits of local body accounts. The secondary legislation would amend the Accounts and Audit Regulations (2015) to set a series of backstop dates.

The first backstop date would clear the backlog of unaudited accounts up to and including 2022/23, but given the size of the audit backlog, it is unlikely that all outstanding audits will be completed in full ahead of this date. The Government recognises that this is likely to have unfortunate consequences for the system in the short term, and has been forced to take this difficult decision due to the backlog we inherited. This Government is determined, however, to make the tough choices necessary to begin rebuilding the foundations of local government. Where auditors have been unable to complete audits, they will issue a 'disclaimed' or 'modified' audit opinion. Auditors are likely to issue hundreds of 'disclaimed' audit opinions and disclaimed opinions will likely continue for some bodies for a number of years.

The proposed legislation will include five further backstop dates up to and including financial year 2027/28 to allow full assurance to be rebuilt over several audit cycles. It is the aspiration of the Government and key local audit system partners that, in the public interest, local audit recovers as early in this five-year period as possible. This means disclaimed opinions driven by backstop dates should, in most cases, be limited to the next two years (up to and including the 2024/25 backstop date of 27 February 2026), with only a small number of exceptional cases, due to specific individual circumstances, continuing thereafter. The proposed backstop dates are:

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- Financial years up-to-and-including 2022/23: 13 December 2024
- Financial year 2023/24: 28 February 2025
- Financial year 2024/25: 27 February 2026
- Financial year 2025/26: 31 January 2027
- Financial year 2026/27: 30 November 2027
- Financial year 2027/28: 30 November 2028

While there will be modified and disclaimed opinions, auditors' other statutory duties – including to report on Value for Money (VfM) arrangements, to make statutory recommendations and issue Public Interest Reports – remain a high priority. Our government will make that crystal clear.

For financial years 2024/25 to 2027/28, the date by which Category 1 bodies should publish 'draft' (unaudited) accounts will change from 31 May to 30 June following the financial year to which they relate. This will give those preparing accounts more time to ensure they are high-quality accounts. This in turn will benefit auditors while still ensuring publication shortly after financial year end.

The proposed legislation will outline the following scenarios in which bodies may be exempt: where auditors are considering a material objection; where recourse to the court could be required; or from 2023/24, where the auditor is not yet satisfied with the body's Value for Money arrangements. Where such an exemption exists, the legislation would include a requirement to publish the audit opinion as soon as practicable. For transparency, if a body is exempt, they would be required to publish an explanation of their exemption at the time of a backstop date.

Bodies that are non-exempt but have failed to comply with a backstop date will be required to publish an explanation, to send a copy of this to the Secretary of State (to facilitate scrutiny) and publish audited accounts as soon as practicable. The Government also intends to publish a list of bodies and auditors that do not meet the proposed backstop dates, which will make clear where 'draft' (unaudited) accounts have also not been published. I intend to keep this under close review and may explore further mechanisms to take appropriate action, should reasons given be inadequate.

As previously committed to, the FRC and the Institute of Chartered Accountants in England and Wales (ICAEW) will not carry out routine inspections of local audits for financial years up to and including 2022/23, unless there is a clear case in the public interest to do so.

Communications to support local bodies and auditors

There will be extensive communications and engagement on these measures, to make clear the necessity of these steps and emphasise the context for modified or disclaimed opinions. Local bodies should not be unfairly judged based on disclaimed or modified opinions, caused by the introduction of backstop dates that are largely beyond their control. Auditors will be expected to provide clear reasons for the issuing of such opinions to mitigate the potential reputational risk that local bodies may face. We will work with partners to provide communications support to the system.

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Guidance for auditors would be published by the Comptroller and Auditor General and endorsed by the FRC, confirming that there are no contradictions to the requirements or the objectives of International Auditing Standards (UK). A proportionate approach is required and all system partners including the FRC, NAO and auditors, are aware that this is the Government's objective. The FRC's and ICAEW's regulatory activity would consider auditors' adherence to the Code and whether proper regard has been given to the statutory guidance.

Audit fees

Issuing a disclaimed or modified audit opinion and a subsequent return to being able to fully complete audits will require differing levels of work by auditors. Public Sector Audit Appointments Ltd (PSAA) will set scale fees and determine fee variations where the auditor undertakes substantially more or less work than assumed by the scale fee and will consult with bodies where appropriate. In doing so PSAA will apply the following principles: if auditors have worked in good faith to meet the requirements of the Code of Audit Practice in place at the time the work was conducted (and have reported on work that is no longer required), then they are due the appropriate fee for the work done, and the body is due to pay the applicable fee, including where there is a modified or disclaimed opinion. Conversely, if an auditor has collected audit fees in part or in full, and the backstop date means that the total work done represents less than the fee already collected, then the auditor must return the balance and refund the body the appropriate amount – this ensures that the bodies pay only for work that has been done and reported.

Conclusion

I recognise that aspects of these proposals are uncomfortable. Given the scale of the failure in the local audit system that this Government inherited, however, we have had to take this difficult decision to proceed. Without this decisive action, the backlog would continue to grow, and the system will move even further away from timely assurance. The secondary legislation I will lay will give effect to these proposals and start to repair the foundations of local governance. Significant reform is needed to overhaul the local audit system to get the house in order and open the books. I will continue to review the evidence, including considering the recommendations of external reviews to date, and will update the House in the Autumn on the Government's longer-term plans to fix local audit.