

Informing the audit risk assessment for Nottingham City Council 2023/24



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 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 your business or any 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.

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Purpose

The purpose of this report is to contribute towards the effective two-way communication between Nottingham City Council external auditors and Nottingham City Council's Audit Committee, as 'those charged with governance'. The report covers some important areas of the auditor risk assessment where we are required to make inquiries of the Audit Committee under auditing standards.

Background

Under International Standards on Auditing (UK), (ISA(UK)) auditors have specific responsibilities to communicate with the Audit Committee. ISA(UK) emphasise the importance of two-way communication between the auditor and the Audit Committee and also specify matters that should be communicated.

This two-way communication assists both the auditor and the Audit Committee in understanding matters relating to the audit and developing a constructive working relationship. It also enables the auditor to obtain information relevant to the audit from the Audit Committee and supports the Audit Committee in fulfilling its responsibilities in relation to the financial reporting process.

Communication

As part of our risk assessment procedures we are required to obtain an understanding of management processes and the authority's oversight of the following areas:

- General Enquiries of Management
- Fraud,
- Laws and Regulations,
- Related Parties,
- Going Concern, and
- Accounting Estimates.

This report includes a series of questions on each of these areas and the response we have received from Nottingham City Council's management. The Audit Committee should consider whether these responses are consistent with its understanding and whether there are any further comments it wishes to make.

General Enquiries of Management

Question	Management response
<p>1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2023/24?</p>	<p>Misappropriation of funds between the Housing Revenue Account (HRA) and General Fund; the misappropriations of funds is a matter being addressed. Control measures and practices are now in place to ensure it does not occur again and plans for reimbursements between the respective areas have been made which have been signed off by the Improvement and Assurance Board (IAB)</p> <p>Nottingham City Council self-referral to the Housing Ombudsman with relation to disrepairs resulted in a report to Full Council at the end of 2023.</p> <p>Governance of subsidiaries was strengthened by the introduction and implementation of a policy that an individual may not sit on a Council committee and be a director of the subsidiary company, so removing the instances of conflict of interests.</p> <p>Exceptional Financial Support (EFS) has been provided to meet our service obligations. The EFS has allowed the Council to finance its budget shortfall in 2023/24 and set a balance budget in the 2024/25.</p> <p>External Companies Insourcing: Operational functions undertaken by Nottingham City Homes Limited (NCH) and Nottingham Revenues & Benefits Limited (NRB) transferred back to in the Council on 1 April 2023 with the associated staff and their pensions. The service functions retained by Nottingham City Homes Limited were contracted with a new Service Level Agreement (SLA).</p> <p>Strengthening financial management; Nottingham City Council introduced a financial intervention strategy across the Council; with the creation of vacancy review panels and the identification of non-essential spend.</p> <p>Issuance of Section 114(3) report in November 2023 as the Council forecasts not being able to meet its statutory requirement to deliver a balanced budget for 2023/24.</p> <p>Strengthening financial management; the recharges from General Fund to the HRA were reviewed and changes made to the policy and processes.</p> <p>Section 24 Notice regarding the Council's financial sustainability issued by Grant Thornton on 9 February 2024.</p>

General Enquiries of Management

Question	Management response
<p>1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2023/24? (CONT)</p>	<p>Government Intervention: On 22 February 2024, the Secretary of State appointed Commissioners to intervene in the operation of the Council. The Commissioners will ensure that the Council upholds proper standards and due process; are empowered to recommend action to the Authority and will use their powers to achieve the best possible outcomes for Nottingham residents and the public purse if required.</p> <p>East Midlands Combined County Authority (EMCCA) was founded on 27th February 2024. Led by Mayor who was elected on 2nd May 2024, it covers the four local authority areas of Derbyshire, Nottinghamshire, Derby and Nottingham.</p> <p>Tramlink and other subsidiaries financial restructuring – Tramlink debt restructuring concluded in December 2023. This has no impact on the Council loan and no other subsidiaries have been restructured. Please note that Tramlink is not a subsidiary of the Council. Therefore, nil impact on the 2023/24 financial statements as the PFI accounting has not been affected.</p> <p>Section 114 Spending Controls: Enhanced spending controls were introduced in November 2024. The process continues to be refined. There are between 300-400 transactions approved daily by the S151 Officer.</p> <p>Local Audit Backlog: There are risks to timelines for producing the 2023/24 Accounts, including the timeliness of concluding the historic accounts up to 2022/23 (and therefore the opening balances for 2023/24). Regarding the 2023/24 closedown position of the draft accounts, there is a clear plan and associated timeline which would take the Council to meet the backstop date of 28 February 2025.</p> <p>Disposal of capital assets to finance the Council's EFS, transformation programme, capital programme and deliver the Debt Reduction Policy.</p> <p>Control environment: The Council has made good progress on implementing the recommendations made in the Ernest Young (EY) report, progress across these issues and the control environment will be outlined in further detail in the Financial Improvement Plan update.</p>

General Enquiries of Management

Question	Management response
<p>2. Have you considered the appropriateness of the accounting policies adopted by Nottingham City Council? Have there been any events or transactions that may cause you to change or adopt new accounting policies? If so, what are they?</p>	<p>A full review is undertaken annually to consider any changes in the Code and the circumstances of the Council. The accounting policies are taken for agreement by Audit Committee each year prior to the preparation of the draft accounts. 2023/24 accounting policies were agreed by Audit Committee on 23 February 2024. (Public Pack) Agenda Document for Audit Committee, 23/02/2024 09:30 (nottinghamcity.gov.uk)</p> <p>The Corporate Director, Finance and Resources & Section 151 Officer and Director of Finance & Deputy Section 151 Officer are delegated the ability to make changes to the Accounting Policies 2023/24 to ensure the timely completion of the Accounts, and if any changes are made to report these to a future meeting of the Audit Committee.</p> <p>There are no significant changes proposed from the accounting policies used for the 2022/23 financial year. There is, however, some minor wording amendments to make the Policy clearer, and updates that have arisen from the CIPFA code have been incorporated. Audit Committee on 23 February 2024. (Public Pack) Agenda Document for Audit Committee, 23/02/2024 09:30 (nottinghamcity.gov.uk).</p> <p>The Council is not voluntarily adopting IFRS 16 for 2023/24 in advance of mandatory implementation in 2024/25.</p>
<p>3. Is there any use of financial instruments, including derivatives? If so, please explain</p>	<p>The SoA includes details of financial instruments including financial assets such as investments, debtors/loans to 3rd parties, cash/on call bank balances and financial liabilities such as PWLB & Market loans, PFI & lease liabilities, short term & other loans, and creditors. The financial instrument notes in the accounts will show where it has excluded balances that are will NCC controlled/subsidiary companies on the basis these are out of scope of financial instruments as per the CIPFA code.</p>
<p>4. Are you aware of any significant transaction outside the normal course of business? If so, what are they?</p>	<p>Not aware of any significant transactions outside the normal course of business.</p>
<p>5. Are you aware of any changes in circumstances that would lead to impairment of non-current assets? If so, what are they?</p>	<p>All impairments are prepared in accordance with local government requirements, with a review of changes in circumstances each financial year. There are none for 2023/24.</p>

General Enquiries of Management

Question	Management response
6. Are you aware of any guarantee contracts? If so, please provide further details	There are no material financial guarantees; a full review of guarantees is undertaken annually.
7. Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements? If so, please provide further details	No material issues identified during the MTFP reported to City Council in March 2024.
8. Other than in house solicitors, can you provide details of those solicitors utilised by Nottingham City Council during the year. Please indicate where they are working on open litigation or contingencies from prior years?	No material issues identified during the MTFP reported to City Council in March 2024.
9. Have any of the Nottingham City Council's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements? If so, please provide further details	None reported.

General Enquiries of Management

Question	Management response
<p>10. Can you provide details of other advisors consulted during the year and the issue on which they were consulted?</p>	<p>Care Analytics UK - Adults & Social Care Newton Europe - Adults & Social Care Newton Europe - Children's Transformation PWC - NIC Review PWC - Core Team Operating Model PWC - Customer, Commissioning & Procurement work PWC - Stabilisation of Establishment Controls PWC – Adults & Social Care PWC - Market Sustainability and Improvement Fund EY - Financial control assessment</p>
<p>11. Have you considered and identified assets for which expected credit loss provisions may be required under IFRS 9, such as debtors (including loans) and investments? If so, please provide further details</p>	<p>Assets for which expected credit loss provision may be required under IFRS 9 have been identified, measured, and reported in the statement of financial position. There are currently no treasury investments where NCC should be providing for a potential credit loss. We monitor our counterparties for changes in credit risk.</p>

Fraud

Matters in relation to fraud

ISA (UK) 240 covers auditors responsibilities relating to fraud in an audit of financial statements.

The primary responsibility to prevent and detect fraud rests with both the Audit Committee and management. Management, with the oversight of the Audit Committee, needs to ensure a strong emphasis on fraud prevention and deterrence and encourage a culture of honest and ethical behaviour. As part of its oversight, the Audit Committee should consider the potential for override of controls and inappropriate influence over the financial reporting process.

As Nottingham City Council's external auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error. We are required to maintain professional scepticism throughout the audit, considering the potential for management override of controls.

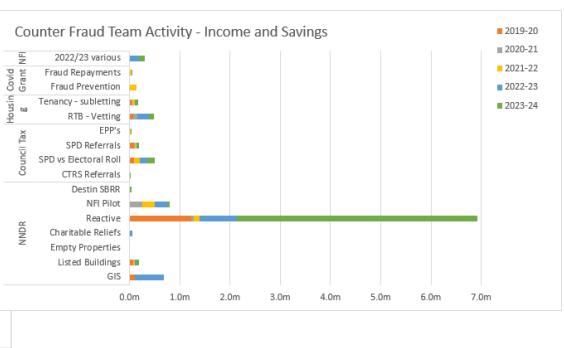
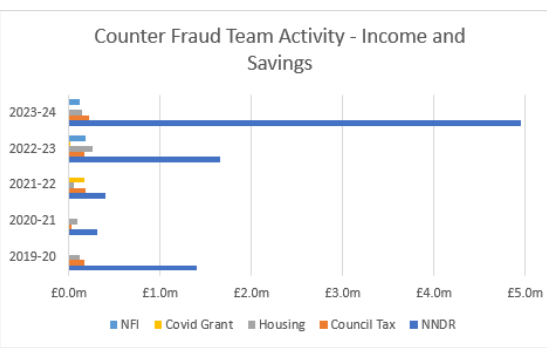
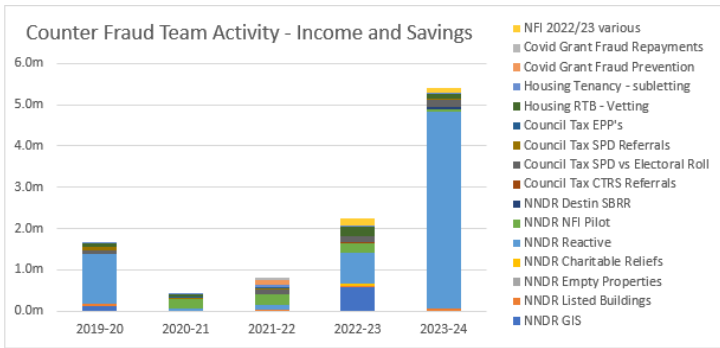
As part of our audit risk assessment procedures we are required to consider risks of fraud. This includes considering the arrangements management has put in place with regard to fraud risks including:

- assessment that the financial statements could be materially misstated due to fraud,
- process for identifying and responding to risks of fraud, including any identified specific risks,
- communication with the Audit Committee regarding its processes for identifying and responding to risks of fraud, and
- communication to employees regarding business practices and ethical behaviour.

We need to understand how the Audit Committee oversees the above processes. We are also required to make inquiries of both management and the Audit Committee as to their knowledge of any actual, suspected or alleged fraud. These areas have been set out in the fraud risk assessment questions below together with responses from Nottingham City Council management.

Fraud Risk Assessment

Question	Management response
<p>1. Has Nottingham City Council assessed the risk of material misstatement in the financial statements due to fraud?</p> <p>How has the process of identifying and responding to the risk of fraud been undertaken and what are the results of this process?</p> <p>How do the authority risk management processes link to financial reporting?</p>	<p>The governance framework within the Internal Audit assesses possible areas of fraud. The financial statements are within the remit of the Audit Committee, which is included within the Internal Audit areas of assessment.</p> <p>The Council has planned and deployed counter fraud team activity where we believe the controls and officer resource levels applied are insufficient to detect and prevent fraud or where there are significant fraud incentives which have the potential to overcome controls. These areas have been determined through use of a CIPFA tool for managing the risk of fraud and through identification of control and resource deficiency areas by Internal Audit. The team also take part in the National Fraud Initiative as and when required. Performance is measured year by year and the following graphs provide details of the areas of activity and value over the last 5 years (to Feb 2024). The income and savings are reported through the relevant cost centre. The graphs below provide detail.</p> <p>The governance framework within the Internal Audit assesses possible areas of fraud. The financial reporting risk are within the remit of the Audit Committee, which is included within the Internal Audit areas of assessment.</p>



Fraud Risk Assessment

Question	Management response
<p>2. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?</p>	<p>The CIPFA Fraud & Corruption Tracker 2020 identified that the four main areas of fraud (by volume) that local authorities are tackling are Council Tax, Blue Badges, Housing, and Business Rates as the areas most at risk of fraud. It also found that Adult Social Care and Procurement were perceived as being high risk areas. Nottingham City Homes, who manage the housing stock, have arrangements in place for identifying Social Housing fraud and work with the CCFT with regard to prosecuting offenders. The work programme for the CCFT includes a significant amount of time devoted to Business Rates and Council Tax and the work programme for the Audit Team will include annual reviews of both Council Tax and Business Rates. The CCFT liaises with colleagues in social care with regard to identification and investigation of fraud cases. Internal Audit has allocated a significant number of days in its annual plan to review the councils spend</p>
<p>3. Are you aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within Nottingham City Council as a whole, or within specific departments since 1 April 2023? If so, please provide details</p>	<p>No material allegations of fraud, error or other irregularities have been made during the period.</p>

Fraud Risk Assessment

Question	Management response
<p>4. As a management team, how do you communicate risk issues (including fraud) to those charged with governance?</p>	<p>Internal Audit provides the Audit Committee with an annual/periodic summary of its work on fraud prevention and detection and the Committee approves the Counter Fraud Strategy each year. If necessary, the committee would require management to attend a meeting to discuss issues around the control framework.</p> <p>Audit Committee Improvement Plan: Actions to allow a structured and trackable programme of work to start to address improvements identified on the work of the Council's Audit Committee. The following points were raised:</p> <ul style="list-style-type: none"> a) Audit Committee should be self-reflective to drive an improvement plan. The CIPFA self-assessment guide has been completed by the Committee. Plans are now in place to work on any weaknesses identified. b) The Committee now has a dedicated support officer, and it receives briefing papers and notes in-line with the support given to the Council's Scrutiny Committees. c) The improvement plan formalises the work underway to improve how the Committee operates. It will have input from Committee Members alongside colleagues in finance and external audit. d) There will be an opportunity for a co-opted member to join the Committee.

Question	Management response
<p>5. Have you identified any specific fraud risks? If so, please provide details</p> <p>Do you have any concerns there are areas that are at risk of fraud?</p> <p>Are there particular locations within Nottingham City Council where fraud is more likely to occur?</p>	<p>The following are identified as specific risks:</p> <p>NNDR</p> <ul style="list-style-type: none"> GIS – risk of newly occupied development not recorded for liability Listed Buildings – risk of ineligible claim Empty Properties – risk of ineligible claim Charitable Reliefs – risk of ineligible claim Reactive – risk of business owner not notifying liability or unidentified liability NFI Pilot Small Business Rates Relief – risk of ineligible claim due to additional sites <p>Council Tax</p> <ul style="list-style-type: none"> CTRS Referrals SPD vs Electoral Roll SPD Referrals EPP's <p>Housing</p> <ul style="list-style-type: none"> RTB – Vetting and Tenancy – subletting <p>Due to turnover and reduction in staffing across the council, fraud risk is likely to be higher and continuity of controls may be at risk. Business rates, as mentioned above, due to longstanding under-staffing of establishment - identification of liability and entitlement to exemption or relief is highly reliant on visits by a business rates inspector and appropriate desk-based reviews. In the past year CFT have identified previously unidentified rates liability of just short of £5m - an increase on 22/23 of <£2m. The most significant fraud risk for Council Tax is single person discount, experience of matching exercise and other counter fraud activity in this area show a much smaller likely return from investing fraud resource.</p> <p>In respect of grants -For inbound where NCC is the beneficiary the key risks are misstated eligibility or expenditure, as IA certificated £101m of grants, we are satisfied that these risks have sufficient assurance.</p> <p>Outbound grants: IA certificate the Disabled Adaptations element of the Better Care Grant which has been a previous area of concern. We also certificate some other outbound grants to organisations - e.g., energy grants to other Midland's organisations where NCC manages the grants hub. Personal and business grants have in the past been subject to fraud due to poor control arrangements from central government or NCC - we are not aware of any specific programme that is a particular cause of concern currently.</p>

Question	Management response
<p>6. What processes do Nottingham City Council have in place to identify and respond to risks of fraud?</p>	<p>The Council has a risk management framework in place, which is reviewed on a regular basis by the corporate risk management group. All risks are considered by this group, and it is chaired by the s151 officer. Risks are categorised in a variety of ways, including financial, which are the risks that are most likely to have an impact in terms of financial reporting. The involvement of the s151 officer ensures that any significant risks are considered when preparing the financial statements.</p>
<p>7. How do you assess the overall control environment for Nottingham City Council, including: the existence of internal controls, including segregation of duties; and the process for reviewing the effectiveness the system of internal control? If internal controls are not in place or not effective where are the risk areas and what mitigating actions have been taken?</p> <p>What other controls are in place to help prevent, deter or detect fraud? Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)? If so, please provide details</p>	<p>A risk-based approach is used by Internal Audit to identify and plan reviews during the year. This includes assessment of the design and effectiveness of key internal controls required to manage achievement of objectives including segregation controls where appropriate. Each year this review includes core financial systems. ICT arrangements are reviewed according to priority over a cycle of several years.</p> <p>Housing services was in-housed from April 2023; specific Housing risk areas will be considered in planning the future audits at NCC.</p> <p>All final reports are summarised to audit committee including high priority recommendations and the status of recommendations is reviewed about 3 times per year and reported to audit committee. As part of our developing approach to continuous audit we have regularly updated data to identify payroll overpayments in respect of casual employment, incongruous colleague expense claims, one-time payments and are now looking to extend this type of activity to DBS expiries.</p> <p>On an annual basis there is a review of external assurances looking at the assurance provided by inspectorates, and external reviewers, and obtaining further information from the services concerned where necessary, this is reported as part of the Annual Report. The review attempts to include any national reviews of note, or local reviews where some recommendations have been made to the wider local government community and reflect the local activity in relation to these.</p> <p>Internal Audit has a robust process for evaluating the effectiveness of the system of internal control and reporting these periodically to the Audit Committee. However, for part of the year, NCC did not have a Head of Internal Audit in post, resulting in some delays in reporting to the Audit Committee.</p> <p>Internal Audit continues to innovate in its continuous audit plan and carry out priority audits and ensure these are appropriate to the brief agreed. (continued over the page)</p>

Fraud Risk Assessment

Question	Management response
<p>7. How do you assess the overall control environment for Nottingham City Council, including: the existence of internal controls, including segregation of duties; and the process for reviewing the effectiveness the system of internal control? If internal controls are not in place or not effective where are the risk areas and what mitigating actions have been taken?</p> <p>What other controls are in place to help prevent, deter or detect fraud? Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)? If so, please provide details. (CONT)</p>	<p>At the March 2024 Audit Committee, a paper was presented (supported by S151 Officer) setting out the need for a corporate assurance framework and an intention to prepare this framework by October 2024 following CIPFA & LGA guidance.</p> <p>Significant Issues and their progress are updated several times a year and reported to Audit Committee.</p> <p>Internal Audit have highlighted several areas to Audit Committee during 2023/24.</p> <p>Whistleblowing procedure, continuous audit programme, proactive review e.g., exemptions and reliefs in NNDR, external data matching of Small Business Rates Relief (currently subject to renewal process through Customer Division), annual review of Council Tax SPD, NFI arrangements in place, additional RTB form to help identify anomalies in Right To Buy application reviewed by Counter Fraud (source of capital / funds). Reconciliation controls in income systems, disclosure of interests, duplicate invoice / payment detection by EMSS as part of accounts payable processes. NFI arrangements.</p> <p>This has previously been the case in housing and following a review by EY several other areas were identified. Prevention of override forms a part of the Financial Improvement Plan.</p>
<p>8. Are there any areas where there is potential for misreporting? If so, please provide details</p>	<p>The EY report indicated a few, which were incorporated into the Financial Improvement Plan.</p>

Fraud Risk Assessment

Question	Management response
<p>9. How does Nottingham City Council communicate and encourage ethical behaviours and business processes of it's staff and contractors?</p> <p>How do you encourage staff to report their concerns about fraud?</p> <p>What concerns are staff expected to report about fraud? Have any significant issues been reported? If so, please provide details</p>	<p>The employee Code of Conduct forms part of the contract of employment and gives all employees / councillor's guidance on how the City Council and the public in general expect them to behave. It sets out expectations in terms of disclosure of information, political neutrality, interests, relationships, contractors, appointments, etc. Forms for employees to record gifts/hospitality and declarations of interest are available on the intranet.</p> <p>Procedures are in place for reporting fraud internally on the intranet, which includes an on-line referral form, a fraud hotline and a whistle blowing process.</p> <p>All fraud referrals are risk assessed to determine whether the matter should be investigated by Internal Audit/CCFT or the matter referred to the directorate for action. The findings of Internal Audit investigations are reported with appropriate disciplinary and/or systems related recommendations. In addition, Internal Audit will refer cases to the Police where there is firm evidence of criminality or may decide to prosecute themselves and work with Legal Services to that end. There is a Whistleblowing Policy in place, which includes schools, and a dedicated Whistleblowing Reporting process on the intranet. All recorded disclosures are managed by the manager in Internal Audit who supports the Monitoring Officer in this respect.</p> <p>No significant issues have been reported by staff during the last financial year.</p>
<p>10. From a fraud and corruption perspective, what are considered to be high-risk posts?</p> <p>How are the risks relating to these posts identified, assessed and managed?</p>	<p>No posts are considered significantly higher risk than others currently, except for the treasury management area.</p> <p>Spend controls, delegation limits and budget and committee monitoring are controls which operate across all areas. The treasury management is monitored by the deputy S151 Officer and the Treasury Management Panel. Treasury management advisors support the function and have access to the relevant data. Treasury management strategy and activity is also scrutinised by Audit Committee, and there is normally a Treasury Management internal audit annually.</p>

Fraud Risk Assessment

Question	Management response
<p>11. Are you aware of any related party relationships or transactions that could give rise to instances of fraud? If so, please provide details</p> <p>How do you mitigate the risks associated with fraud related to related party relationships and transactions?</p>	<p>All related parties are reviewed annually and any relationships or transaction that have a potential for fraud will be raised. We are not aware of any relationships or transactions that could give rise to fraud at this time.</p> <p>The local authority governance guidance is adhered to and reviewed annually so that the risk of fraud in this area is mitigated - Members and Senior Officers are provided with guidance as to their responsibilities.</p>
<p>12. What arrangements are in place to report fraud issues and risks to the Audit Committee?</p> <p>How does the Audit Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control?</p> <p>What has been the outcome of these arrangements so far this year?</p>	<p>Internal Audit provides the Audit Committee with an annual/periodic summary of its work on fraud prevention and detection and the Committee approves the Counter Fraud Strategy each year.</p> <p>If necessary, the committee would require management to attend a meeting to discuss issues around the control framework.</p> <p>Creation of an Audit Committee Improvement Plan: Actions to allow a structured and trackable programme of work to start to address improvements identified on the work of the Council's Audit Committee. The following points were raised:</p> <ul style="list-style-type: none"> a) Audit Committee should be self-reflective to drive an improvement plan. The CIPFA self-assessment guide has been completed by the Committee. Plans are now in place to work on any weaknesses identified. b) The Committee now has a dedicated support officer, and it receives briefing papers and notes in-line with the support given to the Council's Scrutiny Committees. c) The improvement plan formalises the work underway to improve how the Committee operates. It will have input from Committee Members alongside colleagues in finance and external audit. d) There will be an opportunity for a co-opted member to join the Committee.

Fraud Risk Assessment

Question	Management response
13. Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?	None made at the time of response
14. Have any reports been made under the Bribery Act? If so, please provide details	No report made under this act.

Law and regulations

Matters in relation to laws and regulations

ISA (UK) 250 requires us to consider the impact of laws and regulations in an audit of the financial statements.

Management, with the oversight of the Audit Committee, is responsible for ensuring that Nottingham City Council's operations are conducted in accordance with laws and regulations, including those that determine amounts in the financial statements.

As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error, taking into account the appropriate legal and regulatory framework. As part of our risk assessment procedures we are required to make inquiries of management and the Audit Committee as to whether the body is in compliance with laws and regulations. Where we become aware of non-compliance or suspected non-compliance we need to gain an understanding of the non-compliance and the possible effect on the financial statements.

Risk assessment questions have been set out below together with responses from management.

Impact of laws and regulations

Question	Management response
<p>1. How does management gain assurance that all relevant laws and regulations have been complied with?</p> <p>What arrangements does Nottingham City Council have in place to prevent and detect non-compliance with laws and regulations?</p> <p>Are you aware of any changes to Nottingham City Council's regulatory environment that may have a significant impact on Nottingham City Council's financial statements?</p>	<p>Internal Audit provides the Audit Committee with an annual/periodic summary of its work on fraud prevention and detection and the Committee approves the Counter Fraud Strategy each year. Regular reporting to Audit Committee by Internal Audit provides the necessary reassurance.</p> <p>There are "Legal Comments" within internal reporting processes including Committee papers and all delegated decisions papers to officers and/or members, also Legal officer representation within Major Project teams.</p> <p>Internal Audit provides the Audit Committee with an annual/periodic summary of its work on fraud prevention and detection and the Committee approves the Counter Fraud Strategy each year. Regular reporting to Audit Committee by Internal Audit provides the necessary reassurance.</p> <p>All contracts undergo a review by legal to ensure that they comply with legislation.</p> <p>There are no material changes that impact significantly on the financial statements.</p>
<p>2. How is the Audit Committee provided with assurance that all relevant laws and regulations have been complied with?</p>	<p>Internal Audit provides the Audit Committee with an annual/periodic summary. Regular reporting to Audit Committee by Internal Audit provides the necessary reassurance.</p>
<p>3. Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2023 with an on-going impact on the 2023/24 financial statements? If so, please provide details</p>	<p>Misappropriation of funds between the Housing Revenue Account (HRA) and General Fund has been reported and resolved. Control measures and practices continue to be improved.</p>

Impact of laws and regulations

Question	Management response
4. Are there any actual or potential litigation or claims that would affect the financial statements? If so, please provide details	There are no known material actual or potential litigation or claims that would affect the financial statements.
5. What arrangements does Nottingham City Council have in place to identify, evaluate and account for litigation or claims?	<p>Litigation, claims, and assessments are managed either by Legal or by the Insurance department in the case of insured risk. In terms of identifying and disclosing litigation, all managers are asked to give details of any contingent assets and liabilities existing as at March 31 each year. These are considered considering the policy set out in the Council's Financial Regulations and all those fitting the criteria are included in the annual Statement of Accounts.</p> <p>The Risk and Insurance team manage claims and litigation with an insurable interest. All claims and litigation are handled in accordance with Insurers terms and conditions, civil procedure rules and internal claims handling procedures.</p> <p>Every 2 to 3 years there is an external actuarial review of our insurance fund which reviews all the council's claims history in detail and assesses the fund valuation and whether this is sufficient to meet future claims.</p>
6. Have there been any reports from other regulatory bodies, such as HM Revenues and Customs, which indicate non-compliance? If so, please provide details	There are no material reports from any other regulatory bodies which indicate non-compliance.

Related Parties

Matters in relation to Related Parties

Nottingham City Council are required to disclose transactions with bodies/individuals that would be classed as related parties. These may include:

- bodies that directly, or indirectly through one or more intermediaries, control, or are controlled by Nottingham City Council
- associates;
- joint ventures;
- a body that has an interest in the authority that gives it significant influence over Nottingham City Council
- key management personnel, and close members of the family of key management personnel, and
- post-employment benefit plans (pension fund) for the benefit of employees of Nottingham City Council, or of any body that is a related party of the authority

A disclosure is required if a transaction (or series of transactions) is material on either side, i.e. if a transaction is immaterial from the [type of body]'s perspective but material from a related party viewpoint then the authority must disclose it.

ISA (UK) 550 requires us to review your procedures for identifying related party transactions and obtain an understanding of the controls that you have established to identify such transactions. We will also carry out testing to ensure the related party transaction disclosures you make in the financial statements are complete and accurate.

Related Parties

Question	Management response
<p>1. Have there been any changes in the related parties including those disclosed in Nottingham City Council's 2023/24 financial statements?</p> <p>If so please summarise:</p> <ul style="list-style-type: none"> the nature of the relationship between these related parties and NCC whether NCC has entered into or plans to enter into any transactions with these related parties the type and purpose of these transactions 	<p>Any material changes to related parties' changes will be disclosed in the financial statements.</p> <p>Councillors/Officers – changes to persons in post – Declaration Forms in place.</p> <p>Nottingham City Homes Limited – HRA & general fund activities & staff on 1 April 2023, as NCC service elements.</p> <p>Nottingham Revenues & Benefits Limited – whole organisation in-house 1 April 2023.</p>
<p>2. What controls does NCC have in place to identify, account for and disclose related party transactions and relationships?</p>	<p>The controls would follow the Councils general governance / controls – the constitution is here (which includes Financial Regulations etc) Nottingham City Council's constitution - Nottingham City Council</p>
<p>3. What controls are in place to authorise and approve significant transactions and arrangements with related parties?</p>	<p>Section 114 Spending Controls: Process continues to be refined and works as well as can be expected.</p>
<p>4. What controls are in place to authorise and approve significant transactions outside of the normal course of business?</p>	<p>Section 114 Spending Controls: Process continues to be refined and works as well as can be expected.</p>

Going Concern

Matters in relation to Going Concern

The audit approach for going concern is based on the requirements of ISA (UK) 570, as interpreted by Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020). It also takes into account the National Audit Office's Supplementary Guidance Note (SGN) 01: Going Concern – Auditors' responsibilities for local public bodies.

Practice Note 10 confirms that in many (but not all) public sector bodies, the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the body's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist.

For this reason, a straightforward and standardised approach to compliance with ISA (UK) 570 will often be appropriate for public sector bodies. This will be a proportionate approach to going concern based on the body's circumstances and the applicable financial reporting framework. In line with Practice Note 10, the auditor's assessment of going concern should take account of the statutory nature of the body and the fact that the financial reporting framework for local government bodies presume going concern in the event of anticipated continuation of provision of the services provided by the body. Therefore, the public sector auditor applies a 'continued provision of service approach', unless there is clear evidence to the contrary. This would also apply even where those services are planned to transfer to another body, as in such circumstances, the underlying services will continue.

For many public sector bodies, the financial sustainability of the body and the services it provides are more likely to be of significant public interest than the application of the going concern basis of accounting. Financial sustainability is a key component of value for money work and it is through such work that it will be considered.

Going Concern

Question	Management response
<p>1. What processes and controls does management have in place to identify events and / or conditions which may indicate that the statutory services being provided by Nottingham City Council will no longer continue?</p>	<p>The controls would follow the Council's general governance / controls – the constitution is here (which includes Financial Regulations etc) Nottingham City Council's constitution - Nottingham City Council</p> <p>Also, there are the Duties & Powers review as part of the budget process for 2024/25; the Section 25 Statement from the S151 Officer, as part of the budget preparation process; and the NCC Risk Management process.</p>
<p>2. Are management aware of any factors which may mean for Nottingham City Council that either statutory services will no longer be provided or that funding for statutory services will be discontinued? If so, what are they?</p>	<p>Refer to the Duties & Powers. Financial sustainability of the Council and the balanced budgets. Further review of statutory services.</p>
<p>3. With regard to the statutory services currently provided by Nottingham City Council does NCC expect to continue to deliver them for the foreseeable future, or will they be delivered by related public authorities if there are any plans for NCC to cease to exist?</p>	<p>There are no plans for Nottingham City Council to cease to exist as can be evidenced by the approval of the MTFP and 2024/25 balanced budgets.</p>

Going Concern

Question	Management response
<p>4. Are management satisfied that the financial reporting framework permits Nottingham City Council to prepare its financial statements on a going concern basis? Are management satisfied that preparing financial statements on a going concern basis will provide a faithful representation of the items in the financial statements?</p>	<p>Management is satisfied that the financial reporting framework permits NCC to prepare its financial statements on a going concern basis and that this will be faithfully represented in the financial statements. However, Section 25 Statement prepared by the CFO, as part of the budget process, identifies risks and actions that need to be addressed.</p>

Accounting estimates

Matters in relation to accounting estimates

ISA (UK) 540 (Revised December 2018) requires auditors to understand and assess a body's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the body's risk management process identifies and addresses risks relating to accounting estimates;
- The body's information system as it relates to accounting estimates;
- The body's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do Audit Committee members:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?

We would ask the Audit Committee to satisfy itself that the arrangements for accounting estimates are adequate.

Accounting Estimates- General Enquiries of Management

Question	Management response
<p>1. What are the classes of transactions, events and conditions, that are significant to the financial statements that give rise to the need for, or changes in, accounting estimate and related disclosures?</p>	<p>As in previous years there remain several significant accounting estimates that will be needed in terms of the close down of the financial statements. These will include, PPE valuations & sales, Impairment of assets, Pensions, Financial instruments, Depreciation, Accruals, Provisions, PFI liabilities, Reserves.</p> <p>National Events & Conditions - End of Covid-19 & economic conditions.</p> <p>Local Events & Conditions – delay in closure of statutory accounts since 2019/20 and bringing the NCH & NRB in-House & HRA misappropriation, financial sustainability/stability position.</p>
<p>2. How does the authority risk management process identify and address risks relating to accounting estimates?</p>	<p>The Council has a risk management framework in place, which is reviewed on a regular basis by the corporate risk management group. All risks are considered by this group, and it is chaired by the s151 officer. Risk is reduced by ensuring that appropriate processes are in place, ensure skilled technical accountants and external professional advisors & Internal Audit.</p>
<p>3. How does management identify the methods, assumptions or source data, and the need for changes in them, in relation to key accounting estimates?</p>	<p>All accounting estimates are prepared within the local authority accounting guidance. The assumptions, source data and changes are recorded in the supporting working papers. For example, the property valuations are based on a database of information that is used to manage, control and report. External review is applied annually, or as required.</p>
<p>4. How do management review the outcomes of previous accounting estimates?</p>	<p>Accounting estimates are prepared and reviewed by qualified accountants; then reviewed by the Deputy S151 & S151 officers and externally audited. The accounting estimates are reviewed against the actuals on a periodic basis, by qualified accountants. Material variances are reported by the S151 Officer to the various governance committees.</p>
<p>5. Were any changes made to the estimation processes in 2023/24 and, if so, what was the reason for these?</p>	<p>There were no material changes to the estimation processes in 2023/24.</p>

Accounting Estimates- General Enquiries of Management

Question	Management response
6. How does management identify the need for and apply specialised skills or knowledge related to accounting estimates?	<p>There has been a review of financial resources to ensure that the necessary specialist skills & knowledge are in place. As a result, several interims have been on-boarded within the Finance function to provide additional skilled resource. Where there is no in-house skill, NCC will use external professionals – e.g. within the areas of property and treasury.</p>
7. How does the authority determine what control activities are needed for significant accounting estimates, including the controls at any service providers or management experts?	<p>CIPFA guidance, external and internal audit findings, and internal expertise are used to determine the control activities needed for accounting estimate controls.</p> <p>Councils governance / controls – the constitution is here (which includes Financial Regulations etc) Nottingham City Council's constitution - Nottingham City Council.</p>
8. How does management monitor the operation of control activities related to accounting estimates, including the key controls at any service providers or management experts?	<p>There is a regular review of the Councils governance / controls – the constitution is here (which includes Financial Regulations etc) Nottingham City Council's constitution - Nottingham City Council.</p> <p>In March 2024 a Financial Accountabilities Framework was introduced to reinforce the financial management roles and responsibilities for all officers with budget management responsibilities and the supporting role of Business Partners, who provide challenge.</p> <p>Procurement governance and contractual terms & conditions aid the control of services provided by external experts. NCC rely on the specification of requirements including supplier qualifications and the contract terms and conditions.</p> <p>There are also regular view meetings, challenge back by officers, contract monitoring and external & internal audits.</p>

Accounting Estimates- General Enquiries of Management

Question	Management response
<p>9. What is the nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates, including:</p> <ul style="list-style-type: none"> - Management's process for making significant accounting estimates - The methods and models used - The resultant accounting estimates included in the financial statements. 	<p>All estimates are approved at a local and technical level to ensure material accuracy.</p> <p>There is regular oversight through the Councils governance / controls – the constitution is here (which includes Financial Regulations etc) Nottingham City Council's constitution - Nottingham City Council.</p> <p>In addition, there is the Internal Audit; External Audit; Members governance via committees (especially the audit committee); open sharing of information with public inspections for transparency, and more recently the government intervention by the Improvements & Assurance Board (replaced by Commissioners).</p> <p>The detailed estimates methodologies may be read in the prior year financial statements. The methodology and modelling have not changed in 2023/24.</p>
<p>10. Are management aware of any transactions, events, conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement (other than those in Appendix A)? If so, what are they?</p>	<p>There are no material transactions, events, conditions (or changes to these) that may give rise to recognition or disclosure of significant accounting estimates, other than those in Appendix A.</p>
<p>11. Why are management satisfied that their arrangements for the accounting estimates, as detailed in Appendix A, are reasonable?</p>	<p>Management is satisfied that the standard local government financial guidance is adhered to in the production of the accounting estimates; therefore, that they are reasonable. The control, review, risk assessment & audit processes enable the suitable level of scrutiny & approvals through from the production of the initial estimates through the controls and checking processes, through the levels of management to Audit Committee.</p>

Accounting Estimates- General Enquiries of Management

Question	Management response
12. How is the Audit Committee provided with assurance that the arrangements for accounting estimates are adequate ?	The audited accounts are presented, with audit findings report, internal report, results from Public Inspection & certified by S151 officer. The Audit Committee reviewed & approved the accounting policies for 2023/24 in February 2024. Estimates are included within this body of work.

Estimates	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Valuation of Other land and buildings	RICS methodology	RICS controls used by professional valuers	External valuers used. Internal valuers are also used	Assumption that professional valuers are materially accurate.	No change within year.
Valuation of surplus assets	RICS methodology	RICS controls used by professional valuers	External valuers used. Internal valuers are also used	Assumption that professional valuers are materially accurate.	No change within year.
Valuation of infrastructure	Historic Cost (not revalued, therefore not a valuation.	N/A as historic cost	N/A as historic cost.	Calculated as per policy.	No change within year.
Valuation of Investment properties	RICS methodology	RICS controls used by professional valuers	External valuers used. Internal valuers are also used.	Property have said they intend to bring forward a proposal to reclassify large numbers of operational property to investment.	No change within year.
Depreciation	As per policy	As per policy	No	Alternative methodologies were considered by Audit Committee.	No change within year.

Appendix A Accounting Estimates

Estimates	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Valuation of Pension Liability	In completing the calculations for pensions accounting purposes the actuary has used the data, which they received from Nottinghamshire County Council & Nottingham City Council.	Using financial assumptions that comply with IAS19	Both the Local Government Pension Scheme and Teachers Benefits liabilities have been assessed by Barnett Waddingham LLP, an independent firm of actuaries.	Alternative methodologies were considered by Audit Committee.	No change within year.
Bad debt provision	As per policy	As per policy	No	Alternative methodologies were considered by Audit Committee.	No change within year.
Net2 Provision	As per policy	As per policy	No	Alternative methodologies were considered by Audit Committee.	No change within year.
Injury and damage compensation claims provision	As per policy	As per policy	External valuers used for loans to subsidiaries and third parties.	Alternative methodologies were considered by Audit Committee.	No change within year.

Appendix A Accounting Estimates

Estimates	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Fair Value of financial instruments	As per policy	As per policy	External valuers used for loans to subsidiaries and third parties	Alternative methodologies were considered by Audit Committee.	No change within year.
PFI	As per policy	As per policy	No	Alternative methodologies were considered by Audit Committee.	No change within year.



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