KPMG

External audit report 2016/17

Nottinghamshire County Council and Nottinghamshire Pension Fund

September 2017

Summary for the Governance and Ethics Committee

Financial statements

This document summarises the key findings in relation to our 2016-17 external audit at Nottinghamshire County Council and Nottinghamshire Pension Fund ('the Authority').

This report focusses on our on-site work which was completed in July 2017 on the Authority's significant risk areas, as well as other areas of your financial statements. Our findings are summarised on page 5.

Subject to all outstanding queries being resolved to our satisfaction we anticipate issuing an unqualified audit opinion on the Authority's financial statements before the deadline of 30 September 2017.

We also anticipate issuing an unqualified audit opinion in relation to the Fund's financial statements by 30 September 2017.

Our audit has not identified any material audit adjustments. Our work did identify some minor presentational adjustments to the statements presented for audit, which Management have agreed to amend in the final version of the financial statements.

Based on our work, we have raised one recommendation. Details on our recommendation can be found in Appendix 1.

Subject to clearance of our final queries and final (including Director) review we are moving into the completion stage of the audit and anticipate issuing our completion certificate alongside the opinion and VFM conclusion.

Use of resources

We have completed our risk-based work to consider whether in all significant respects the Authority has proper arrangements to ensure has taken properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

We therefore anticipate issuing an unqualified value for money opinion.

See further details on page 16.

Acknowledgements

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

We ask the Governance and Ethics Committee to note this report.

The key contacts in relation to our audit are:

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Section one

Financial Statements

We anticipate issuing an unqualified audit opinion on the Authority's 2016/17 financial statements and the Fund by 30 September 2017. We will also report that your Annual Governance Statement complies with the guidance issued by CIPFA/SOLACE (*'Delivering Good Governance in Local Government'*) published in April 2016.

For the year ending 31 March 2017, the Authority has reported a deficit of £35m on the provision of services. £25m of this relates to adjustments between the accounting and funding basis in which the statements are prepared. £10m has been funded net from usable revenue reserves.

Significant audit risks

Our *External Audit Plan 2016/17* sets out our assessment of the Authority's significant audit risks. We have substantially completed our testing in these areas and set out our evaluation following our work:

Significant audit risks	Work performed
1. Significant changes in the pension liability due to LGPS Triennial Valuation Authority and Pension Fund	**Why is this a risk?** During the year, the Pension Fund has undergone a triennial valuation with an effective date of 31 March 2016 in line with the Local Government Pension Scheme (Administration) Regulations 2013. The share of pensions assets and liabilities for each admitted body is determined in detail, and a large volume of data is provided to the actuary to support this triennial valuation. The pension valuation to be included in the financial statements for 2016/17 will be based on the output of the triennial valuation rolled forward to 31 March 2017. For 2017/18 and 2018/19 the actuary will then roll forward the valuation for accounting purposes based on more limited data. There is a risk that the data provided to the actuary for the valuation exercise is inaccurate, and that these inaccuracies affect the actuarial figures in the financial statements. The Pension Fund only includes limited disclosures around pensions liabilities but we anticipate that this will be identified as a risk area by many of the admitted bodies, whose pension liabilities represent a significant element of their balance sheet. This includes the Authority itself. **Our work to address this risk** As part of our audit of the Pension Fund, we have reviewed the data provided to the actuary back to the systems and reports from which it was derived. Our work focused on the data relating to the Authority itself as largest member of the Pension Fund. We have also substantively agreed the total figures submitted to the actuary to the ledger with no issues to note We have also engaged with the audit teams from other admitted bodies and noted that we did not receive any specific requests for any additional audit work from them.

Significant audit risks

Our *External Audit Plan 2016/17* sets out our assessment of the Authority's significant audit risks. We have substantially completed our testing in these areas and set out our evaluation following our work:

Significant audit risks	Work performed
2. The preparation of Group Accounts for the Authority and its subsidiaries	**Why is this a risk?** During 2016/17 the Authority has entered into significant arrangements with other bodies that give rise to the preparation of Group Accounts in addition to the Authority's year end financial statements. In addition to the Authority, management have deemed the following subsidiaries and joint arrangements to be significant in the context of the Group Accounts: ■ ARC Property Services Group Partnership; and ■ Via East Midlands Ltd. There is a risk that the subsidiaries or joint venture with the external body have not been identified correctly for the preparation of the Group Accounts and/or that they are not accounted for in accordance with the Code of Practice. **Our work to address this risk** We have assessed the judgment made by management to determine whether consolidation into the group accounts are required for the companies listed above. During the audit, the Authority's Finance team have reviewed all of its joint arrangements to determine the nature of the arrangement and whether this would involve the production of Group Accounts. An analysis of the income and expenditure and the nature of the assets and liabilities was carried out and it was determined that: ■ The majority of the income and expenditure had been recorded in the Authority's accounts as this related to the Authority itself; ■ Both operations did not have any material assets or liabilities; and ■ The preparation of full Group accounts would not add any value to the reader of the statements. Therefore, a detailed note has been added to the statements. As part of final account work we reviewed the judgements made by management for the arrangements currently in place by comparing the Authority's assessment with the Code of Audit Practice. We have no issues to raise with the Committee. Management will however need to reassess this judgement on an annual basis to determine if there are any additional operations which the subsidiaries have entered into, and therefore if the results require consolidating into the Authority's accounts.

Significant audit opinion risks	Work performed
3.Minimum Revenue Provision	**Why is this a risk?** The Authority revised its policy for the calculation of its Minimum Revenue Provision during 2015/16, as reported to the Full Council on 25 February 2016. This has an impact on the amount charged to the General Fund for the repayment of its external debt in future years. As part of our 2015/16 audit we reviewed the revised policy to ensure that it was in accordance with statutory requirements. 2016/17 is the first year the revised policy will be applied. The risk is that the updated policy has not been applied in line with the proposed changes. **Our work to address this risk** For 2016/17 the policy had changed to include PFI contracts and leases. This was reported to Full Council on 13 July 2017. We consulted with our technical specialists and have assessed this change to be reasonable. We also tested the Minimum Revenue Provision calculation to confirm this has been completed in accordance with the new policy.

Considerations required by professional standards

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 2016/17* 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.

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.

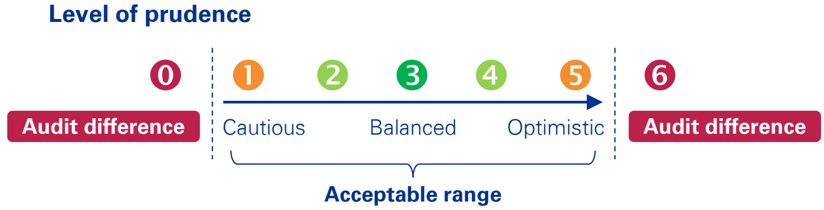
Other areas of audit focus

We identified one area of audit focus. These are not considered as significant risks as there are less likely to give rise to a material error. Nonetheless these are areas of importance where we would carry out substantive audit procedures to ensure that there is no risk of material misstatement.

Other areas of audit focus	Our work to address the areas
1. Disclosures associated with retrospective restatement of CIES, EFA and MiRS	**Background** CIPFA has introduced changes to the 2016/17 Local Government Accounting Code (Code): — Allowing local authorities to report on the same basis as they are organised by removing the requirement for the Service Reporting Code of Practice (SeRCOP) to be applied to the Comprehensive Income and Expenditure Statement (CIES); and — Introducing an Expenditure and Funding Analysis (EFA) which provides a direct reconciliation between the way local authorities are funded and prepare their budget and the CIES. This analysis is supported by a streamlined Movement in Reserves Statement (MiRS) and replaces the current segmental reporting note. The Authority was required to make a retrospective restatement of its CIES (cost of services) and the MiRS. New disclosure requirements and restatement of accounts require compliance with relevant guidance and correct application of applicable accounting standards. **What we have done** For the restatement, we have obtained an understanding of the approach taken by Management to address the new requirements, and how this was implemented into the financial statements. This included: ■ Assessing how the Authority has actioned the revised disclosure requirements for the CIES, MiRS and the new EFA statement as required by the Code; and ■ Reviewing the restated numbers and associated disclosures for accuracy, correct presentation and compliance with applicable Accounting Standards and Code guidance. We have no significant issues to report.

Judgements

We have considered the level of prudence within key judgements in your 2016/17 financial statements and accounting estimates. We have set out our view below across the following range of judgements.



Subjective areas	2016/17	2015/16	Commentary
NDR provisions	3	3	In 2013/14, local authority funding arrangements meant that the Authority is now responsible for a proportion of successful rateable value appeals. The year end provision is then prepared in in accordance with applicable accounting guidance. The number of outstanding appeals has not changed significantly over the financial year and the overall provision is £2,908k. We consider this to be reasonable.
PPE Valuation	3	3	The Authority carries out a rolling valuation programme that ensures that all Property, Plant and Equipment required to be re-measured are revalued every 5 years. All valuations have been carried out by a specialist team internally. We have reviewed the revaluation methodologies and confirm that the basis for estimation has been completed in accordance with the professional standards of the Royal Institute of Chartered Surveyors (RICS).
Pensions Liability	3	3	The reported balance (£1,248,055m), together with the assumptions and disclosures for inflation, discount rate, salary growth, life expectancy, etc are consistent with the report from the external actuary.

Proposed opinion and audit differences

Subject to all outstanding queries being resolved to our satisfaction, we anticipate issuing an unqualified audit opinion on the Authority's 2016/17 financial statements following approval of the Statement of Accounts by the Service Director – Finance, Procurement & Improvement on 2 June 2017.

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 3 for more information on materiality) level for this year's audit was set at £18.6 million. Audit differences below £930k are not considered significant.

We did not identify any material misstatements.

Annual governance statement

We have reviewed the Authority's 2016/17 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.

Narrative report

We have reviewed the Authority's 2016/17 narrative report and have confirmed that it is consistent with the financial statements and our understanding of the Authority.

Pension Fund

Subject to all outstanding queries being resolved to our satisfaction, we anticipate issuing an unqualified audit opinion on the Fund's 2016/17 financial statements following approval of the financial statements by the Service Director – Finance, Procurement & Improvement on 2 June 2017.

Pension fund audit

Our audit of the Fund also 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.

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

Annual report

We are yet to review the Pension Fund Annual Report to confirm that it is not inconsistent with the financial information contained in the audited financial statements. We anticipate to complete this prior to issuing an unqualified opinion on the Pension Fund Annual Report at the same time as our opinion on the Statement of Accounts.

Accounts production and audit process

Our audit standards (*ISA 260*) require us to communicate our views on 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. The efficient production of the financial statements and good-quality working papers are critical to meeting the tighter deadlines.

Accounting practices and financial reporting

The Authority has recognised the additional pressures which the earlier closedown in 2017/18 will bring. We have been engaging with the Authority in the period leading up to the year end in order to proactively address issues as they emerge.

We consider the Authority's accounting practices appropriate.

Completeness of draft accounts

We received a complete set of draft accounts on 2 June 2017, which is before the statutory deadline.

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 will need to manage the timetable with third parties to ensure information is received as complete as possible to feed into the tighter deadlines.

Quality of supporting working papers

We issued our *Accounts Audit Protocol 2016/17* ("Prepared by Client" request) in February 2017 which outlines our documentation request. This helps the Authority and the Fund to provide audit evidence in line with our expectations.

We found that the quality of working papers provided was high and met the standards specified in our *Accounts Audit Protocol 2016/17*.

Response to audit queries

As in previous years Officers resolved all audit queries within a reasonable time.

Pension Fund audit

The audit of the Fund was completed alongside the main audit. There are no specific matters to bring to your attention relating to this.

Prior year 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.

Accounts production and audit process (Cont.)

Controls over key financial systems

We have tested controls as part of our focus on significant audit risks and other parts of your key financial systems on which we rely as part of our audit. Based on the work performed, we are satisfied that the controls are performing effectively. We are able to place reliance on the Authority's control framework.

General Information Technology (IT) controls

In order to improve the quality of our audit, by reducing the need for some detailed transaction testing we review the general IT controls in place at the Authority. In particular the controls over the Authority's ledger system SAP.

While we were able to place reliance over the controls over SAP, we have made a recommendation detailed in Appendix 1 to further improve the IT control environment. We have discussed this with the Authority and note that actions are in progress to address the recommendation made.

Completion

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's 2016/17 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 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 Pension Fund for the year ending 31 March 2017, we confirm that there were no relationships between KPMG LLP and Nottinghamshire County Council and Nottinghamshire 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 4 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 Service Director - Finance, Procurement & Improvement, for presentation to the Governance and Ethics 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 or our previous reports relating to the audit of the Authority's 2015/16 financial statements.

Section two

Value for money

Our 2016/17 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 have concluded that the Authority has made proper arrangements to ensure it took properly-informed decisions, works with partners and third parties, and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

VFM conclusion

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.'

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.

1 Identification of significant VFM risks (if any)

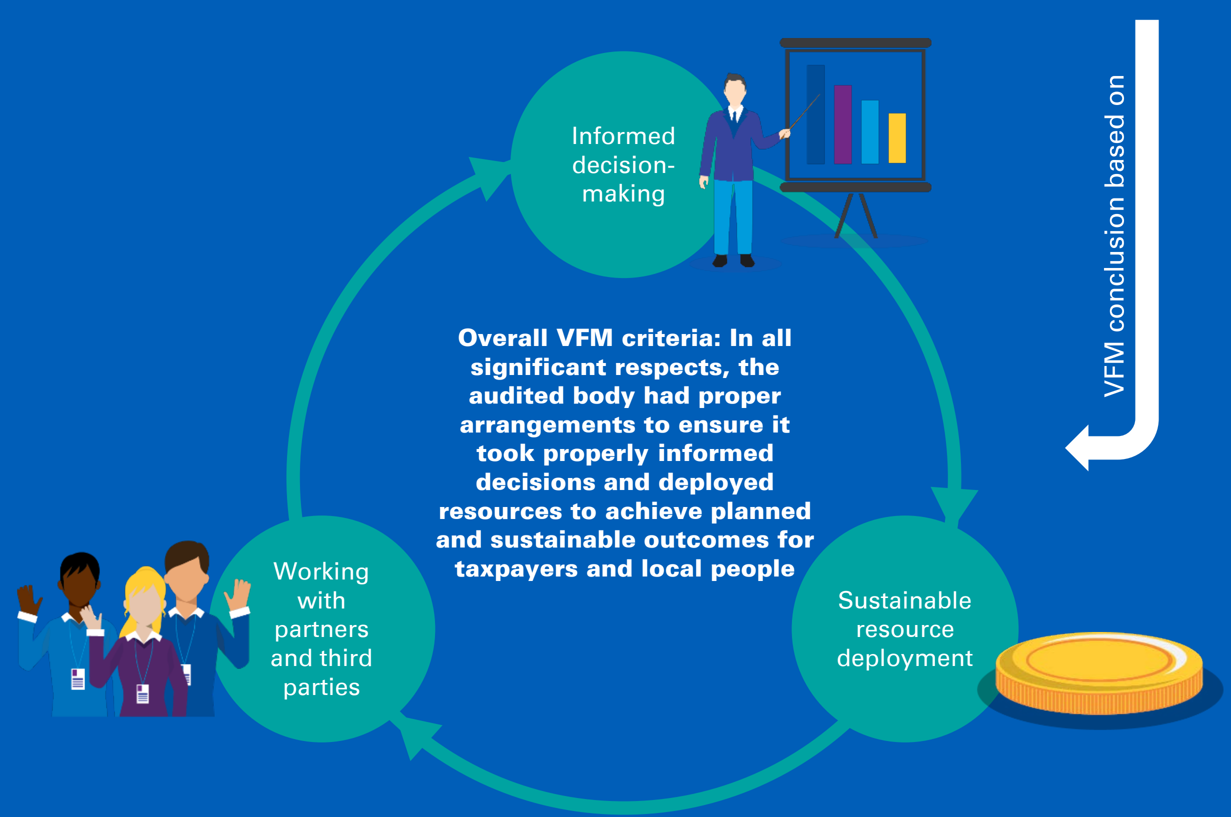
- VFM audit risk assessment
- Financial statements and other audit work

2 Continually re-assess potential VFM risks

- Assessment of work by other review agencies
- Specific local risk-based work

3 VFM conclusion

- **Conclude on arrangements to secure VFM**



Significant VFM risks

The table below summarises our assessment of the individual VFM risks identified against the three sub-criteria. This directly feeds into the overall VFM criteria and our value for money opinion.

VFM assessment summary

VFM risk	Informed decision-making	Sustainable resource deployment	Working with partners and third parties
1. Medium term financial planning	✓	✓	✓
Overall summary	✓	✓	✓

In consideration of the above, we have concluded that i in 2016/17, the Authority has made proper arrangements to ensure it took properly-informed decisions, works with partners and third parties, and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

We have identified one significant VFM risk, as communicated to you in our 2016/17 External Audit Plan. 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.

Significant VFM risks	Work performed
1. Medium term financial planning	**Why is this a risk?** 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. This is relevant to the sustainable resource deployment sub-criterion of the VFM conclusion. Like most of local government, the Authority faces a challenging future driven by funding reductions and an increase in demand for services. To consider the three criteria we have undertaken the following procedures: • Reviewed the arrangements for assuring delivery of the Authority's savings programme; • Reviewed the delivery of the savings plans to date including any actions taken by the Authority where savings are not achieved in line with the plan; and • Evaluated the arrangements the Authority has in place to identify further savings for future years. **Summary of our work** We have completed our assessment by: ▪ Regular liaison with the s151 officer, and key personnel; ▪ Meetings with Corporate Directors from key areas of the Authority, including Adult Social Care, Health and Public Protection, Resources, and Place; *(continued)*

Significant VFM risks

Significant VFM risks	Work performed
1. Medium term financial planning	*(continued)* ▪ Review of the medium term financial plan; ▪ Assessment of the budget setting process, in particular the cross party planning undertaken for 2017/18; ▪ Review of 2016/17 outturn vs budget, and current outturn forecasts for 2017/18; ▪ Review of current transformation plans and spending proposals; and ▪ Review of Authority minutes and Internal Audit reports. Our main VFM conclusion findings can be summarised as follows: • The Authority has a good record of meeting its financial targets and progress. Savings and efficiencies, together with additional budget pressures are identified and monitored corporately throughout the year. On 13 July 2017 an overall budget underspend of £11.4m was reported enabling a £3.7m increase in the General Fund balance. • In February 2017, the Authority approved a Medium Term Financial Strategy (MTFS) for the financial years 2017/18 to 2019/20 and set a balanced budget for 2017/18 which included identified savings of £14.9 million. 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.

Appendices

Key issues and recommendations

Our audit work on the Authority's 2016/17 financial statements have one issue in relation to our assessment of the general IT controls at the Authority. We have detailed this issue this appendix together with our recommendation which we have agreed with Management. We have also included Management's responses to this recommendation.

The Authority should closely monitor progress in addressing the risk, including the implementation of our recommendation. We will formally follow up this recommendation next year.

Each issue and recommendation have been given a priority rating, which is explained below.

High priority — Issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.

Medium priority — Issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.

Low priority — Issues that would, if corrected, improve internal control in general but are not vital to the overall system. These are generally issues of good practice that we feel would benefit if introduced.

The following is a summary of the recommendations raised in the year 2016/17.

2016/17 recommendations summary		
Priority	**Number raised from our year-end audit**	**Total raised for 2016/17**
High	-	-
Medium	1	1
Low	-	-
Total	**1**	**1**

Key issues and recommendations (cont.)

Medium priority

1. Privileged Access and system logging

We reviewed the general IT controls at the Authority, specifically looking at the controls over the SAP system. We noted the following exceptions:

- 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
- 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 suppler SAP recommend are not accessible to users because of their privileged nature;
- 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; these were notified to the Authority;
- 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

Although we were able to mitigate the impact of these exceptions on our overall assessment , it is imperative that any changes to the system, which includes the 'locking and unlocking' of the system is sufficiently logged.

Recommendation

The Authority should:

- Review the users with privileged profile access and determine whether this level of access is appropriate;
- Restrict the use of privileged transactions in line with guidance from the software provider SAP;
- Where possible, all changes should be made through established change management processes without the system being unlocked (via STMS); and
- Where changes require the system to be unlocked, this should be sufficiently documented and logged with an thorough audit trail.

Management Response

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.

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.

In terms of the specific recommendations, these have all been actioned.

Owner

Group Manager – Financial Strategy & Compliance

Group Manger – Business Support Centre

Deadline

N/A – completed.

Audit differences

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 Governance and Ethics 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.

A number of minor amendments focused on presentational improvements have also been made to the 2016/17 draft financial statements. The Finance team is committed to continuous improvement in the quality of the financial statements submitted for audit in future years.

Unadjusted audit differences

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

Materiality and reporting of audit differences

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 2016/17, dated February 2017.

Materiality for the Authority's accounts was set at £18.6 million which equates to around 1.5% percent of gross expenditure. We design our procedures to detect errors in specific accounts at a lower level of precision.

Reporting to the Governance and Ethics 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 Governance and Ethics 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 propose that an individual difference could normally be considered to be clearly trivial if it is less than £930k for the Authority.

Where management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Governance and Ethics 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 2016/17

Appendix 4

Declaration of independence and objectivity

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 Governance and Ethics 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.

General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP Audit Partners and staff annually confirm their compliance with our Ethics and Independence Manual including in particular that they have no prohibited shareholdings.

Our Ethics and Independence Manual is fully consistent with the requirements of the Ethical Standards issued by the UK Auditing Practices Board. As a result we have underlying safeguards in place to maintain independence through: Instilling professional values, Communications, Internal accountability, Risk management and Independent reviews.

We would be happy to discuss any of these aspects of our procedures in more detail.

Auditor declaration

In relation to the audit of the financial statements of Nottinghamshire County Council and Nottinghamshire Pension Fund for the financial year ending 31 March 2017, we confirm that there were no relationships between KPMG LLP and Nottinghamshire County Council and Nottinghamshire 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.

Declaration of independence and objectivity (cont.)

Non-audit work and independence

Below we have listed the non-audit work performed and set out how we have considered and mitigated potential threats to our independence.

Summary of non-audit work		
Description of non-audit service	**Estimated fee**	**Potential threat to auditor independence and associated safeguards in place**
Teachers Pensions Return	£3,000	**Self-interest:** The work involves verifying data included in the claim. the work being carried out is therefore factual and not judgemental and does not constitute a threat to our independence. The engagement did not have either a perceived or actual impact on the audit team and the audit team resources that will be deployed to perform a robust and thorough audit. The fee is a small percentage of the overall fee. **Self-review:** The nature of this work is to confirm the accuracy of the data included in the claim. Management have prepared the claim, so this is no threat of self review. **Management threat:** All decisions surrounding the claim will be made by Nottinghamshire County Council management . **Familiarity**: This threat is limited given the scale, nature and timing of the work. **Advocacy**: We will not act as advocates for the Authority in any aspect of this work. **Intimidation**: not applicable.
Local Transport Plan Major Projects	£3,000	**Self-interest:** The work involves verifying data included in the claim. the work being carried out is therefore factual and not judgemental and does not constitute a threat to our independence. The engagement did not have either a perceived or actual impact on the audit team and the audit team resources that will be deployed to perform a robust and thorough audit. The fee is a small percentage of the overall fee. **Self-review:** The nature of this work is to confirm the accuracy of the data included in the claim. Management have prepared the claim, so this is no threat of self review. **Management threat:** All decisions surrounding the claim will be made by Nottinghamshire County Council Management. **Familiarity**: This threat is limited given the scale, nature and timing of the work. **Advocacy**: We will not act as advocates for the Authority in any aspect of this work. **Intimidation**: not applicable.
Total estimated fees		**£6,000**
Total estimated fees as a percentage of the external audit fees		**6.1%**

Audit fees

Audit fees

As communicated to you in our External Audit Plan 2016/17, our scale fee for the audit is £96,213 plus VAT *(130,950 in 2015/16).* However, we do not propose any additional fee at this stage of our audit; any additional fees will be discussed with the section 151 officer.

Planned fees for other grants and claims which do not fall under the PSAA arrangements is £6,000 plus VAT (£6,000 in 2015/16).

PSAA fee table		
Component of audit	**2016/17** *(planned fee)* *£*	**2015/16** *(actual fee)* *£*
Nottinghamshire County Council Accounts opinion		
PSAA scale fee set in 2016/17	98,213	98,213
Subtotal	**98,213**	**98,213**
Nottinghamshire Pension Fund opinion		
PSAA scale fee set in 2016/17	29,926	29,926
Total fee for the Authority set by the PSAA	**128,139**	**128,139**

All fees are quoted exclusive of VAT.