Nottingham City Council
External Audit Plan

Year ending 31 March 2024

Audit Committee: 29 November 2024

Contents

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Key matters

National context

The national economic context continues to present challenges to the local government sector. There are increasing cost pressures nationally, such as a growing population and increasing demand for local government services, especially in adult and children's social care. Combined with inflationary pressures, pay demands and energy price rises, the environment in which local authorities operate is highly challenging. Local Government funding continues to be stretched and there have been considerable reductions in the grants received by local authorities from government.

Recently, we have seen the additional strain on some councils from equal pay claims, and there has been a concerning rise in the number of councils issuing s.114 notices. These are issued when a Council's Chief Financial Officer does not believe the Council can meet its expenditure commitments from its income. Additionally, the levels of indebtedness at many councils is now highly concerning, and we have seen commissioners being sent in to oversee reforms at several local authorities, including Nottingham City Council.

Our recent value for money work has highlighted a growing number of governance and financial stability issues at a national level, which is a further indication of the mounting pressure on audited bodies to keep delivering services, whilst also managing transformation and making savings at the same time.

Local context

Nottingham City Council is a local government Council responsible for delivering a diverse range of public services to local residents. These services encompass areas such as education, social care, housing, transportation, waste management, and leisure facilities. The Council maintains a substantial budget, with an annual gross expenditure of around £1 billion, allocated to support the provision of these services.

We understand the financial challenges facing the Council at this time, including a S114 notice being issued by the Councils Chief Finance Officer and s151 officer in November 2023, that in their opinion the Council was unable to meet its statutory requirement to deliver a balanced budget for 2023/24. Under the auditor's additional powers and duties outlined in section 24 of the Local Audit and Accountability Act 2014, we issued a statutory recommendation on 9th February 2024 due to the seriousness of the Council's financial position and depleting reserves.

As a result, we are required to undertake additional audit work to review whether the going concern basis remains an appropriate basis behind the preparation of the financial statements. We will report our findings on this in detail as appropriate during our work, in our audit findings report and potentially within our audit opinion.

Key matters

Government proposals around the backstop and prior year audit opinions

On 30 July 2024, the Minister of State for Local Government and English Devolution, Jim McMahon, provided the following written statement to Parliament [Written statements - Written questions, answers and statements - UK Parliament] This confirm the government's intention to introduce a backstop date for English local Council audits up to 2022/23 of 13 December 2024.

Because of this, the Council's accounts for (years 2019/20 to 2022/23 inclusive) are expected to be backstopped and a disclaimer of opinion will be issued by 13 December 2024.

The government has set out its intention that from 2023/24, auditors should work with local authorities to begin the process of recovery. A backstop date for 2023/24 has been proposed of 28 February 2025, and a date for 2024/25 audits of 28 February 2026.

Our intention is that over time we will re-build assurance in respect of prior years across all backstopped audits, taking account of guidance from the National Audit Office and the Financial Reporting Council. As of the time of writing our audit plan, we have not yet received the draft financial statements for the 2023/24 financial year. Therefore, it is unlikely that we will have sufficient time to fully execute our 2023/24 audit plan, considering the backstop date is only three months away.

Planning is an iterative process and upon receipt of the Council's draft financial statements, we will review our initial risk assessment and adapt our testing strategy as required. Changes made to our planned audit approach will be reported in the Audit Findings Report. At this stage, we propose to prioritise the following areas in advance of the backstop date.

- Risk assessment and evaluation of the control environment for 2023/24 including ISA 315 assessment
- Audit of income and expenditure and movements within financial year 2023/24 and associated cut off testing
- Testing of journals posted during 2023/24
- Audit of closing balances as at 31 March 2024
- Testing of Movement of Reserves statements and other primary statements (within the constraints that we will not have opening balance assurance)
- Financial statements disclosure
- Recognising the sensitivity of cash, including the opening cash position as at 1 April 2023

We will continue the process of recovery during 2024/25 and ongoing years.

Key matters - continued

Our Responses

- As a firm, we are absolutely committed to audit quality and financial reporting in the local government sector. Our proposed work and fee, as set out in this Audit Plan has been agreed with the Director of Finance.
- To ensure close work with our local audited bodies and an efficient audit process, our preference as a firm is work on site with you and your officers. Please confirm in writing if this is acceptable to you, and that your officers will make themselves available to our audit team. This is also in compliance with our delivery commitments in our contract with PSAA.
- We offer a private meeting with the Chief Executive and Monitoring Officer twice a year, and with the Director of Finance on a monthly basis as part of our commitment to keep you fully informed on the progress of the audit.
- At an appropriate point within the audit, we would also like to meet informally with the Chair of your Audit Committee, to brief them on the status and progress of the audit work to date.
- We will consider your arrangements for managing and reporting your financial resources as part of our audit in completing our Value for Money work.
- Our Value for Money work will also consider your arrangements relating to governance and improving economy, efficiency and effectiveness. We will also consider progress made against previously agreed recommendations.
- We will continue to provide you and your Audit Committee with sector updates providing our insight on issues from a range of sources and other sector commentators via our Audit Committee updates.
- We hold annual financial reporting workshops for our audited bodies to access the latest technical guidance and interpretations, to discuss issues with our experts and to facilitate networking links with other audited bodies to support consistent and accurate financial reporting across the sector.
- There is an increased incentive and opportunity for organisations in the public sector to manipulate their financial statements due to ongoing financial pressures. We are required to identify a significant risk regarding management override of controls.
- There is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue– further detail is included on page 8.
- In line with the Public Audit Forum Practice Note 10, in the public sector, auditors must also consider the risk that material misstatements due to fraudulent financial reporting may arise from the manipulation of expenditure recognition (for instance by deferring expenditure to a later period) This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to expenditure recognition. – further detail is included on page 9.

Introduction and headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audit of Nottingham City Council ('the Council') for those charged with governance.

Respective responsibilities

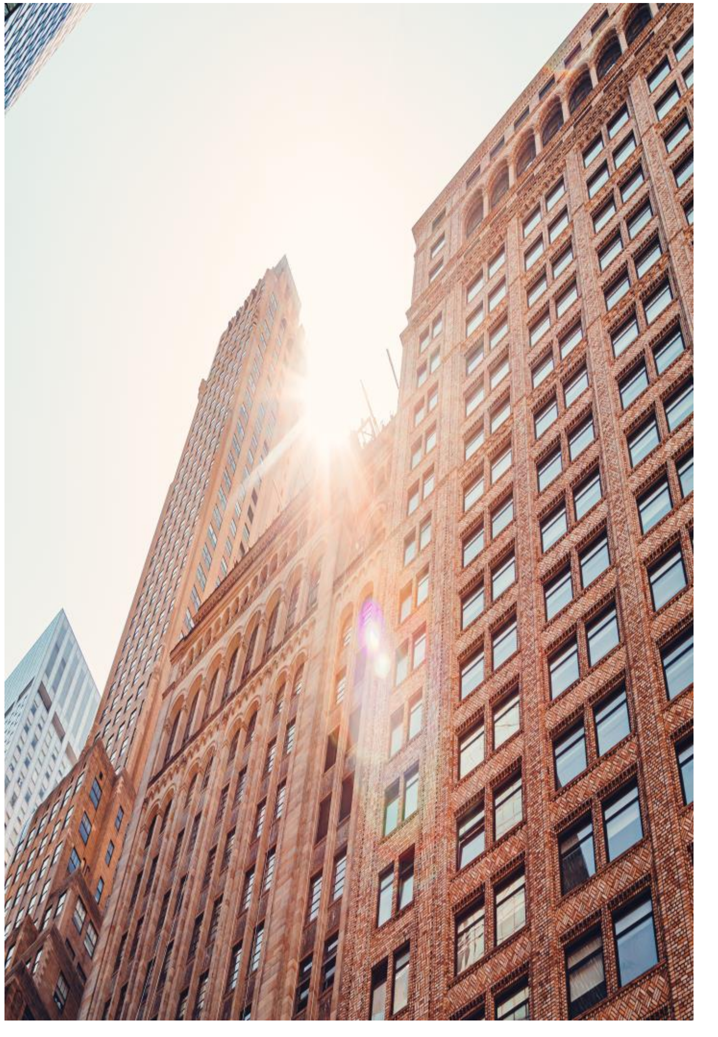
The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the agreed Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of Nottingham City Council. We draw your attention to these documents.

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the Council and group's financial statements that have been prepared by management with the oversight of those charged with governance the Audit committee; and we consider whether there are sufficient arrangements in place at the Council and group for securing economy, efficiency and effectiveness in your use of resources. Value for money relates to ensuring that resources are used efficiently in order to maximise the outcomes that can be achieved.

The audit of the financial statements does not relieve management or the Audit Committee of your responsibilities. It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our audit approach is based on a thorough understanding of the Council's business and is risk based.



Introduction and headlines

Significant risks

Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:

- Valuation of land and buildings (including council dwellings)
- Valuation of investment properties
- Valuation of the net pension liability
- Completeness, accuracy and occurrence of operating expenditure and payables
- Management override of control
- Revenue recognition for specified revenue streams
- Preparation of group accounts
- Housing Revenue Account ringfencing arrangements

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.

Materiality

We have determined planning materiality to be £10m for the Council and £11m for the group, which equates to around 1% of your forecast gross operating costs for the year. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £0.5m.

Value for Money arrangements

Our risk assessment regarding your arrangements to secure value for money has identified several risks of significant weakness. Further detail is provided on page 8

We will continue to update our risk assessment until we issue our Auditor's Annual Report.

Group Audit

The Council is required to prepare group financial statements that consolidate the financial information of subsidiary undertakings. We have requested working papers to support the group risk assessment for the Council. At the date of writing, we have not received this information, as such we are unable to fully complete our group audit scope and risk assessment procedures .

Upon receipt of this information and presentation of the 2023/24 draft financial statements we will update the group risk assessment report the outcome of our work in the Audit Findings Report.

Audit logistics

Our planning commenced in February 2024 and our final visit will take place from December 2024 to 7 February 2025. Our key deliverables are this Audit Plan, our Audit Findings Report and our Auditor's Annual Report. Our preference is for all our work to take place on site alongside your officers.

Our proposed fee for the audit will be £603,891 for the Council, subject to the Council delivering a good set of financial statements and working papers and no significant new financial reporting matters arising that require additional time or specialist input. If we are unable to complete the audit, PSAA will determine an appropriate fee for the work completed.

We have complied with the Financial Reporting Council's Ethical Standard (revised 2019) 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.

Significant risks identified

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Risk of fraud in revenue recognition (Risk relates to Group and Council)	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 revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can only be rebutted for specific income streams . We have not rebutted the risk of fraud in revenue recognition for Fees & Charges Income or Grant Income.	Notwithstanding that we have rebutted this risk for some revenue streams, we will undertake a significant level of work on the Council's revenue streams, as they are material. We will: Accounting policies and systems • Evaluate the Council's accounting policies for recognition of income for its various income streams and compliance with the CIPFA Code • Update our understanding of the Council's business processes associated with accounting for income Fees, charges and other service income • Agree, on a sample basis, income and year end receivables to invoices, cash receipts and other supporting evidence Taxation and non-specific grant income • Agree, on a sample basis, income from taxation and grants to supporting evidence, cash receipt and consider accounting treatment where appropriate.

'Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty.' (ISA (UK) 315)

Significant risks identified- continued

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Risk of fraud related to expenditure recognition (Risk relates to Group and Council)	In line with the Public Audit Forum Practice Note 10, in the public sector, auditors must also consider the risk that material misstatements due to fraudulent financial reporting may arise from the manipulation of expenditure recognition (for instance by deferring expenditure to a later period) This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to expenditure recognition. We are unable to rebut this risk due to the financial position of the Council, in particular noting a S114 notice being issued by the Council's Chief Finance Officer and s151 officer in November 2023. In addition to this, under the auditor's additional powers and duties outlined in section 24 of the Local Audit and Accountability Act 2014, we issued a statutory recommendation on 9th February 2024 due to the seriousness of the Council's financial position and depleting reserves. As such the completeness of expenditure is identified as a risk. Also, in relation to operating expenditure, we were unable to conclude our audit procedures related to the Council's operating expenditure for the 2019/2020 financial year. This resulted in an inability to gain assurance over the occurrence and accuracy operating expenditure. Consequently, the occurrence and accuracy of operating expenditure remains a significant risk for the 2023/2024 financial year.	We will: <u>Accounting policies and systems</u> • Evaluate the Council's accounting policies for recognition of income for its various expenditure streams and compliance with the CIPFA Code • Update our understanding of the Council's business processes associated with accounting for expenditure. <u>Other service expenditure</u> • Agree, on a sample basis, expenditure and year end payables to invoices, cash payments and other supporting evidence • Test a sample of invoices received and cash payments after the year end date to ensure related transactions have been recorded in the correct financial period. • Test on a sample basis, invoices recorded within the Council's financial statements and review documentation to confirm transactions have been recorded accurately and relate to expenditure incurred by the Council

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Significant risks identified- continued

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Management override of controls (Risk relates to Group and Council)	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 Council faces external scrutiny of its spending, and this could potentially place management under undue pressure in terms of how they report performance. In addition, we note there is a short timeframe in which to deliver 2023/24 financial statements and the 2024/25 budget. This again, puts increased pressure on the finance team. In addition, in our auditor's report for the year ended 31 March 2020, we propose to issue a disclaimer of opinion as we were unable to establish whether management override of controls was the cause of the breach of the 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. In addition, we were unable to gain sufficient and appropriate audit evidence on the operating expenditure of the Council, 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 2020/21 financial year and therefore their impact could be both material and pervasive to the current year financial statements. We identified management override of controls as a risk requiring special audit consideration. In particular, journals, management estimates .	We will: • Evaluate the design effectiveness of management controls over journals • Analyse the journals listing and determine criteria for selecting high risk and unusual journals • Test high risk and unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • Gain an understanding of the accounting estimates and critical judgements made by management and consider the reasonableness with regard to corroboratory evidence • Evaluate rationale for any changes in accounting policies, estimates of significant unusual transactions.

'Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty.' (ISA (UK) 315)

Significant risks identified- continued

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Preparation of group accounts (Risk relates to Group)	Historically, the Council has a relatively complex group structure and we expect this to continue in 23/24. There are several logistical challenges that need to be managed, ensuring that any third parties (subsidiaries and subsidiary auditors) involved in the production of the accounts are aware of the arrangements to provide the output of their work in accordance with the closedown timetable. We identified the preparation of group accounts as a risk requiring special audit consideration.	We will: • Review the consolidation procedures in place at the Council, and the Council's assessment of all entities over which the Council has control or significant influence and the Council's subsequent consideration whether to consolidate each entity within the group accounts. • Liaise 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 Council's group accounts. • Agree the final accounts consolidation back to audited financial statements for each subsidiary, joint venture and trust fund consolidated within the group accounts.
Valuation of land and buildings (including council dwellings) (Risk relates to Council only)	Revaluation of property plant and equipment should be performed with sufficient regularity to ensure that the carrying value is not materially different from the value reported at the end of the financial period. The Council revalue its land and buildings on a rolling basis. The revaluation represents a significant estimate by management due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions. The risk will be pinpointed as part of our financial accounts work, once we have understood the population of assets revalued.	We will: • Update our understanding over the business processes and controls in relation to the valuation of land and buildings. • Evaluate the instructions issued by management to their management expert. • Write to the valuer to confirm the basis on which the valuation was carried out • Assess the competence, capabilities and objectivity of the actuary who carried out the valuation • Test revaluations on a sample basis to corroborate accounting treatment and source data • Evaluate assets not revalued in year and understand how management have satisfied themselves that the carrying value is not materially different to current value at year end.

'Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty.' (ISA (UK) 315)

Significant risks identified- continued

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of Investment Property (Risk relates to only)	Revaluation of investment properties should be performed every year, in line with the requirements set by the code of practice for local government accounting (the applicable financial reporting framework). The revaluation represents a significant estimate by management due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions. The risk will be pinpointed as part of our financial accounts work, once we have understood the population of assets revalued.	We will: • Update our understanding over the business processes and controls in relation to the valuation of investment property. • Evaluate the instructions issued by management to their management expert. • Write to the valuer to confirm the basis on which the valuation was carried out • Assess the competence, capabilities and objectivity of the actuary who carried out the valuation • Test revaluations on a sample basis to corroborate accounting treatment and source data
Housing Revenue Account Ringfencing Arrangement (Risk relates to council only)	The Housing Revenue Account (HRA) is a statutory account, ringfenced from the rest of the General Fund and is a record of revenue expenditure and income relating to an Council's housing stock. Its primary purpose is to ensure that expenditure on managing tenancies and maintaining dwellings is balanced by rents charged to tenants. On 15 December 2021, the Council's S151 officer issued a report under s114 of the Local Government and Finance Act 1988, reporting acts of unlawfulness in relation to general fund income in breach of HRA ringfence under the Local Government and Housing Act 1989. There is a significant risk that the Council is in breach of the statutory ring-fencing requirements, as we have had no assurance that in intervening financial periods that this has not occurred.	We will: • Update our understanding over the business processes and controls in relation to the valuation of the housing revenue account. • Test a sample of income and expenditure from the CIES and ensure that the accounting treatment meets ringfencing requirements. • Review a list of accounting transactions between the General Fund and HRA for evidence of non-trivial breaches. • Make inquiries of senior officers as the whether they are aware of any breach of HRA ring-fence.

Significant risks identified- continued

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of the net defined benefit liability (Risk relates to Council only)	The net pension liability as reflected in the balance sheet as the net defined benefit liability represents a significant estimate in the financial statements. The net pension liability is considered a significant estimate due the size of the numbers involved and the sensitivity of the estimate due to changes in key assumptions. The method applied in the calculation of the IAS 19 estimates are routine and commonly applied by all actuary firms in line with the requirements set by the code of practice for local government accounting (the applicable financial reporting framework). We have therefore concluded that there is not a significant risk due to the methods and models used in the calculation. The source data used by the authorities to produce the IAS 19 estimate is provided by administering authorities and employers. We do not consider this to be a significant risk as is easily verifiable. The actuarial assumptions used are the responsibility of the entity but should be set on the advice given by the actuary. A small change in the key assumptions (discount rate, inflation rate, salary increase and life expectancy) can have a significant impact on the estimated liability. We have therefore concluded that there is a significant risk of material misstatement in the IAS 19 estimate due to the assumptions used in the calculation. Relevant IFRIC 14 assessment may also be required by the council. This will be reviewed upon receipt of draft financial statements.	We will: • Update our understanding over the business processes and controls in relation to the net defined benefit liability • Evaluate the instructions issued by management to their management expert (an actuary) • Assess the competence, capabilities and objectivity of the actuary who carried out the valuation • Assess the accuracy and completeness of the information provided by the Council to the actuary • Test the consistency of the pension fund asset, liability and disclosures in the financial statements with the actuarial report • Undertake procedures to confirm the reasonableness of the actuarial assumptions • Obtain assurances from the auditor of Nottinghamshire Pension Fund as to 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's financial statements.

Other risks identified

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings Report.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Going concern (risk relates to Council only)	Risk factors: • S114 notice being issued by the Council's Chief Finance Officer and s151 officer in November 2023, that in their opinion the Council was unable to meet its statutory requirement to deliver a balanced budget for 2023/24. • Under the auditor's additional powers and duties outlined in section 24 of the Local Audit and Accountability Act 2014, we issued a statutory recommendation on 9th February 2024 due to the seriousness of the Council's financial position and depleting reserves.	We will: • Obtain management's going concern assessment and evaluate management's method to assess the entity's ability to continue as a going concern. • Evaluate the relevance and reliability of the underlying data used by management to make their going concern assessment • Evaluate the assumptions on which management's going concern assessment is based by determining whether there is adequate support for the assumptions underlying management's assessment. • Evaluate management's plans for future actions in relation to its going concern assessment, including determining whether the outcome of these plans is likely to improve the situation and whether management's plans are feasible in the circumstances • Coordinate this element of our financial statements audit with our financial sustainability work under our VFM audit objectives.

Group audit scope and risk assessment

In accordance with ISA (UK) 600, as group auditor we are required to obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

We have requested working papers to support the group risk assessment for the Council. At the date of writing, we have not received this information, as such we are unable to complete out group audit scope and risk assessment procedures.

Upon receipt of this information and presentation of the 2023/24 draft financial statements we will update this risk assessment and report findings in the Audit Findings Report.

Other matters

Other work

In addition to our responsibilities under the Code of Practice, we have several other audit responsibilities, as follows:

- We read your Narrative Report and Annual Governance Statement and any other information published alongside your financial statements to check that they are consistent with the financial statements on which we give an opinion and our knowledge of the Council.
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with requirements set by CIPFA.
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.
- We consider our other duties under legislation and the Code, as and when required, including:
  - giving electors the opportunity to raise questions about your financial statements, consider and decide upon any objections received in relation to the financial statements;
  - issuing a report in the public interest or written recommendations to the Council under section 24 of the Local Audit and Accountability Act 2014 (the Act);
  - application to the court for a declaration that an item of account is contrary to law under section 28 or a judicial review under section 31 of the Act;
  - issuing an advisory notice under section 29 of the Act.
- We certify completion of our audit.

Other material balances and transactions

Under International Standards on Auditing, 'irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure'. All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

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.

Description	Planned audit procedures
Determination We have determined financial statement materiality based on a proportion of the gross expenditure of the group and the Council for the financial year. Materiality at the planning stage of our audit is £10m, which equates to 1% of your estimated gross expenditure for the period.	We determine planning materiality in order to: • establish what level of misstatement could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements; • assist in establishing the scope of our audit engagement and audit tests; • determine sample sizes and • assist in evaluating the effect of known and likely misstatements in the financial statements.
Other factors An item does not necessarily have to be large to be considered to have a material effect on the financial statements.	An item may be considered to be material by nature where it may affect instances when greater precision is required. – We have identified senior officer remuneration as a balance where we will apply a lower materiality level, as these are considered sensitive disclosures. We have set a materiality of £10,000.

Our approach to materiality

Description	Planned audit procedures
Reassessment of materiality Our assessment of materiality is kept under review throughout the audit process.	We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.
Other communications relating to materiality we will report to the Audit Committee Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.	We report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. In the context of the Group and Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £0.5m . If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit Committee to assist it in fulfilling its governance responsibilities.

Our approach to materiality

	Amount (£)	Qualitative factors considered
Materiality for the single entity (Council) financial statements	£10,000,000	We have considered the financial position of the Council as well as outcomes from our discussions with management and those charged with governance. Materiality is reduced from prior periods to reflect increased risk as a result of the backstop and a period of unaudited financial statements.
Materiality for specific transactions, balances or disclosures- senior officer remuneration	£10,000	A lower materiality is set for the senior officer remuneration disclosure due to the sensitive nature and increased level of user interest in the disclosure.
Group materiality	£11,000,000	We have considered the financial position of the Council as well as outcomes from our discussions with management and those charged with governance. Materiality is reduced from prior periods to reflect increased risk as a result of the backstop and a period of unaudited financial statements.

IT audit strategy

In accordance with ISA (UK) 315 Revised, we are required to obtain an understanding of the relevant IT and technical infrastructure and details of the processes that operate within the IT environment. We are also required to consider the information captured to identify any audit relevant risks and design appropriate audit procedures in response. As part of this we obtain an understanding of the controls operating over relevant Information Technology (IT) systems i.e., IT general controls (ITGCs). Our audit will include completing an assessment of the design and implementation of relevant ITGCs.

The following IT systems have been judged to be in scope for our audit and based on the planned financial statement audit approach we will perform the indicated level of assessment:

IT system	Audit area	Planned level IT audit assessment
Oracle Fusion	Financial reporting	• Audit assessment of design and implementation of IT general controls.
Active Directory	Directory Service- user management	• Audit assessment of design and implementation of IT general controls.

Value for Money arrangements

Approach to Value for Money work for the period ended 31 March 2024

The National Audit Office issued its latest Value for Money guidance to auditors in January 2023. The Code expects auditors to consider whether a body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are expected to report any significant weaknesses in the body's arrangements, should they come to their attention. In undertaking their work, auditors are expected to have regard to three specified reporting criteria. These are as set out below:

Improving economy, efficiency and effectiveness

How the body uses information about its costs and performance to improve the way it manages and delivers its services.

Financial sustainability

How the body plans and manages its resources to ensure it can continue to deliver its services.

Governance

How the body ensures that it makes informed decisions and properly manages its risks.

Risks of significant VFM weaknesses

As part of our planning work, we considered whether there were any risks of significant weakness in the body's arrangements for securing economy, efficiency and effectiveness in its use of resources that we needed to perform further procedures on. The risks we have identified are detailed in the first table below, along with the further procedures we will perform. We may need to make recommendations following the completion of our work. The potential different types of recommendations we could make are set out in the second table below.

Potential types of recommendations

A range of different recommendations could be made following the completion of work on risks of significant weakness, as follows:

Statutory recommendation

Written recommendations to the body under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the body to discuss and respond publicly to the report.

Key recommendation

The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the body. We have defined these recommendations as 'key recommendations'.

Improvement recommendation

These recommendations, if implemented should improve the arrangements in place at the body, but are not made as a result of identifying significant weaknesses in the body's arrangements.

Risks of significant VFM weaknesses – continued

The Audit Code sets out that the auditor's work is likely to fall into three broad areas:

- planning;
- additional risk-based procedures and evaluation; and
- reporting.

We undertake initial planning work to inform this Audit Plan and the assumptions used to derive our fee. A key part of this is the consideration of prior years' significant weaknesses and known areas of risk which is a key part of the risk assessment for 2023/24.

As of our planning for the 2023/24 period, no new significant risks or weaknesses have been identified beyond those that were previously identified in prior years. The Auditor's Annual Report (AAR) covering the 2020/21 to 2022/23 period, which was presented to the February 2024 Audit Committee, identified several significant weaknesses in arrangements. Key recommendations were made across all criteria areas, namely financial sustainability, governance and improving economy, efficiency and effectiveness. A summary is included on the following page.

As part of our 2023/24 audit procedures, we will assess progress made against the key recommendations made in previously reported AAR and ensure that our work assesses the current arrangements in place.

We report our value for money work in our Auditor's Annual Report. Any confirmed or additional significant weaknesses identified once we have completed our work will be reflected in your Auditor's Report and included within our audit opinion.

Risks of significant VFM weaknesses – continued

Criteria	Auditor judgement on arrangements informing our initial risk assessment (Feb 2024 Audit Committee)		Additional risk-based procedures planned in 2023/24, in addition to follow up of previously reported recommendations
Financial sustainability	Red	Significant weakness in arrangements and key recommendations made	Our work in 2023/24 will include further consideration of the following: • We will review Q1 and Q2 outturn and forecasts for 2024-25; review use of exceptional financial support; review progress with implementing s114 and IAB recommendations. • We will review granularity of savings plans and changes in savings plans between March 2024 and September 2024. We will also include a review of the plans to close the budget gap of £68.957M in 2025-26. • We will compare latest forecast deficit for 2024-25 with available reserves balances to assess likely impact on financial resilience. Our work will include a review of the exceptional financial support and spending control arrangements in place. • We will review outturn on the capital programme and capital disposals programme for 2023/24 and the first half of 2024/25. We will assess the effectiveness of the Council's arrangements for managing slippage.
Governance	Red	Significant weakness in arrangements and key recommendations made	Our work in 2023/24 will include further consideration of the following: • We will review latest progress with the accounts and audit timetable and backstop arrangements. • We will review progress with responding to external consultant and IAB findings and recommendations. This will include consideration of any changes made to arrangements • We will undertake a deep dive review of budget setting and monitoring arrangements. • We will review progress with the Council's review of companies; review current arrangements around procurement and waivers; including update meetings with key officers and assess the effectiveness of procedures to give the Council assurance that laws and regulations are being complied with. • We will review the new decision-making arrangements and their application; we will also review any evidence of complaints between officers and members and we will interview the Monitoring Officer to obtain their opinion on member/ officer relationships.
Improving economy, efficiency and effectiveness	Red	Significant weakness in arrangements and key recommendations made	Our work in 2023/24 will include further consideration of the following: • We will update our understanding of progress with recruiting permanent staff, in particular in management accounting and social care roles. We will also assess the effectiveness of steps taken by the Council to rationalise the size of the staff establishment and develop a workforce strategy. • For Childrens Services, we will assess whether any changes in the ratio of permanent to agency staff has had an impact on work to reduce caseloads and increase consistency of practice.

G	No significant weaknesses in arrangements identified or improvement recommendation made.
A	No significant weaknesses in arrangements identified, but improvement recommendations made.
R	Significant weaknesses in arrangements identified and key recommendations made.

Audit logistics and team

Planning and risk assessment

Audit Committee
29 November 2024

Year end audit
Dec 24 to Feb 25

Audit Committee
February 2025

Audit Findings Report & Auditor's Annual Report and Opinion

Francesca Hitchman, Audit Manager

Key audit contact responsible for the day to day management and delivery of the audit work

Mary Wren, Senior Audit Manager

Provides oversight of the delivery of the audit including regular engagement with Governance Committees and senior officers

Andy Smith, Key Audit Partner

Provides oversight of the delivery of the audit including regular engagement with Governance Committees and senior officers

Audited Entity responsibilities

Where audited bodies do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other audited bodies. Where the elapsed time to complete an audit exceeds that agreed due to an entity not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to an entity not meeting their obligations we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit, you need to :

- ensure that you produce draft financial statements of good quality by the deadline you have agreed with us, including all notes and the and the Annual Governance Statement
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you via our dedicated system, inflo
- ensure that the agreed data reports are cleansed, are made available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples for testing
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit respond promptly and adequately to audit queries.

Audit fees and updated Auditing Standards

Audit fees are set by PSAA as part of their national procurement exercise. In 2017, PSAA awarded a contract of audit for Nottingham City Council to begin with effect from 2018/19 . This contract was re-tendered in 2023 and Grant Thornton have been re-appointed as your auditors. The scale fee set out in the PSAA contract for the 2023/24 audit is £603,891.

This contract sets out four contractual stage payments for this fee, with payment based on delivery of specified audit milestones:

- Production of the final auditor's annual report for the previous Audit Year (exception for new clients in 2023/24 only)
- Production of the draft audit planning report to Audited Body
- 50% of planned hours of an audit have been completed
- 75% of planned hours of an audit have been completed

Any variation to the scale fee will be determined by PSAA in accordance with their procedures as set out here https://www.psaa.co.uk/appointing-auditors-and-fees/fee-variations-overview/'

Assumptions

In setting these fees, we have assumed that the Council will:

- prepare a good quality set of accounts, supported by comprehensive and well-presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements
- maintain adequate business processes and IT controls, supported by an appropriate IT infrastructure and control environment.

Updated Auditing Standards

The FRC has issued updated Auditing Standards in respect of Quality Management (ISQM 1 and ISQM 2). It has also issued an updated Standard on quality management for an audit of financial statements (ISA 220). We confirm we will comply with these standards.

Audit fees

	Proposed fee 2023/24
Nottingham City Council	£603,891
ISA 315	£12,550
Total audit fees (excluding VAT)	**£616,441**

If we are unable to fully complete the audit by the backstop date, PSAA will determine an appropriate fee for the work completed.

Relevant professional standards

In preparing our fees, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's Ethical Standard (revised 2019) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.

IFRS 16 'Leases' and related disclosures

IFRS 16 will need to be implemented by local authorities from 1 April 2024. This Standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and replaces IAS17. The objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. This information gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity. As this is a shadow year for the implementation of IFRS 16, we will need to consider the work being undertaken by the Council to ensure a smooth adoption of the new standard.

Introduction

IFRS 16 updates the definition of a lease to:

> "a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration." In the public sector the definition of a lease is expanded to include arrangements with nil consideration.

IFRS 16 requires all leases to be accounted for 'on balance sheet' by the lessee (subject to the exemptions below), a major departure from the requirements of IAS 17 in respect of operating leases.

IFRS 16 requires a lessee to recognise assets and liabilities for leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. There is a single accounting model for all leases (similar to that of finance leases under IAS 17), with the following exceptions:

- leases of low value assets
- short-term leases (less than 12 months).

Lessor accounting is substantially unchanged leading to asymmetry of approach for some leases (operating) although if an NHS body is the intermediary and subletting there is a change in that the judgement between operating and finance lease is made with reference to the right of use asset rather than the underlying asset

Council's systems and processes

We believe that most local authorities will need to reflect the effect of IFRS 16 changes in the following areas:

- accounting policies and disclosures
- application of judgment and estimation
- related internal controls that will require updating, if not overhauling, to reflect changes in accounting policies and processes
- systems to capture the process and maintain new lease data and for ongoing maintenance

Planning enquiries

As part of our planning risk assessment procedures we have discussed this with the Council's finance team. At the time, this was under consideration We will review the Council's disclosures as part of our substantive audit procedures and report our findings in the Audit Findings Report.

Further information

Further details on the requirements of IFRS16 can be found in the HM Treasury Financial Reporting Manual. This is available on the following link.

IFRS 16 Application Guidance December 2020.docx (publishing.service.gov.uk)

Independence and non-audit services

Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons. relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

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 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.

We confirm that we have implemented policies and procedures to meet the requirements of the Ethical Standard. For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams and component audit firms providing services to the group and Council.

Independence and non-audit services

Other services

The following other services provided by Grant Thornton were identified.

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

None of the services provided are subject to contingent fees.

Service	Fees £	Threats	Safeguards
Non-audit related			
CFO insights	£10,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is likely to be lower in comparison to the total fee for the audit and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.

Communication of audit matters with those charged with governance

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	•	
Overview of the planned scope and timing of the audit, form, timing and expected general content of communications including significant risks and Key Audit Matters	•	
Confirmation of independence and objectivity of the firm, the engagement team members and all other indirectly covered persons	•	•
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	•	•
Significant matters in relation to going concern	•	•
Matters in relation to the group audit, including: Scope of work on components, involvement of group auditors in component audits, concerns over quality of component auditors' work, limitations of scope on the group audit, fraud or suspected fraud	•	•
Views about the qualitative aspects of the Group's accounting and financial reporting practices including accounting policies, accounting estimates and financial statement disclosures		n/a

ISA (UK) 260, as well as other ISAs (UK), prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table here.

This document, the Audit Plan, outlines our audit strategy and plan to deliver the audit, while the Audit Findings will be issued prior to approval of the financial statements and will present key issues, findings and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via an audit progress memorandum.

Communication of audit matters with those charged with governance

Our communication plan	Audit Plan	Audit Findings
Significant findings from the audit		•
Significant matters and issue arising during the audit and written representations that have been sought		•
Significant difficulties encountered during the audit		•
Significant deficiencies in internal control identified during the audit		•
Significant matters arising in connection with related parties		•
Identification or suspicion of fraud(deliberate manipulation) involving management and/or which results in material misstatement of the financial statements (not typically council tax fraud)		•
Non-compliance with laws and regulations		•
Unadjusted misstatements and material disclosure omissions		•
Expected modifications to the auditor's report, or emphasis of matter		•

Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK), 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.

Escalation policy

The Department for Levelling Up, Housing and Communities have introduced an audit backstop date on a rolling basis to encourage timelier completion of local government audits in the future.   As your statutory auditor, we understand the importance of appropriately resourcing audits with qualified staff to ensure high quality standards that meet regulatory expectations and national deadlines. It is the 's responsibility to produce true and fair accounts in accordance with the CIPFA Code by the 31 May 2024 and respond to audit information requests and queries in a timely manner.

To help ensure that accounts audits can be completed on time in the future, we have introduced an escalation policy. This policy outlines the steps we will take to address any delays in draft accounts or responding to queries and information requests. If there are any delays, the following steps should be followed:

Step 1 - Initial Communication with Finance Director (within one working day of statutory deadline for draft accounts or agreed deadline for working papers)

We will have a conversation with the Finance Director(s) to identify reasons for the delay and review the Council's plans to address it. We will set clear expectations for improvement.

Step 2 - Further Reminder (within two weeks of deadline)

If the initial conversation does not lead to improvement, we will send a reminder explaining outstanding queries and information requests, the deadline for responding, and the consequences of not responding by the deadline.

Step 3 - Escalation to Chief Executive (within one month of deadline)

If the delay persists, we will escalate the issue to the Chief Executive, including a detailed summary of the situation, steps taken to address the delay, and agreed deadline for responding..

Step 4 - Escalation to the Audit Committee (at next available Audit Committee meeting or in writing to Audit Committee Chair within 6 weeks of deadline)

If senior management is unable to resolve the delay, we will escalate the issue to the audit committee, including a detailed summary of the situation, steps taken to address the delay, and recommendations for next steps.

Step 5 – Consider use of wider powers (within two months of deadline)

If the delay persists despite all efforts, we will consider using wider powers, e.g. issuing a statutory recommendation. This decision will be made only after all other options have been exhausted. We will consult with an internal risk panel to ensure appropriateness.

By following these steps, we aim to ensure that delays in responding to queries and information requests are addressed in a timely and effective manner, and that we are able to provide timely assurance to key stakeholders including the public on the Council's financial statements.

Grant Thornton

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