

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

Report on the Audit of the Financial Statements

Disclaimer of opinion

We were engaged to audit the financial statements of Nottingham City Council (the 'Authority') and its subsidiaries (the 'Group') for the year ended 31 March 2023 which comprise the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Movement in Reserves Statement, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, the Collection Fund Statement, the Group Comprehensive Income and Expenditure Statement, the Group Balance Sheet, the Group Movement in Reserves Statement and the Group Cash Flow Statement and notes to the financial statements, including a summary of significant accounting policies. The notes to the financial statements include the Expenditure and Funding Analysis, Notes to the Core Statements, Policies and Judgements, Notes to the Housing Revenue Account Financial Statement, Notes to the Collection Fund Statement and Notes to the Group Accounts. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2022/23.

We do not express an opinion on the accompanying financial statements of the Authority or the group. Because of the significance of the matters described in the basis for disclaimer of opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

Basis for disclaimer of opinion

The Accounts and Audit (Amendment) Regulations 2024 ('the Regulations') require the Authority to publish audited financial statements for the year ended 31 March 2023 by 13 December 2024 ('the backstop date'). The backstop date has been put in law with the purpose of clearing the backlog of historical financial statements. We have not been able to obtain sufficient appropriate audit evidence by the backstop date to conclude that the Authority's or the Group's financial statements for the year ended 31 March 2023 as a whole are free from material misstatement. We were also unable to obtain sufficient appropriate evidence for the corresponding figures for the same reason. We have therefore issued a disclaimer of opinion on the financial statements. This enables the Authority to comply with the requirement in the Regulations that they publish audited financial statements for the year ended 31 March 2023 by the backstop date. We have concluded that the possible effects on the financial statements of undetected misstatements arising from this matter could be both material and pervasive.

In addition, in our auditor's report for the year ended 31 March 2020, we issued a disclaimer of opinion as:

- we were unable to establish whether management override of controls was the cause of a breach of the Housing Revenue Account ('HRA') ringfencing requirement in 2019/20 and prior years, and whether other similar instances of both non-compliance with laws and regulations or management override of controls could have occurred; and
- we were unable to gain sufficient appropriate audit evidence on the operating expenditure of the Authority due to the volume of errors identified.

As a result of these matters, we were unable to appropriately respond to potential non-compliance with laws and regulations identified during the audit, obtain sufficient appropriate audit evidence regarding compliance with the provisions of those laws and regulations, and perform specified audit procedures to identify instances of non-compliance with other laws and regulations or management override of controls that may have a material effect on the financial statements. We concluded that the possible effects on the financial statements of undetected misstatements arising from these matters could be both material and pervasive.

These matters have not been resolved in the 2022/23 financial year and therefore their impact could be both material and pervasive to the current year financial statements.

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

Because of the significance of the matter described in the basis for disclaimer of opinion section of our report, we have been unable to consider whether the Annual Governance Statement¹ does not comply with 'delivering good governance in Local Government Framework 2016 Edition' published by CIPFA

and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

Opinion on other matters required by the Code of Audit Practice

The Corporate Director, Finance and Resources is responsible for the other information. The other information comprises the information included in the Statement of Accounts, other than the Authority's and group's financial statements and our auditor's report thereon. Because of the significance of the matter described in the basis for disclaimer of opinion section of our report, we have been unable to form an opinion, whether based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority gained through our work in relation to the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources, whether the other information published together with the financial statements in the Statement of Accounts for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

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

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

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

Responsibilities of the Authority, the Corporate Director, Finance and Resources and Those Charged with Governance for the financial statements

As explained in the Statement of Responsibilities, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Corporate Director, Finance and Resources. The Corporate Director, Finance and Resources is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2022/23, for being satisfied that they give a true and fair view, and for such internal control as the Corporate Director, Finance and Resources determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's responsibilities for the audit of the financial statements

Our responsibility is to conduct an audit of the Authority's and group's financial statements in accordance with International Standards on Auditing (UK) and to issue an auditor's report. However, because of the matter described in the basis for disclaimer of opinion section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on those financial statements.

We are independent of the Authority and group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

The audit was defective in its ability to detect irregularities, including fraud, on the basis that we were unable to obtain sufficient appropriate audit evidence due to the matter described in the basis for disclaimer of opinion section of our report.

Report on other legal and regulatory requirements – the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Matter on which we are required to report by exception – the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Under the Code of Audit Practice, we are required to report to you if, in our opinion, we have not been able to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2023.

We have nothing to report in respect of the above matter except for:

We reported the following significant weaknesses in the Authority's arrangements for securing economy, efficiency and effectiveness for the years ended 31 March 2021 and 2022:

- On 25 February 2022, we identified a significant weakness in the Authority's arrangements for financial sustainability. During 2020/21, the Authority's finances faced several challenges. This situation was not helped by the Covid pandemic, but the Authority was in a difficult position because of its previous strategy of reliance on income from its companies and commercial properties. The failure of Robin Hood Energy Ltd exacerbated the situation and led to the Authority requesting a £35m capitalisation direction. We recommended Authority ensures additional saving schemes are identified to bridge remaining gaps in its Medium Term Financial Strategy, work to build up and assess the business cases for savings is continued at pace, and the reasons for wide variations in in-year reporting are investigated and actions taken to improve forecasting in the relevant areas to prevent recurrence.
- On 24 February 2023, we identified a further significant weakness in the Authority's arrangements for financial sustainability. In particular, how the Authority plans and manages its resources to ensure it can continue to deliver its services. This was in relation to the extent of unaddressed budget gaps which threaten delivery from 2023/24 to 2026/27. We recommended that the Authority should revisit the Medium-Term Financial Plan at the earliest opportunity. Business cases should be developed to support additional savings plans to fully address the budget gaps in the medium term.
- On 25 February 2022, we identified two significant weaknesses in the Authority's governance arrangements. These were in relation to:
 - We identified the Authority's governance arrangements for its companies as a risk in prior years and this risk was confirmed through our report in the Public Interest on Robin Hood Energy Ltd in August 2020. Since then, and particularly since January 2021, the Authority has started a wide-ranging programme to improve company governance and review company structures. While the Authority has taken some important steps to improve its company governance arrangements, there remains much to do and the extent of this work reinforces the deep-seated issues which previously existed in this area. We recommended the Authority should maintain the momentum it has now achieved in rationalising its company arrangements and improving governance by ensuring that the planned increase in resources in this area, particularly in the form of the shareholder team, is effective and sufficient; continuing efforts to ensure that the Authority is appropriately represented on the boards of its subsidiaries and associates and that its representatives fully understand their role as directors and their responsibilities towards the company and, putting in place an overall strategy for its involvement in companies, building on the guiding principles which have recently come into use.

- Delays to the production of the Authority's financial statements for 2020/21. We recommended the Authority ensures it has sufficient resources and priority are given to the accounts preparation process, commensurate with the Authority's complexity and challenges. Officers should also strengthen arrangements to ensure that there can be no repeat of the loss of crucial valuation records, which resulted in delays to the accounts and the incurring of significant sums on a repeat valuation process. On 24 February 2023, we identified this risk continued and further recommended that the Authority ensure external audit queries and issues are resolved at the earliest opportunity. The Authority should then ensure that sufficient resources and priority are given to the accounts preparation process, commensurate with an Authority of Nottingham City Council's complexity and challenges.
- On 24 February 2023, we identified two significant weaknesses in the Authority's governance arrangements. Firstly, governance failings and £40 million historic accounting errors were uncovered with one subsidiary and the Authority were to complete strategic reviews of the other companies. Secondly, significant inconsistencies between budgetary information and the final outturn were identified. We recommend that the Authority efforts to review strategic purpose and financial needs of companies should be continued. The Authority should be mindful that risk within subsidiaries could increase with coming inflation and that skilled accountants are required as business partners for companies as well as for core Authority financial reporting roles. We also recommended that they review budgets across the Authority, ideally adopting a zero-based budgeting approach to rebase and justify all expenditure.
- On 24 February 2023, we identified a further significant weakness in the Authority's governance arrangements. Due to recruitment and retention within corporate and key services, there is a lack of management capacity. We recommended that the Authority should continue to prioritise recruitment and should seek longer-term certainty where interim posts are shortly expiring. Additionally, the Authority needs to review its pay policy to ensure it is able to recruit and retain talent.
- On 24 February 2023, we identified two significant weaknesses in the Authority's arrangements for improving economy, efficiency and effectiveness. These were in relation to:
 - Ofsted findings from an unannounced inspection of Nottingham City Council's Children's Service in July 2022 where an 'inadequate' grade for 'overall effectiveness'. Ofsted first identified weakness in service performance in 2019 and the 'inadequate' rating represents a failure to take appropriate action. We recommended that the Authority's Improvement Plan and associated actions for Children's Services should be agreed at the earliest opportunity. Working with the Improvement and Assurance Board and other appointed partners will be essential for securing better outcomes for children going forward.
 - The Authority was not able to demonstrate best value through procurement. We recommended that the Authority needs to implement the recommendations from the independent review of its procurement function, which aims to develop a new operating model as soon as possible. The Authority needs to put a combination of measures, including education, filling vacancies within procurement, tightening of procedures, stricter review and approval of dispensations and increased personal consequences for non-compliance. It will be important that the levels of compliance continue to be closely monitored, and these measures be enhanced if necessary.

As part of our work on the Authority's arrangements for financial sustainability and governance for the year ended 31 March 2023, we have reviewed the Authority's progress implementing these recommendations. Insufficient progress had been made by the Authority in addressing the significant weaknesses identified, therefore the significant weaknesses in arrangements remain in place.

Additionally, on 22 March 2024 we identified a new significant weakness in the Authority's arrangements for financial sustainability for the year ended 31 March 2023. The Authority was overseen by an Improvement and Assurance Board between January 2021 and February 2024. The Government appointed Commissioners in February 2024. We recommended that the Authority should engage fully and at pace with the improvement and intervention plans developed by Commissioners. Whilst we made a Statutory Recommendation around savings plans on 9 February 2024, it will be important that the Authority works proactively with Commissioners to deliver the full range of improvements highlighted in our previous auditor reports and highlighted by the Improvement and Assurance Board across the organisation.

Responsibilities of the Authority

The Authority is responsible for putting in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities for the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance issued by the Comptroller and Auditor General in November 2024. This guidance sets out the arrangements that fall within the scope of 'proper arrangements'. When reporting on these arrangements, the Code of Audit Practice requires auditors to structure their commentary on arrangements under three specified reporting criteria:

- Financial sustainability: how the Authority plans and manages its resources to ensure it can continue to deliver its services;
- Governance: how the Authority ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness: how the Authority uses information about its costs and performance to improve the way it manages and delivers its services.

We documented our understanding of the arrangements the Authority has in place for each of these three specified reporting criteria, gathering sufficient evidence to support our risk assessment and commentary in our Auditor's Annual Report. In undertaking our work, we have considered whether there is evidence to suggest that there are significant weaknesses in arrangements.

Report on other legal and regulatory requirements – Audit certificate

We certify that we have completed the audit of Nottingham City Council for the year ended 31 March 2023 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

Use of our report

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

Andrew Smith, Key Audit Partner
for and on behalf of Grant Thornton UK LLP, Local Auditor
Birmingham

[x] November 2024