

Cllr. Williams
 Audit Committee Chair
 Nottingham City Council
 Loxley House
 Station Street
 Nottingham
 NG2 3NG

Grant Thornton
 17th Floor
 103 Colmore Row
 Birmingham
 B3 3AG
 T +44 (0)121 212 4000
 E website.enquiries.birmingham@uk.gt.com

6 February 2025

Dear Cllr. Williams

Nottingham City Council: Conclusion of the audit for 2023/24 – letter to those charged with governance on the application of the local authority backstop

As you will be aware, on 30 September 2024 parliament approved the Accounts and Audit (Amendment) Regulations 2024. These Regulations set a publication date for the 2023/24 financial statements of 28 February 2025. The new National Audit Office Code which was approved on 14 November 2024 also requires that where auditors are unable to conclude their work, they should issue either a qualified audit opinion or a disclaimer of opinion by this date, known as the 'statutory backstop date'.

As discussed with your Interim Corporate Director of Finance and Resources and for reasons which I set out in more detail below, it will not be possible for us to complete our audit for the 2023/24 financial years by the statutory backstop date.

We are required under Auditing Standards to report certain matters to the Audit Committee, including our responsibilities as auditor, the scope of the audit, independence, audit fees and any matters arising from the audit. I set out more details in relation to the audit below. Information regarding our responsibilities, the scope of the audit and fees are included in the Appendix.

Outcome of our audit for 2023/24 – Disclaimer of the opinion on the financial statements

For reasons set out below, it will not be possible for us to undertake sufficient work to support an audit opinion by the statutory deadline of 28 February 2025. This means that the limitations of scope imposed by the backstop are pervasive and therefore we have been unable to form an opinion on the financial statements by the due date. We therefore plan to issue a disclaimer of the audit opinion. A draft copy of this disclaimer is attached within the 14 February 2025 Audit Committee papers as a separate agenda item.

Our Audit Plan for the 2023/24 financial year was presented to the 29 November 2024 Audit Committee. The Accounts and Audit Regulations 2015 required the Authority to make its financial statements for the year ended 31 March 2024 available for public inspection by the first working day in June 2024. The Authority made the draft financial statements available for public inspection until 20 December 2024. Upon receipt of draft financial statements on 20 December 2024, we updated our audit planning procedures. No further significant risks were identified in addition to those already reported in the Audit Plan.

Our audit plan stated it was likely that we would not have sufficient time to fully execute our 2023/24 audit plan given the backstop date of 28 February 2025. We therefore proposed 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

Chartered Accountants

Grant Thornton UK LLP is a limited liability partnership registered in England and Wales: No. OC307742. A list of members is available from our registered office. Grant Thornton UK LLP is authorised and regulated by the Financial Conduct Authority. Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. Services are delivered by the member firms. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions. Please see grantthornton.co.uk for further details.

- 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 disclosures
- Testing the opening cash position at 1 April 2023.

Although progress has been made in each of the areas above, there is insufficient time before 28 February 2025 to obtain sufficient appropriate audit evidence to conclude work in these areas. A summary of progress is included in Appendix A.

Owing to the challenges of undertaking an audit where the previous audit was disclaimed due to the local authority backstop, and the timing of receipt of draft financial statements for 2023/24 we have been unable to regain assurance and it has not been possible for us to undertake sufficient work to support an unmodified audit opinion in advance of the proposed backstop date of 28 February 2025. The limitations imposed by not having assurance on opening balances mean that we will be unable to form an opinion on the financial statements. In addition, in our auditor's report for the year ended 31 March 2020, we issued a disclaimer of opinion as:

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

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

These matters have not been resolved the intervening years including the 2023/24 financial year and therefore their impact could be both material and pervasive to the current year financial statements.

Our anticipated financial statements audit report opinion will be a disclaimer opinion.

Our draft Audit Report is presented as a separate agenda item within Audit Committee papers. We have not completed any audit procedures in relation to other information. As such we are unable to conclude whether the other information published with the financial statements, including the Annual Governance Statement, is consistent with our knowledge of your organisation and with the draft financial statements presented for audit.

A number of recommendations from prior years were reported to the November 2024 Audit Committee. Due to the proximity of this reporting, we will follow up recommendations as part of our 2024/25 audit planning process.

Outcome of our audit for 2023/24 - Value for Money work and other work under the National Audit Office Code of Audit Practice

In relation to the financial year 2023/24, we reviewed the Authority's progress in implementing recommendations from prior years. Full details will be reported in the Auditors Annual Report which has been shared with management for responses to recommendations and will be presented to the March 2025 meeting of the Audit Committee. Insufficient progress had been made by the Authority in addressing many of the significant weaknesses previously identified, therefore the recommendations remain significant weaknesses in arrangements for the 2023/24 financial year.

Additionally, on 14 February 2025 we identified for the year ended 31 March 2024:

- A new significant weakness in the Authority's arrangements for financial sustainability. We identified for the 2023/24 financial year inconsistencies in budget information and forecasting which

undermined the accuracy with which the Authority was able to accurately identify financial pressures during 2023/24.

- Two new significant weaknesses in the Authority's governance arrangements for 2023/24. These were in relation to:
 - Risk management arrangements during the 2023/24 financial year. Risk identification at project level was not repeated across the organisation; and the Audit Committee only received the risk register once during the year.
 - The Internal Audit team was under-resourced during the 2023/24 financial year and an interim Head of Internal Audit left before a replacement was in post.
- A new significant weakness in the Authority's arrangements for improving economy, efficiency and effectiveness for 2023/24. We identified there were significant weaknesses in the arrangements for the ongoing safety and quality of social housing during the year.

Statutory powers or duties

We are also required to report by exception if we have applied any of our statutory powers or duties. We wish to highlight that 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.

Independence

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 and consider that an objective reasonable and informed third party would take the same view. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements. 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.

Management letter of representation

We have asked management to provide a letter of representation in respect of the financial statements for 2023/24. This has been tabled as a separate agenda item for the 14 February 2024 Audit Committee.

Looking ahead

The circumstances resulting in the application of the local authority backstop are clearly extremely unusual. The government has signalled its intent that where backstops have been applied, local authorities and their auditors work together to recover the position over subsequent years. We will follow relevant guidance including from the NAO and the FRC to work with you over the coming year, as we seek to rebuild audit assurance.

Andrew Smith

Yours sincerely

Andrew Smith, Key Audit Partner
For Grant Thornton UK LLP

Cc: Interim Corporate Director, Finance and Resources

Attached as separate agenda items: Draft Disclaimer of Opinion 2023/24

Appendix

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 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 both of 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 its responsibilities. It is the responsibility of the authority 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 authority is fulfilling these responsibilities.

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

Audit Plan

Our audit plan was issued to the 29 November 2024 Audit Committee.

A summary of progress to date against each area of focus is included in the table below:

	Focus area per Audit Plan	Progress as at 27 January 2025
1	Risk assessment and evaluation of the control environment for 2023/24 including ISA 315 assessment	<p>We have:</p> <ul style="list-style-type: none"> documented our understanding of the Council's control environment including the Council's risk assessment process and the Council's process to monitor the system of internal control. obtained an understanding of the relevant controls relating to Oracle Fusion and Active Directory. Grant Thornton's IT Audit team has completed an assessment of the design and implementation of controls relating to Oracle Fusion and Active Directory – the results of this work were presented to 29 November 24 Audit Committee completed business processes for all significant classes of transactions. For relevant controls identified we have completed walkthrough procedures for **Cash and cash equivalents, Fees, Charges and Other Income, Other Service Expenses and Journals. <p>We have not completed walkthroughs for classes of transactions where substantive testing has not commenced, specifically PPE (including HRA), Investment Property, Pensions, Government Grants and Contributions and HRA disclosures and adjustments.</p> <p>We have not received working papers in order to complete our risk assessment and evaluation of the Council's control environment in</p>

		respect of the Group. Due to time constraints imposed by the statutory audit backstop, we are unable to conclude our work in this area.
2	Audit of income and expenditure and movements within financial year 2023/24 and associated cut off testing	<p>We have:</p> <ul style="list-style-type: none"> updated the Council's business processes associated with accounting for Other Service Expenses and Fees, Charges, Other Income. obtained a transactional level listing for both categories of transactions and selected a sample for testing. This has been shared with the Council. <p>Due to time constraints imposed by the statutory audit backstop, we are unable to conclude our work in this area.</p>
3	Testing of journals posted during 2023/24	We have completed the required risk assessment procedures relating to journal entries however due to time constraints imposed by the statutory audit backstop, we are unable to conclude our work in this area.
4	Audit of closing balances as at 31 March 2024	We have not received supporting working papers to progress testing other than bank and cash which is detailed below,
5	Testing of Movement of Reserves statements and other primary statements (within the constraints that we will not have opening balance assurance)	We have not received supporting working papers to progress testing in this area.
6	Financial statements disclosure	<p>We have not reviewed supporting working papers to support all notes within the financial statements, as such our work in this area is complete.</p> <p>As part of the 2024/25 audit, we will perform a retrospective technical review of the 2023/24 financial statements to inform the Council's 2024/25 financial statements preparation process.</p>
7	In addition to testing the closing balance of cash we will also test the opening cash position as at 1 April 2023	<p>We have:</p> <ul style="list-style-type: none"> updated the Council's business processes associated with accounting for Cash and Cash Equivalents. obtained third party confirmations to support the Council's year end bank balances within the main Lloyds contract and reviewed for completeness and consistency with the amounts provided by the Council selected a sample of schools bank accounts for testing <p>At the date of this report, we have not been provided with supporting working papers to complete substantive testing over closing and opening balances of cash and cash equivalents.</p>

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. Our materiality levels, as reported in our Audit Plan are as follows:

	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.

Key financial reporting and audit issues identified during the audit

As we have not undertaken any detailed substantive work in respect of the 2023/24 financial statements audit, there are no issues we need to draw to your attention.

Going Concern

As auditors, we are required to obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern (ISA (UK) 570).

In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector.

Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities:

- 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 entity'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, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities.
- for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Our consideration of the authority's financial sustainability is addressed by our value for money work, which is covered elsewhere in this report.

Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by a local authority meets these criteria, and so where undertaking work on your audit, we would normally expect to apply the continued provision of service approach. In doing so, we would consider and evaluate:

- the nature of the authority and the environment in which it operates
- the authority's financial reporting framework
- the authority's system of internal control for identifying events or conditions relevant to going concern
- management's going concern assessment.

As we have been unable to form an opinion on the financial statements for 2023/24, we are unable to draw a conclusion in this area.

Design effectiveness of internal controls

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to management.

We have nothing to report in respect of the above.

Other matters which we are required to report on to those charged with governance

We are required to confirm the following:

- We have not been made aware of any incidents of fraud in the period and no issues have been identified during the course of our audit procedures.
- We are not aware of any related party transactions which have not been disclosed.
- We are not aware of any significant incidences of non-compliance with applicable laws and regulations.

Matters in relation to the Group audit

In respect of the group engagement, we are required to report on:

- The scope of work on components
- The involvement of group auditors in significant component audits,
- Any concerns over quality of component auditors' work
- Limitations of scope on the group audit, and
- Fraud or suspected fraud

We have not completed any procedures in relation to the Group audit, as such have no matters to report in this respect.

Audit fees and non audit fees

PSAA set a scale fee for the 2023/24 audit of £603,891 which agrees to the value disclosed in the Councils draft 2023/24 financial statements (note 4.7.5)

Given the unusual circumstances of the backstop, we are awaiting a determination from PSAA as to the appropriate fee to be charged for this audit year. At present we propose a final fee of £160,000 to cover the audit work that has been completed prior to the backstop date, including our planning and risk assessment work, our Value for Money assessment and the accounts audit areas set out above. The proposed fee is 26% of the scale fee set by PSAA.

We have also undertaken the following non audit work in respect of the 2023/24 financial year, this also agrees to the value disclosed in the Councils draft 2023/24 financial statements (note 4.7.5)

Audit Service	Proposed Fee	Final Fee
2023/24 CFO Insight	£10,000	£10,000

The level of this recurring fee taken on their own is not considered a significant threat to independence in comparison to the total fee for the audit of £160,000 in 2023/24 and in particular relative to Grant Thornton UK LLP's turnover overall. Further there is no contingent element to it. These factors all mitigate any perceived self-interest threat to an acceptable level.