



# Annual Audit Letter 2016/17

## Nottinghamshire County Council

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October 2017

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This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. Public Sector Audit Appointments issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies summarising where the responsibilities of auditors begin and end and what is expected from audited bodies. We draw your attention to this document which is available on Public Sector Audit Appointment’s website (www.psaa.co.uk).

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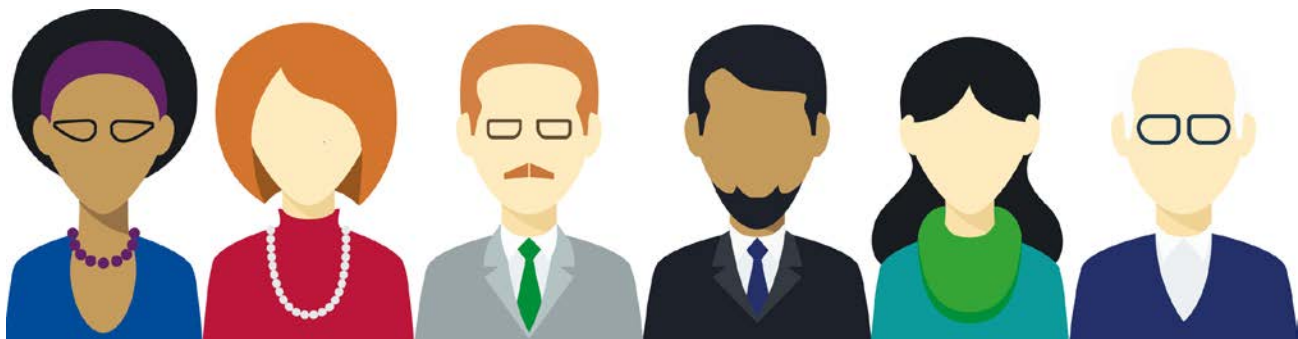
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The contacts at KPMG in connection with this report are:

**Tony Crawley**  
*Director*  
KPMG LLP (UK)  
T: 0116 256 6067  
E: [tony.crawley@kpmg.co.uk](mailto:tony.crawley@kpmg.co.uk)

**Sayed Haris**  
*Senior Manager*  
KPMG LLP (UK)  
T: 0116 256 6061  
E: [sayeed.haris@kpmg.co.uk](mailto:sayed.haris@kpmg.co.uk)

**David Schofield**  
*Assistant Manager*  
KPMG LLP (UK)  
T: 0116 256 6074  
E: [david.schofield@kpmg.co.uk](mailto:david.schofield@kpmg.co.uk)



## Section one

# Summary

This Annual Audit Letter summarises the outcome from our audit work at Nottinghamshire County Council and Nottinghamshire Pension Fund in relation to the 2016/17 audit year. Although it is addressed to Members of the Authority, it is also intended to communicate these key messages to key external stakeholders, including members of the public, and will be placed on the Authority's website.



### VFM conclusion

We issued an unqualified conclusion on the Authority's arrangements to secure value for money (VFM) for 2016/17 on 28 September 2017. This means we are satisfied that during the year the Authority had appropriate arrangements for securing economy, efficiency and effectiveness in the use of its resources.

To arrive at our conclusion we looked at the Authority's arrangements to make informed decision making, sustainable resource deployment and working with partners and third parties.

### VFM risk areas

We undertook a risk assessment as part of our VFM audit work to identify the key areas impacting on our VFM conclusion and considered the arrangements you have put in place to mitigate these risks.

Our work identified the following VFM risk as highlighted in our External Audit Plan 2016/17.

**Medium term financial planning** - The Authority continues to face similar financial pressures and uncertainties to those experienced by others in the local government sector. The Authority needs to have effective arrangements in place for managing its annual budget, generating income and identifying and implementing any savings required to balance its Medium Term Financial Plan (MTFP).

To consider the three criteria: informed decision making; sustainable resource deployment; and working with partners and third parties, we have undertaken the following procedures:

- Reviewed the arrangements for assuring delivery of the Authority's savings programme;
- Reviewed the MTFP;
- Assessed of the budget setting process, in particular the cross party planning undertaken for 2017/18;
- Reviewed of 2016/17 outturn vs budget, and current outturn forecasts for 2017/18;
- Reviewed of current transformation plans and spending proposals;
- Reviewed the Authority minutes and Internal Audit reports.; and
- Evaluated the arrangements the Authority has in place to identify further savings for future years.

The Authority's MTFP details a balanced budget for 2017/18 including savings of £14.9m in year, all of which have been identified. However, the MTFP details the increasingly difficult financial challenges faced each year, resulting in the need for ever rising savings which have yet to be identified, up to £62.9 million by 2020/21.

### Audit opinion

We issued an unqualified opinion on the Authority's financial statements on 28 September 2017. This means that we believe the financial statements give a true and fair view of the financial position of the Authority and of its expenditure and income for the year. The financial statements also include those of the pension fund.

## Section one

# Summary (cont.)

This Annual Audit Letter summarises the outcome from our audit work at Nottinghamshire County Council and Nottinghamshire Pension Fund in relation to the 2016/17 audit year. Although it is addressed to Members of the Authority, it is also intended to communicate these key messages to key external stakeholders, including members of the public, and will be placed on the Authority's website.



### Financial statements audit

We did not identify any issues in the course of our audit that were considered to be material. We identified a small number of presentational adjustments which were required to ensure that the accounts were compliant with the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17. The Authority amended the statements accordingly.

The Authority has good processes in place for the production of the accounts and good quality working papers. Officers dealt efficiently with audit queries and the audit process has been completed within the planned timescales.

The Authority has strong financial reporting procedures as highlighted by the finalising of the accounts in a shorter timescale. The Authority is in a good position to meet the new 2017/18 deadline, however it will need to manage the timetable with third parties (eg subsidiaries) to ensure information is received as complete as possible to feed into the tighter deadlines.

### Other information accompanying the financial statements

We review other information that accompanies the financial statements to consider its material consistency with the audited accounts. We reviewed the Annual Governance Statement and Narrative Report. We concluded that they were consistent with our understanding and did not identify any issues.

### Whole of Government Accounts

We reviewed the consolidation pack which the Authority prepared to support the production of Whole of Government Accounts by HM Treasury. We reported that the Authority's pack was consistent with the audited financial statements.

### High priority recommendations

There are no high risk recommendations arising from our 2016-17 audit work and there are no outstanding agreed high priority audit recommendations from prior years.

### Certificate

We were unable to issue our certificate alongside the opinion and VFM conclusion due to the outstanding objection to the 2015/16 statement of accounts.

### Audit fee

Our fee for 2016/17 was £98,213 (excluding VAT) for the authority, and £29,926 (excluding VAT) for the Pension Fund. We propose an additional fee, which is to be agreed with the Section 151 officer and the PSAA in respect of work undertaken in relation to the assessment of Group Accounts; revision of the MRP calculation; additional review of General IT controls; and the review of the triennial pension revaluation.

# Key issues and recommendations

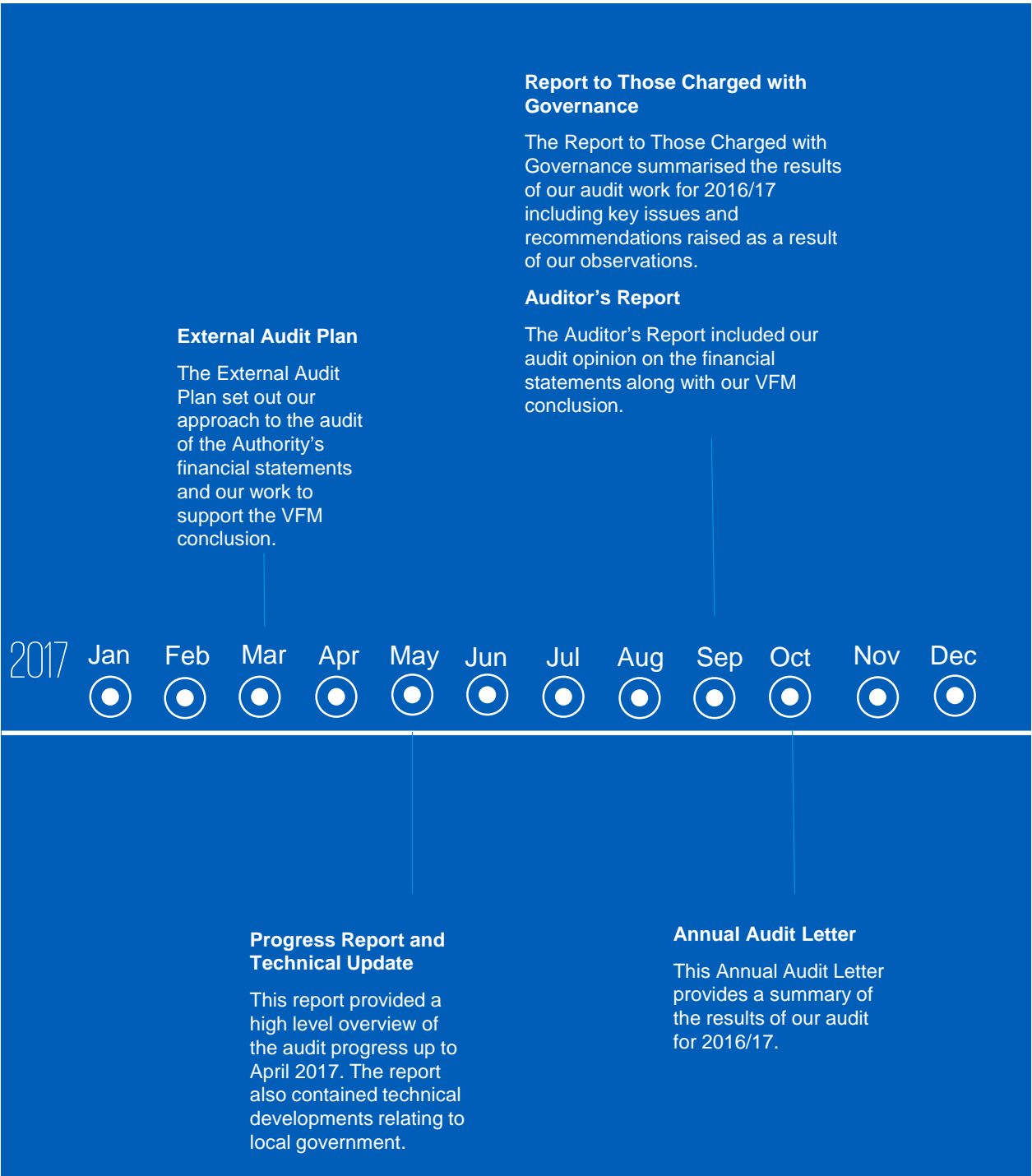
No.	Issue and recommendation	Management response
1	<div><div>M</div><div><p><b>Privileged Access and system logging</b></p><p>We reviewed the general IT controls at the Authority, specifically looking at the controls over the SAP system. We noted the following exceptions:</p><ul style="list-style-type: none"><li>▪ several named individuals had been granted access to highly privileged profiles the use of which is discouraged by the software supplier SAP due to their powerful nature; and</li><li>▪ a number of generic accounts exist within the live system that grant access to highly privileged transactions. The use of generic accounts reduces individual accountability for changes made and in the cases identified grant access to privileged profiles in SAP, which the software supplier SAP recommend are not accessible to users because of their privileged nature;</li><li>▪ an assessment of privileged user access rights also identified a number of potential segregation of duties conflicts that reduced the effectiveness of established change management processes;</li><li>▪ inadequate controls over the locking and unlocking of the system. We noted that the live system had recently been locked and that some logging functionalities had not been enabled during this time. This meant that we were unable to tell how long the system had been unlocked and how many times it had been locked and unlocked during the period under review.</li></ul><p>Although we were able to mitigate the impact of these exceptions on our overall assessment by carrying out further work, it is imperative that any changes to the system, which includes the ‘locking and unlocking’ of the system is sufficiently logged.</p><p><b>Recommendation</b></p><p>The Authority should:</p><ul style="list-style-type: none"><li>▪ Review the users with privileged profile access and determine whether this level of access is appropriate;</li><li>▪ Restrict the use of privileged transactions in line with guidance from the software provider SAP;</li><li>▪ Where possible, all changes should be made through established change management processes without the system being unlocked (via STMS); and</li><li>▪ Where changes require the system to be unlocked, this should be sufficiently documented and logged with an thorough management trail.</li></ul></div></div>	<div><p>The County Council has a support contract with CGI to ensure any issues with the SAP system which cannot be resolved by in-house resources are rectified.</p><p>Access by CGI staff only occurs when issues have been logged by Business Support Centre (BSC) staff and detailed records of when this access is used and what is undertaken are maintained by the BSC.</p><p>In terms of the specific recommendations, these have all been actioned.</p><p><b>Owner</b></p><p>Group Manager –Financial Strategy &amp; Compliance</p><p>Group Manger –Business Support Centre</p><p><b>Deadline</b></p><p>N/A –completed.</p></div>

Follow up of previous recommendations

We did not make any specific recommendations in 2015/16 ISA260 report and noted in that report that all previous years’ recommendations had been addressed.

# Summary of reports issued

This appendix summarises the reports we issued since our last Annual Audit Letter. These reports can be accessed via the Governance and Ethics Committee (and previously Audit Committee) pages on the Authority’s website at [www.nottinghamshire.gov.uk](http://www.nottinghamshire.gov.uk).



## Appendix 3

# Audit fees

This appendix provides information on our fees for the 2016/17 audit.

To ensure transparency about the extent of our fee relationship with the Authority we have summarised below the outturn against the 2016/17 planned audit fee.

### External audit

Our fee for the 2016/17 audit Nottinghamshire County Council was £98,213.

Our fee for the 2016/17 audit of the Pension Fund was in line with the planned fee of £29,926.

We have undertaken additional work in order to get the necessary assurance for our opinion, namely the assessment of Group Accounts; revision of the MRP calculation; additional review of General IT controls; and the review of the triennial pension revaluation.

Our fees are still subject to agreement with the section 151 officer and final determination by Public Sector Audit Appointments.

### Other services

We charged £6,000 for additional audit-related services for the certification of the Teachers Pensions return and Local Transport Plan Major Projects return, which are outside of Public Sector Audit Appointment's certification regime.

This work was not related to our responsibilities under the Code of Audit Practice.

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