



# External Audit Report 2015/16

**Nottinghamshire County Council and  
Nottinghamshire Pension Fund**

August 2016



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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](http://www.psaa.co.uk)).

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Tony Crawley, the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers (on 0207 694 8981, or by email to [andrew.sayers@kpmg.co.uk](mailto:andrew.sayers@kpmg.co.uk)). After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing [generalenquiries@psaa.co.uk](mailto:generalenquiries@psaa.co.uk), by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3H.



# Section one: Introduction



## This document summarises:

- The key issues identified during our audit of the financial statements for the year ended 31 March 2016 for both the Authority and its pension fund; and
- Our assessment of the Authority's arrangements to secure value for money.

## Scope of this report

This report summarises the key findings arising from:

- Our audit work at Nottinghamshire County Council ('the Authority') in relation to the Authority's 2015/16 financial statements and those of the Local Government Pension Scheme it administers ('the Fund'); and
- The work to support our 2015/16 conclusion on the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources ('VFM conclusion').

## Financial statements

Our *External Audit Plan 2015/16*, presented to you in February 2016, set out the four stages of our financial statements audit process.



This report focuses on the third stage of the process: substantive procedures. Our on site work for this took place during July 2016.

We are now in the final phase of the audit, the completion stage. Some aspects of this stage are also discharged through this report.

## VFM Conclusion

Our External Audit Plan 2015/16 explained our risk-based approach to VFM work. We have now completed the work to support our 2015/16 VFM conclusion. This included:

- assessing the potential VFM risks and identifying the residual audit risks for our VFM conclusion; and
- Considering the results of any relevant work by the Authority and other inspectorates and review agencies in relation to these risk areas.

## Structure of this report

This report is structured as follows:

- Section 2 summarises the headline messages.
- Section 3 sets out our key findings from our audit work in relation to the 2015/16 financial statements of the Authority and the fund.
- Section 4 outlines our key findings from our work on the VFM conclusion.

We have also reviewed your progress in implementing prior recommendations in Appendix 1.

## Acknowledgements

We would like to take this opportunity to thank officers and Members for their continuing help and co-operation throughout our audit work.



# Section two: Headlines



This table summarises the headline messages for the Authority and the Fund. Sections three and four of this report provide further details on each area.

This table summarises the headline messages. Sections three and four of this report provide further details on each area.

<b>Proposed audit opinion</b>	<p>We anticipate issuing an unqualified audit opinion on the Authority's financial statements by 30 September 2016. We will also report that your Annual Governance Statement complies with guidance issued by CIPFA/SOLACE in June 2007.</p> <p>We also anticipate issuing an unqualified audit opinion in relation to the Fund's financial statements, as contained both in the Authority's Statement of Accounts and the Pension Fund Annual Report by 30 September 2016.</p>
<b>Audit adjustments</b>	<p>Our audit has not identified any material audit adjustments. Our audit has identified some minor presentational adjustments to the financial statements presented for audit, which Management have agreed to amend in the final draft of the financial statements.</p>
<b>Key financial statements audit risks</b>	<p>We identified the following key financial statements audit risks in our 15/16 External audit plan issued in February 2016.</p> <ul style="list-style-type: none"> <li>— Calculation of the Minimum Revenue Provision;</li> <li>— The adoption of IFRS13 for the valuation of Non-Financial Assets; and</li> <li>— The identification and valuation of the Authority's Infrastructure Assets.</li> </ul> <p>We also identified, in our External Audit Plan, other areas of audit focus which were identified as:</p> <ul style="list-style-type: none"> <li>— Follow up of prior year recommendations in relation to Pension system reporting and VAT accounted for within school bank reconciliations.</li> </ul>
<b>Accounts production and audit process</b>	<p>We received complete draft accounts by 8 June 2016 ahead of the Department for Communities and Local Government ('DCLG') deadline. The accounting policies, accounting estimates and financial statement disclosures are in line with the requirements of the Code.</p> <p>The Authority has implemented all of the recommendations in our <i>ISA 260 Report 2014/15</i> relating to the financial statements.</p> <p>The Authority has good processes in place for the production of the accounts and good quality supporting working papers. Officers dealt efficiently with audit queries and the audit process has been completed within the planned timescales.</p> <p>As in previous years, we have debriefed with the finance team to share views on the final accounts audit. Hopefully this will lead to further efficiencies in the 2016/17 audit process.</p>



This table summarises the headline messages for the Authority and the Fund. Sections three and four of this report provide further details on each area.

This table summarises the headline messages. The remainder of this report provides further details on each area.

<b>VFM conclusion and risk areas</b>	<p>We identified the following VFM risks in our External audit plan 2015/16 issued in February 2016.</p> <ul style="list-style-type: none"> <li>— Future savings plans; and</li> <li>— Working with partners – Better Care Fund.</li> </ul> <p>We have worked with officers throughout the year to discuss these VFM risks and our detailed findings are reported in section 4 of this report.</p> <p>We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.</p> <p>We therefore anticipate issuing an unqualified VFM conclusion by 30 September 2015.</p>
<b>Completion</b>	<p>At the date of this report our audit of the financial statements is substantially complete subject to completion of the following areas:</p> <ul style="list-style-type: none"> <li>— Review of Pension Fund Annual Report for consistency;</li> <li>— Final review of audit work; and</li> <li>— Final review of financial statements.</li> </ul> <p>You are required to provide us with representations on specific matters such as your going concern assertion and whether the transactions in the accounts are legal and unaffected by fraud. We draw your attention to the requirement in our representation letter for you to confirm to us that you have disclosed all relevant related parties to us.</p> <p>We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.</p>
<b>Audit Certificate</b>	<p>We are in the process of completing the work on the Whole of Government Accounts which we anticipate completing by 30 September 2016.</p> <p>An objection to the accounts has been received from a local elector. This will delay us issuing our audit certificate until this matter has been given due attention.</p>



# Section three: Financial Statements



# Proposed opinion and audit differences



We have not identified any issues in the course of the audit that are considered to be material.

### Proposed audit opinion

We anticipate issuing an unqualified audit opinion on the Authority's financial statements following approval of the Statement of Accounts by Full Council on 15 September 2016.

### Audit differences

In accordance with ISA 260 we are required to report uncorrected audit differences to you. We also report any material misstatements which have been corrected and which we believe should be communicated to you to help you meet your governance responsibilities.

The final materiality (see Appendix two for more information on materiality) level for this year's audit was set at £18 million for the Authority. Audit differences below £900k are not considered significant.

We did not identify any material misstatements.

The tables on the right illustrate the total impact of audit differences on the Authority's movements on the General Fund for the year and balance sheet as at 31 March 2016.

There is no impact on the General Fund as a result of our audit adjustments.

### Movements on the general fund 2015/16

£m	Pre-audit	Post-audit
Deficit on the provision of services	(34)	(34)
Adjustments between accounting basis and funding basis under Regulations	30	30
Transfers to earmarked reserves	1	1
<b>Decrease in General Fund</b>	<b>(3)</b>	<b>(3)</b>

### Balance sheet as at 31 March 2016

£m	Pre-audit	Post-audit
Property, plant and equipment	1,254	1,254
Other long term assets	34	34
Current assets	163	163
Current liabilities	(125)	(125)
Long term liabilities	(1,507)	(1,507)
<b>Net worth</b>	<b>(181)</b>	<b>(181)</b>
General Fund	24	24
Other usable reserves	171	171
Unusable reserves	(376)	(376)
<b>Total reserves</b>	<b>(181)</b>	<b>(181)</b>

# Proposed opinion and audit differences (cont.)



We have identified no issues in the course of the audit of the Fund that are considered to be material.

We anticipate issuing an unqualified audit opinion in relation to the Fund's financial statements, as contained both in the Authority's Statement of Accounts and the Pension Fund Annual Report by 30 September 2016.

The wording of your Annual Governance Statement complies with guidance issued by CIPFA/SOLACE in June 2007.

### Pension fund audit

Our audit of the Fund also did not identify any material misstatements.

For the audit of the Fund we used a materiality level of £40m million. Audit differences below £2m are not considered significant.

We anticipate issuing an unqualified audit opinion following approval of the Statement of Accounts by Full Council on 15 September 2016.

We did not identify any material misstatements.

We identified a small number of presentational adjustments required to ensure that the accounts are compliant with the Code. We understand that the Fund will be addressing these where significant.

### Annual governance statement

We have reviewed the Annual Governance Statement and confirmed that:

- It complies with *Delivering Good Governance in Local Government: A Framework* published by CIPFA/SOLACE; and
- It is not misleading or inconsistent with other information we are aware of from our audit of the financial statements.

### Annual report

We have reviewed the Authority's annual report and can confirm it is not inconsistent with the financial information contained in the audited financial statements.

### Pension fund annual report

We are yet to review the Pension Fund Annual Financial Report and to confirm that, the financial and non-financial information it contains is not inconsistent with the financial information contained in the audited financial statements.

We anticipate issuing an unqualified opinion on the Pension Fund Annual Financial Report at the same time as our opinion on the Statement of Accounts following our work.

# Significant audit risks



We have worked with the Authority throughout the year to discuss significant risks and key areas of audit focus.

This section sets out our detailed findings on those risks.

In our External Audit Plan 2015/16, presented to you in February 2016, we identified the significant risks affecting the Authority's 2015/16 financial statements. We have now completed our testing of these areas and set out our evaluation following our substantive work.

The table below sets out our detailed findings for each of the risks that are specific to the Authority.

### Calculation of the Minimum Revenue Provision (MRP)

#### — Risk

The Authority is planning to revise the calculation of its Minimum Revenue Provision. This will have an impact on the amount charged to its General Fund for the repayment of its external debt in future years.

This risk affects only the Authority.

#### — Findings

Although this will not impact on the 2015/16 statements, we have reviewed the Authority's revised policy to ensure that it complies with the Statutory requirements with no significant issues to note. This included consultation with our Local Government technical team. We will review the application of the new policy to the 2016/17 MRP calculation.

### The adoption of IFRS13 for the valuation of Non Financial Assets

#### — Risk

The adoption of IFRS 13 requires the Authority to value its Non Financial Assets at fair value in 2015/16. The comparative figures for 2014/15 will also need to be restated. The restatement will also require a number of additional disclosures to the statements.

#### — Findings

We have discussed the methodology adopted by the Authority in implementing this new requirement. We have reviewed the valuation arrangements in place, by discussions with Officers and agreed the new valuations to the 2015/16 financial statements. There were no significant issues arising from the work undertaken.

# Significant audit risks



We have worked with the Authority throughout the year to discuss significant risks and key areas of audit focus.

This section sets out our detailed findings on those risks.

### Identification and Valuation of the Authority's Infrastructure Assets

#### — Risk

The CIPFA Transport Infrastructure Code of Practice for 2015/16 requires the Authority to measure its transport infrastructure assets on a Depreciated Replacement Cost basis from 2016/17, rather than on the current Historic Cost basis. This is expected to result in a very large increase in the value of assets on the Authority's balance sheet.

Although the change in the Code does not come into effect until 1 April 2016, the Authority will need to ensure that it has the procedures in place for the 2016/17 accounts.

#### — Findings

We have been liaising with officers throughout the year to discuss the approach to the requirement detailed above. We will continue these discussions as further clarification is received from CIPFA on the approach, with a view to agreeing an approach which is in line with the Code of Practice.

In our External Audit Plan 2015/16 we reported that we would consider two risk areas that are specifically required by professional standards and report our findings to you. These risk areas were Management override of controls and the Fraud risk of revenue recognition.

The table below sets out the outcome of our audit procedures and assessment on these risk areas.

### Fraud risk of revenue recognition

Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk.

In our External Audit Plan 2015/16 we reported that we do not consider this to be a significant risk for Local Authorities as there is unlikely to be an incentive to fraudulently recognise revenue.

This is still the case. Since we have rebutted this presumed risk, there has been no impact on our audit work.

# Significant audit risks



We have worked with the Authority throughout the year to discuss significant risks and key areas of audit focus.

This section sets out our detailed findings on those risks.

### Management override of controls

Professional standards require us to communicate the fraud risk from management override of controls as significant because management is typically in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

Our audit methodology incorporates the risk of management override as a default significant risk. We have not identified any specific additional risks of management override relating to this audit.

In line with our methodology, we carried out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual.

There are no matters arising from this work that we need to bring to your attention.

# Other areas of focus



In our External Audit Plan 2015/16, presented to you in February 2016, we identified two areas of audit focus relating to our prior year recommendations. These are not considered as significant risks but areas of importance where we would carry out some substantive audit procedures to ensure there is no risk of material misstatement.

We have now completed our testing. The table sets out our detailed findings.

### Follow up of our prior year recommendations

#### — Schools VAT

We raised a recommendation relating to the quality assurance procedures in relation to reclaimed VAT cash balances for school accounts in 2013/14, which was reported in 2014/15 as not being completed.

#### — Findings

We have confirmed this recommendation has been implemented as part of the 2015/16 audit.

#### — Pensions system reporting

As part of our work on Pensions in 2014/15, we raised a recommendation that the Authority should ensure that the reporting from the system is reviewed and rectified to address any coding issues which may be embedded within the reports. This will aid the reporting during for triennial valuation purposes when required.

#### — Findings

We confirmed this recommendation has been implemented as part of the 2015/16 audit, and information has been sent to the actuary as part of the triennial valuation exercise.

# Accounts production and audit process



The Authority has a well established and strong accounts production process. This operated well in 2015/16. The standard of accounts and supporting working papers was good.

Officers dealt efficiently with audit queries and the audit process could be completed within the planned timescales.

The Authority has implemented the recommendation in our ISA 260 Report 2014/15.

### Accounts production and audit process

ISA 260 requires us to communicate to you our views about the significant qualitative aspects of the Authority's accounting practices and financial reporting. We also assessed the Authority's process for preparing the accounts and its support for an efficient audit.

We considered the following criteria:

Element	Commentary
<b>Accounting practices and financial reporting</b>	The Authority continues to maintain a strong financial reporting process. The statements continued to be produced to a high standard. In preparation for the change in deadlines going forward, we started our audit earlier than in previous years, which has not caused any major issues in preparing and providing the statement of accounts and supporting working papers. We consider that accounting practices are appropriate.
<b>Completeness of draft accounts</b>	We received a complete set of draft accounts on 8 June 2016
<b>Quality of supporting working papers</b>	Our <i>Accounts Audit Protocol</i> , which we issued on 23 February 2016 set out our working paper requirements for the audit.  The quality of working papers provided was high and fully met the standards specified in our <i>Accounts Audit Protocol</i> .
<b>Response to audit queries</b>	Officers resolved all audit queries in a reasonable time

Element	Commentary
<b>Pension Fund Audit</b>	The audit of the Fund was completed alongside the main audit. There are no specific matters to bring to your attention relating to this.

### Additional findings in respect of the control environment for key financial systems

We are pleased to report that we have no specific findings in relation to the control environment.

### Prior year recommendations

As part of our audit we have specifically followed up the Authority's progress in addressing the recommendations in last years ISA 260 report.

The Authority has implemented all of the recommendations in our ISA 260 Report 2014/15.

Appendix one provides further details.



We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.

Before we can issue our opinion we require a signed management representation letter.

Once we have finalised our opinions and conclusions we will prepare our Annual Audit Letter and close our audit.

### Declaration of independence and objectivity

As part of the finalisation process we are required to provide you with representations concerning our independence.

In relation to the audit of the financial statements of Nottinghamshire County Council and Nottinghamshire County Council Pension Fund for the year ending 31 March 2016, we confirm that there were no relationships between KPMG LLP and Nottinghamshire County Council and Nottinghamshire County Council Pension Fund, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

We have provided a detailed declaration in Appendix four in accordance with ISA 260.

### Management representations

You are required to provide us with representations on specific matters such as your financial standing and whether the transactions within the accounts are legal and unaffected by fraud. We have provided a template to the senior accountant for presentation to the Audit Committee. We require a signed copy of your management representations before we issue our audit opinion.

### Other matters

ISA 260 requires us to communicate to you by exception 'audit matters of governance interest that arise from the audit of the financial statements' which include:

- Significant difficulties encountered during the audit;
- Significant matters arising from the audit that were discussed, or subject to correspondence with management;
- Other matters, if arising from the audit that, in the auditor's professional judgment, are significant to the oversight of the financial reporting process; and
- Matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. significant deficiencies in internal control; issues relating to fraud, compliance with laws and regulations, subsequent events, non disclosure, related party, public interest reporting, questions/objections, opening balances etc.).

There are no others matters which we wish to draw to your attention in addition to those highlighted in this report.





# Section four: Value for Money

# VFM Conclusion



Our VFM conclusion considers whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

We follow a risk based approach to target audit effort on the areas of greatest audit risk.

We have concluded that the Authority has made proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

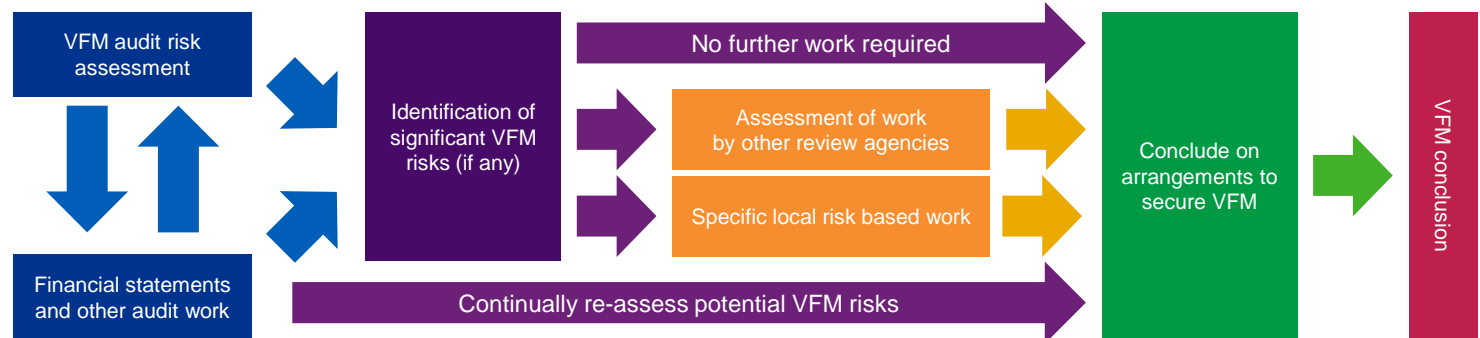
## Background

The Local Audit and Accountability Act 2014 requires auditors of local government bodies to be satisfied that the authority 'has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources'.

This is supported by the Code of Audit Practice, published by the NAO in April 2015, which requires auditors to 'take into account their knowledge of the relevant local sector as a whole, and the audited body specifically, to identify any risks that, in the auditor's judgement, have the potential to cause the auditor to reach an inappropriate conclusion on the audited body's arrangements.'

The VFM approach is fundamentally unchanged from that adopted in 2014/2015 and the process is shown in the diagram below. However, the previous two specified reporting criteria (financial resilience and economy, efficiency and effectiveness) have been replaced with a single criteria supported by three sub-criteria.

These sub-criteria provide a focus to our VFM work at the Authority.



## Conclusion

We have concluded that the Authority has made proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

### Overall criterion

In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

Informed decision making



Met

Sustainable resource deployment



Met

Working with partners and third parties



Met

# VFM Conclusion (cont.)



We have considered the Authority's arrangements for securing value for money in line with the NAO's Code of Audit Practice.

## Our approach

In line with the risk-based approach set out on the previous page, and in our *External Audit Plan* we have:

- Assessed the Authority's key business risks which are relevant to our VFM conclusion;
- Identified the residual audit risks for our VFM conclusion, taking account of work undertaken in previous years or as part of our financial statements audit; and
- Considered the results of relevant work by the Authority.

## Key elements of our work

Below we set out the key elements of work undertaken in respect of those areas where we have identified a residual audit risk for our VFM conclusion.

We concluded that we did not need to carry out additional work for these risks as there was sufficient relevant work that had completed by the Authority.

We have summarised overleaf our assessment of the specific VFM risks identified in our Audit Plan presented to the Audit Committee in March 2016.



VFM Criteria	Work Undertaken
<ul style="list-style-type: none"> <li>- <i>Informed Decision Making</i></li> <li>- <i>Sustainable Resource Deployment</i></li> <li>- <i>Working with Partners and other Third Parties.</i></li> </ul>	<p>To consider the three criteria we have undertaken the following procedures:</p> <ul style="list-style-type: none"> <li>- Regular liaison with the s151 officer, and key personnel;</li> <li>- Meetings with Corporate Directors from key areas of the Authority, including Adult Social Care, Health and Public Protection, Resources, and Place;</li> <li>- Review of the medium term financial plan;</li> <li>- Assessment of the budget setting process, in particular the cross party planning undertaken for 2016/17;</li> <li>- Review of 2015/16 outturn vs budget, and current outturn forecasts for 2016/17;</li> <li>- Review of current transformation plans and spending proposals; and</li> <li>- Review of Authority minutes and Internal Audit reports.</li> </ul> <p>We do not have any significant matters to report following our work in these areas.</p>

# Specific VFM Risks



We have identified a number of specific VFM risks.

In all cases we are satisfied that external or internal scrutiny provides sufficient assurance that the Authority's current arrangements in relation to these risk areas are adequate.

Key VFM risk	Risk description and link to VFM conclusion	Assessment
	<p>In 2015/16 the Authority entered into Section 75 agreement with Clinical Commissioning Groups to pool funds to implement the local Better Care Fund. The implementation of the Better Care Fund drives integration of services to improve outcomes for the patient and public as well as delivery efficiencies and effectively manages limited resources during challenging times. We consider this a significant risk as the Better Care Fund is in its early stages and therefore there are risks associated with the delivery of improved health and social care in Nottinghamshire and achieving significant savings.</p> <p>This is relevant to the informed decision making, sustainable resource deployment, working with partners and third parties sub-criteria of the VFM conclusion.</p>	<p>We have reviewed:</p> <ul style="list-style-type: none"> <li>- The arrangements the Authority has in place to ensure the delivery of Better Care Plans and progress made against the plans;</li> <li>- The framework to ensuring delivery of the services against targets and consider any actions taken by the Authority where delivery is under performing significantly; and</li> <li>- The overall savings achieved are in line with those planned and consider how the Authority will fund any savings which are not achieved.</li> </ul> <p>We are satisfied that the Authority has suitable arrangements in place to monitor and ensure delivery of the Better Care Plans.</p>
	<p>The Authority's budgets over recent years have delivered significant planned savings, but further strong financial challenges lie ahead. The Authority forecasts predict that over the forthcoming years, additional savings will need to be found as the Authority faces further expenditure pressures and a continued reduction in resources. We understand the Authority has identified saving proposals for 2015/16 and 2016/17, but may require further savings in 2016/17 and future years to meet the potential impact of reduced resources on the financial standing of the Authority. Therefore we consider this as a significant risk</p> <p>This is relevant to the informed decision making, sustainable resource deployment, working with partners and third parties sub-criteria of the VFM conclusion.</p>	<p>We have reviewed:</p> <ul style="list-style-type: none"> <li>- The arrangements for assuring delivery of the Authority's savings programme;</li> <li>- The delivery of the saving plans to date including any actions taken by the Authority where savings are not achieved in line with the plan;</li> <li>- The arrangements the Authority have in place in identifying further savings for future years.</li> </ul> <p>We are satisfied that the Authority has suitable arrangements in place to monitor and ensure delivery of the savings plans. We are aware of the progress being made to address the £50.2m shortfall by 2019/20 identified in the February 2016 budget statement, and it is important that members and officers continue to work together to address the gap.</p>



# Appendices

**Appendix 1: Update on prior year recommendations**

**Appendix 2: Audit differences**

**Appendix 3: Materiality and reporting of audit differences**

**Appendix 4: Independence and objectivity**

# Follow up of prior year recommendations

The Authority has implemented all of the recommendations in our ISA 260 Report 2014/15.

This appendix summarises the progress made to implement the recommendations identified in our ISA 260 Report 2014/15 and re-iterates any recommendations still outstanding.

### Number of recommendations that were:

Included in original report	2
Implemented in year or superseded	2
Remain outstanding (re-iterated below)	0

No.	Risk	Issue and recommendation	Officer responsible and due date	Status as at August 2016
1	3	<p><b>Quality assurance procedures – Prior year follow up</b></p> <p>In 2013/14 we raised a recommendation relating to the reclaimed VAT cash balances for school accounts. We highlighted there were quality assurance procedures which could be strengthened, in particular:</p> <ul style="list-style-type: none"> <li>■ school bank reconciliations included amounts relating to reclaimed VAT in the cash balance even though the reclaimed VAT was not actually received late into the following month.</li> </ul> <p><b>Recommendation</b></p> <p>Although the financial impact of this recommendation is unlikely to be material, it is recommended that the Authority implement these additional quality assurance procedures regarding school bank accounts for completeness.</p>	<p><b>Responsible officer</b></p> <p>Group Manager - Financial Management</p> <p><b>Due date</b></p> <p>April 2015</p>	This recommendation has now been implemented.

# Follow up of prior year recommendations (cont.)

The Authority has implemented all of the recommendations in our ISA 260 Report 2014/15.

No.	Risk	Issue and recommendation	Officer responsible and due date	Status as at August 2016
2	2	<p><b>Pensions system reporting</b></p> <p>We identified that the reporting from the system highlighted differences between what was originally sent to the actuary in April 2015, and rerunning the report in August 2015.</p> <p>Management investigated this issue, and determined that there was a coding issue on the original report run in April 2015 which omitted certain data from the output.</p> <p>Although this does not impact on the 2014/15 Statement of Accounts, the Authority will need to provide detailed information for triennial valuation purposes in 2016/17, and therefore will need to ensure that information is complete and accurate upon providing this to the actuary.</p> <p><b>Recommendation</b></p> <p>The Authority should ensure that the reporting from the system is reviewed and rectified to address any coding issues which may be embedded within the reports. This will aid the reporting during for triennial valuation purposes when required.</p>	<p><b>Responsible officer</b> Senior Accountant</p> <p><b>Due date</b> 31 December 2015</p>	<p>A full review of system reporting was undertaken and information has been provided to the actuary to enable them to undertake the triennial valuation process, which is currently underway.</p> <p>Therefore, we are satisfied, this recommendation has been implemented.</p>

# Audit differences

This appendix sets out the significant audit differences identified during the audit for the year ended 31 March 2016.

We are required by ISA 260 to report all uncorrected misstatements, other than those that we believe are clearly trivial, to those charged with governance (which in your case is the Audit Committee). We are also required to report all material misstatements that have been corrected but that we believe should be communicated to you to assist you in fulfilling your governance responsibilities.

### Uncorrected audit differences

We are pleased to report that there are no uncorrected audit differences.

### Material Misstatements

We are pleased to report that there are no material misstatements to report

A number of minor amendments focused on presentational improvements have also been made to the draft financial statements. The Finance department are committed to continuous improvement in the quality of the financial statements submitted for audit in future years.



# Materiality and reporting of audit differences

For 2015/16 our materiality is £18 million for the Authority's accounts. For the Pension Fund it is £40 million.

We have reported all audit differences over £900k for the Authority's accounts and £2 million for the Pension Fund, to the Audit Committee.

### Materiality

The assessment of what is material is a matter of professional judgment and includes consideration of three aspects: materiality by value, nature and context.

- Material errors by value are those which are simply of significant numerical size to distort the reader's perception of the financial statements. Our assessment of the threshold for this depends upon the size of key figures in the financial statements, as well as other factors such as the level of public interest in the financial statements.
- Errors which are material by nature may not be large in value, but may concern accounting disclosures of key importance and sensitivity, for example the salaries of senior staff.
- Errors that are material by context are those that would alter key figures in the financial statements from one result to another – for example, errors that change successful performance against a target to failure.

We used the same planning materiality reported in our External Audit Plan 2015/16, presented to you in February 2016.

### Reporting to the Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any misstatements of lesser amounts to the extent that these are identified by our audit work.

Under ISA 260, we are obliged to report omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

ISA 450 requires us to request that uncorrected misstatements are corrected.

In the context of the Authority, we have considered individual differences to be clearly trivial if it is less than £900k for the Authority, and £2 million for the Pension Fund.

Where management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit Committee to assist it in fulfilling its governance responsibilities.

### Materiality – Pension fund audit

The same principles apply in setting materiality for the Pension Fund audit. Materiality for the Pension Fund was set at £40 million which is approximately 1 percent of gross assets.

We design our procedures to detect errors at a lower level of precision, set at £30 million for 2015/16.

# Declaration of independence and objectivity

**Auditors appointed by Public Sector Audit Appointments Ltd must comply with the Code of Audit Practice.**

### Requirements

Auditors appointed by Public Sector Audit Appointments Ltd must comply with the Code of Audit Practice (the 'Code') which states that:

*"The auditor should carry out their work with integrity, objectivity and independence, and in accordance with the ethical framework applicable to auditors, including the ethical standards for auditors set by the Financial Reporting Council, and any additional requirements set out by the auditor's recognised supervisory body, or any other body charged with oversight of the auditor's independence. The auditor should be, and should be seen to be, impartial and independent. Accordingly, the auditor should not carry out any other work for an audited body if that work would impair their independence in carrying out any of their statutory duties, or might reasonably be perceived as doing so."*

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code, the detailed provisions of the Statement of Independence included within the Public Sector Audit Appointments Ltd *Terms of Appointment* ('Public Sector Audit Appointments Ltd Guidance') and the requirements of APB Ethical Standard 1 *Integrity, Objectivity and Independence* ('Ethical Standards').

The Code states that, in carrying out their audit of the financial statements, auditors should comply with auditing standards currently in force, and as may be amended from time to time. Public Sector Audit Appointments Ltd guidance requires appointed auditors to follow the provisions of ISA (UK&I) 260 *Communication of Audit Matters with Those Charged with Governance* that are applicable to the audit of listed companies. This means that the appointed auditor must disclose in writing:

- Details of all relationships between the auditor and the client, its directors and senior management and its affiliates, including all services provided by the audit firm and its network to the client, its directors and senior management and its affiliates, that the auditor considers may reasonably be thought to bear on the auditor's objectivity and independence.
- The related safeguards that are in place.
- The total amount of fees that the auditor and the auditor's network firms have charged to the client and its affiliates for the provision of services during the reporting period, analysed into appropriate categories, for example, statutory audit services, further audit services, tax advisory services and other non-audit services. For each category, the amounts of any future services which have been contracted or where a written proposal has been submitted are separately disclosed. We do this in our *Annual Audit Letter*.

Appointed auditors are also required to confirm in writing that they have complied with Ethical Standards and that, in the auditor's professional judgement, the auditor is independent and the auditor's objectivity is not compromised, or otherwise declare that the auditor has concerns that the auditor's objectivity and independence may be compromised and explaining the actions which necessarily follow from his. These matters should be discussed with the Audit Committee.

Ethical Standards require us to communicate to those charged with governance in writing at least annually all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place that, in our professional judgement, may reasonably be thought to bear on our independence and the objectivity of the Engagement Lead and the audit team.

# Declaration of independence and objectivity (cont.)

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.

### General procedures to safeguard independence and objectivity

KPMG's reputation is built, in great part, upon the conduct of our professionals and their ability to deliver objective and independent advice and opinions. That integrity and objectivity underpins the work that KPMG performs and is important to the regulatory environments in which we operate. All partners and staff have an obligation to maintain the relevant level of required independence and to identify and evaluate circumstances and relationships that may impair that independence.

Acting as an auditor places specific obligations on the firm, partners and staff in order to demonstrate the firm's required independence. KPMG's policies and procedures regarding independence matters are detailed in the *Ethics and Independence Manual* ('the Manual'). The Manual sets out the overriding principles and summarises the policies and regulations which all partners and staff must adhere to in the area of professional conduct and in dealings with clients and others.

KPMG is committed to ensuring that all partners and staff are aware of these principles. To facilitate this, a hard copy of the Manual is provided to everyone annually. The Manual is divided into two parts. Part 1 sets out KPMG's ethics and independence policies which partners and staff must observe both in relation to their personal dealings and in relation to the professional services they provide. Part 2 of the Manual summarises the key risk management policies which partners and staff are required to follow when providing such services.

All partners and staff must understand the personal responsibilities they have towards complying with the policies outlined in the Manual and follow them at all times. To acknowledge understanding of and adherence to the policies set out in the Manual, all partners and staff are required to submit an annual ethics and independence confirmation. Failure to follow these policies can result in disciplinary action.

### Auditor declaration

In relation to the audit of the financial statements of Nottinghamshire County Council and Nottinghamshire County Council Pension Fund for the financial year ending 31 March 2016, we confirm that there were no relationships between KPMG LLP and Nottinghamshire County Council and Nottinghamshire County Council Pension Fund, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

# Audit Independence

### Audit Fees

Our scale fee for the audit was £98,213.00 plus VAT, for the Authority (£130,950.00 plus VAT in 2015/16), and £29,926.00 plus VAT, for the Pension Fund (£29,926.00 plus VAT in 2015/16). This fee was in line with that highlighted within our audit plan agreed by the Audit Committee in March 2016.

### Non-audit services

We have summarised below the non-audit services that we have been engaged to provide, the estimated fee, the potential threats to auditor independence and the associated safeguards we have put in place to manage these.

Description of non-audit service	Estimated fee	Potential threat to auditor independence and associated safeguards in place
Audit of Teachers' Pension Returns	£3k	We have considered the potential threats to auditor independence based on the non audit services undertaken, and based on our professional judgement believe that no further safeguards are required as our objectivity has not been compromised, and there are no issues of independence with respect to the Authority and Pension Fund.
Certification of Local Transport Grant return	£3k	
<b>Total estimated fees</b>	<b>£6k</b>	
<b>Total estimated fees as a percentage of the external audit fees</b>	<b>6.1%</b>	



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