

Audit Committee

Wednesday, 03 September 2014 at 10:30

County Hall, County Hall, West Bridgford, Nottingham, NG2 7QP

AGENDA

- | | | |
|---|--|---------|
| 1 | Minutes 11 June 14 | 3 - 6 |
| 2 | Apologies for Absence | |
| 3 | Declarations of Interests by Members and Officers:- (see note below)
(a) Disclosable Pecuniary Interests
(b) Private Interests (pecuniary and non-pecuniary) | |
| 4 | Financial Regulations Waivers 2013-14 | 7 - 20 |
| 5 | External Audit Annual Governance Reports | 21 - 56 |
| 6 | Work Programme | 57 - 60 |

Notes

- (1) Councillors are advised to contact their Research Officer for details of any Group Meetings which are planned for this meeting.
- (2) Members of the public wishing to inspect "Background Papers" referred to in the reports on the agenda or Schedule 12A of the Local Government Act should contact:-

Customer Services Centre 0300 500 80 80

- (3) Persons making a declaration of interest should have regard to the Code of

Conduct and the Council's Procedure Rules. Those declaring must indicate the nature of their interest and the reasons for the declaration.

Councillors or Officers requiring clarification on whether to make a declaration of interest are invited to contact Sarah Ashton (Tel. 0115 977 3962) or a colleague in Democratic Services prior to the meeting.

- (4) Councillors are reminded that Committee and Sub-Committee papers, with the exception of those which contain Exempt or Confidential Information, may be recycled.
- (5) This agenda and its associated reports are available to view online via an online calendar - <http://www.nottinghamshire.gov.uk/dms/Meetings.aspx>

Meeting AUDIT COMMITTEE

Date 11 June 2014 (commencing at 10.30am)

membership

Persons absent are marked with 'A'

COUNCILLORS

Keith Walker (Chairman)
Sheila Place (Vice-Chairman)

Reg Adair		David Kirkham
Joyce Bosnjak		Steve Carroll
John Clarke	A	Ken Rigby
John Handley		

ALSO IN ATTENDANCE

Neil Bellamy - KPMG LLP

OFFICERS IN ATTENDANCE

Sarah Ashton - Policy, Planning and Corporate Services

John Bailey) Environment and Resources Department
Nigel Stevenson)

APPOINTMENT OF CHAIRMAN AND VICE-CHAIRMAN

RESOLVED 2014/01

That the appointment of Councillor Keith Walker as Chairman and Councillor Sheila Place as Vice-Chairman by the County Council of 15 May 2014 for the ensuing year be noted.

MEMBERSHIP

RESOLVED 2014/02

That the membership: Councillors Reg Adair, Joyce Bosnjak, John Clarke, John Handley, David Kirkham, Darrell Pulk and Ken Rigby be noted.

TEMPORARY MEMBERSHIP CHANGES

The following change of membership was reported to the meeting:

- Councillor Steve Carroll replaced Councillor Darrell Pulk (for this meeting only).

MINUTES OF THE LAST MEETING HELD ON 19 MARCH 2014

The minutes of the last meeting of the Committee held on 19 March 2014, having been circulated, were confirmed and signed by the Chair.

APOLOGIES FOR ABSENCE

An apology for absence was received from Councillor Ken Rigby (Other)

DECLARATIONS OF INTEREST BY MEMBERS AND OFFICERS

None

KPMG – AUDIT FEES 2014/15

Nigel Stevenson (Group Manager, Financial Strategy & Compliance) and Neil Bellamy (KPMG Ltd) presented the audit fees 2014/15 report outlining KPMG's indicative fees for forthcoming work.

RESOLVED 2014/03

That the KPMG Audit Fees for 2014/15 be noted.

MANDATORY INQUIRIES - 2013/14 STATEMENT OF ACCOUNTS

Nigel Stevenson (Group Manager, Financial Strategy & Compliance) presented the mandatory inquiries 2013/14 statement of accounts.

RESOLVED 2014/04

That the Inquiries for those 'Charged with Governance' be received and noted.

INTERNAL AUDIT ANNUAL REPORT 2013/14

John Bailey (Head of Internal Audit) presented the internal audit annual report 2013/14 explaining the work carried out during the year and based upon this work expressed a level of adequacy of the internal controls that were in place.

RESOLVED 2014/05

That the Internal Audit Annual Report 2013/14 be noted.

DRAFT ANNUAL GOVERNANCE STATEMENT 2013/14

John Bailey (Head of Internal Audit) explained the proposed annual governance statement 2013/14 that would accompany the statement of accounts 2013/14 when reported to Full Council.

RESOLVED 2014/06

That the decision to endorse the Annual Governance Statement 2013/14 be approved.

INTERNAL AUDIT PLAN 2014/15

John Bailey (Head of Internal Audit) explained the internal Audit plan 2014/15.

RESOLVED 2014/07

That the provided information on the Internal Audit Plan of work for 2014/15 be noted.

WORK PROGRAMME

John Bailey (Head of Internal Audit) informed Members that the Financial Regulation Waivers would be added to the September 2014 meeting.

RESOLVED: 2014/08

That the Committee's work programme with the addition of the Financial Regulation Waivers be noted.

The meeting closed at 11.10 am

CHAIRMAN

REPORT OF SERVICE DIRECTOR – FINANCE AND PROCUREMENT**FINANCIAL REGULATIONS WAIVERS 2013/14****Purpose of the Report**

1. Part 5 of the Council's Constitution contains a number of urgency procedures to enable decisions to be taken quickly in appropriate circumstances. The Constitution requires that the use of these procedures be reported to specified Committees and to the Council. This report fulfils the reporting requirement in respect of Financial Regulations Waivers.

Information and Advice

2. Financial Regulations as they relate to Procurement are intended to ensure that contracts are let in such a way that the Council achieves Best Value and also complies with relevant EU Directives and UK Law. One of the main intentions being to ensure that the Council acts in a way that is open, transparent and fair to all suppliers.
3. Waivers from Financial Regulations can be expedited in a number of situations. There can be genuine reasons why this needs to happen. For example, there is an unexpected emergency which has implications for Public Health. In such circumstances, time may be of the essence and preclude getting a number of quotes or running a tender. One purpose of the waiver process is to act as a peer challenge to such requests to ensure they have a valid reason.
4. A Waiver request must be signed off by a Group Manager, prior to being reviewed by the Group Manager – Procurement. All waivers must then seek prior approval from the Section 151 officer and the Group Manager for Legal and Democratic Services.
5. The reasons given for waivers over £25k fall into 5 groups as follows:-

Reason for waiver	Number of waivers	Value of waivers
Specification related	9	£580k
Planning related	5	£26,986m

Pilots to determine need/requirement	1	£494k
Call-off from an existing framework contract	2	£71k
Monopoly supplier	5	£486k
TOTAL	22	£28,617m

Further details of these waivers are shown in Appendix 2.

The main reasons for needing waivers are due to changes in planning procedures and specifications which limit the number of available suppliers to just one

The Council has recently invested in a new tendering and contracting system (Due North). This will enable a contracts register for all Council contracts to be set up and this in turn will allow reminders to be automatically generated when a contract end date is approaching. By setting this trigger far enough in advance, Commissioners will have enough time to ensure that specifications are established and tendering/quote activity is done without the urgency that creates the need for waivers or which limit the number of suppliers available.

6. There are two relevant urgency procedures relating to the Financial Regulations which are detailed below:-

i) Exceptions to the Requirement to Seek Quotations and Tenders.

7. Section 9.3 of the Financial Regulations contains rules for the selection of suppliers including the number of quotations that must be sought (up to a certain level of contract value) after which a tender must be run. Section 9.5.1.1 specifies five categories of exception where the rules for obtaining quotations or running tenders can be suspended. These five categories are:-
 - i. The work to be executed or the goods or materials to be supplied constitute the first valid extension of an existing contract, which has been procured through a Best Value exercise, provided that such an extension has received the necessary budget approval; and does not exceed the value of the original contract or the next value threshold. Contracts must not be extended where the total value will exceed the EU Threshold.
 - ii. The Council is buying from a contract entered into following a proper tendering exercise by a consortium, collaboration, or similar central procurement body, of which the Council is a member and which the Council is authorised to buy from or through.
 - iii. The work to be executed or the goods or materials to be supplied consist of repairs to, or parts for, existing proprietary machinery, where such repairs or parts are specific to that machinery OR upgrades to existing software packages.
 - iv. Works, supplies or services are urgently needed for the immediate protection of life or property, or to maintain the immediate functioning of a public service for which the Council is responsible. In such cases

the contract must only last as long as is reasonably necessary to deal with the specific emergency.

- v. The Corporate Director decides that special circumstances make it appropriate and beneficial to negotiate with a single firm or that a single tender be invited. This will include occasions when it can be established that there is only a single source available or where the Corporate Director or his/her designate can demonstrate that best value for the Authority can be better achieved by not tendering.

The table below summarises the number of waivers granted in 2013/14 compared to the previous year.

Department	2013-2014			2012-2013		
	£25k or less	> £25k	Total	£25k or less	> £25k	Total
Environment & Resources	4	7	11	10	7	17
Adult Social Care, Health & Public Protection	1	2	3	8	12	20
Children, Families & Cultural Services	5	9	14	2	2	4
Policy Planning & Corporate Services	2	1	3	8	1	9
Public Health	1	3	4	0	0	0
TOTAL	13	22	35	28	22	50

8. The total number of waivers is significantly lower than last year and continues the downward trend from a peak of 103 in 2008-2009. The number of high value waivers is the same as last year but there was a significant reduction in low value waivers. This includes the addition of four waivers for Public Health which means the like-for-like comparison with the previous year is even better.
9. The largest number of high value waivers was for CFCS and these fell into three groups as shown in the table below. To meet the departments commissioning responsibility, future procurement planning is underway

	CFCS Analysis of Waivers over £25,000
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	Specification related	Planning related	Pilots to determine requirements	Call-off from existing framework	Monopoly supplier	TOTAL
Number of waivers	2	3	1	2	1	9
Value of waivers	£124k	£696k	£494k	£71k	£40k	£1,425m
% of total value	8.7%	48.9%	34.7%	4.9%	2.8%	100%

10. Another contributor of high value waivers was E&R (same number as the previous year). The analysis of these waivers is shown below.

	E&R Analysis of Waivers over £25,000					
	Specification related	Planning related	Pilots to determine requirements	Call-off from existing framework	Monopoly supplier	TOTAL
Number of waivers	4	1	0	0	2	7
Value of waivers	£253k	£290k	0	0	£358k	£901k
% of total value	28.1%	32.1%	0	0	39.8%	100%

11. Appendices 1 to 3 provide more detail for all of these waivers.

12. A significant contributor to the increase value of the waivers received in 2013-14 is that of Public Health, whilst only 4 requests have been received in this period 1 was for a figure of £26m this relates to an agreement to the extension of a number of Public Health Service and NHS Associate Contracts for 2014/15 following the novation of Public Health to the Local Authority in April 2013. To meet the departments commissioning responsibility, future procurement planning is underway.

ii) Variation, Waiver or Suspension of Financial Regulations.

13. Financial Regulation 1.7 allows the Service Director, Finance & Procurement, after consulting with the Group Manager for Legal and Democratic Services, to vary, waive or suspend any Regulation. This applies to any Regulation and is not limited to the selection of contractors which is the main focus of this report. During 2013/14, there were three requests. Two were to waive the requirement to have a performance bond for Public Health contracts as this did not represent good value for money and one was for the services of a consultant to support a plan for waste PFI. There were no requests in 2012/13.

Statutory and Policy Implications

14. This report has been compiled after consideration of implications in respect of finance, the public sector equality duty, human resources, crime and disorder, human rights, the safeguarding of children, sustainability and the environment and those using the service and where such implications are material they are described below. Appropriate consultation has been undertaken and advice sought on these issues as required.

RECOMMENDATION

- 1) That members of the Audit Committee note the Financial Regulations Waivers 2013/14

Paul Simpson
Service Director – Finance & Procurement

For any enquiries about this report please contact:

Clare Winter – Group Manager Procurement

Constitutional Comments

15. The proposal in this report is within the remit of the Audit Committee.

Financial Comments (SEM 26/08/14)

16. There are no specific financial implications arising from the report. However, the Financial Waivers process itself is an important element of the Council's Financial Regulations, which exist to ensure that public money is safeguarded and that decisions taken by Council officers are lawful and provide value for money for local taxpayers.

Background Papers

None

Electoral Division(s) and Member(s) Affected

All

Appendix 1

Exceptions to the requirement to seek quotations and tenders for the procurement of goods and services that were valued at £25,000 or less.

Number of waivers	Exemption categories						
	(i) Valid extension of an existing contract	(ii) Collaborative contract set up by other public sector body	(iii) Repairs or parts for existing machinery or software upgrade	(iv) Urgently needed for protection of life/property or maintain a public service	(v) Corporate Director decision Best Value is in not tendering	(vi) S151 Officer waiver under section 1.7 of the Financial Regulations	Total
Environment and Resources					3	1	4
Adult Social Care		1					1
Children, Families & Cultural Services	1				3	1	5
Policy Planning & Corporate Services					2		2
Public Health					1		1
TOTAL	1	1	0	0	9	2	13

Appendix 2

Waiver Ref	Requesting Department	Value	Description of Contract	Summary of Reason
SPECIFICATION RELATED WAIVERS				
FR118	E&R	£77k	Bus lane enforcement	Member approved initiative to enforce bus lane compliance required additional camera and supporting software. The solution chosen is the only one that integrates with current system to process notices.
FR117	CFCS	£74k	Family Information Directory	A new statutory requirement is to publish a local offer for SEND. This solution includes the use of alternative methods of access such as tablets.
FR137	Public Health	£74k	Performance Bond - Substance Misuse Service and Obesity and Weight Management Service	This is a tender on behalf of Public Health. The contract required the winning bidders to have business continuity and disaster recovery plans in place together with a parent company guarantee where appropriate. This means that the cost of a performance bond (typically 3% of the contract value) would not represent good value for money.
FR126	E&R	£71k	Appointment of a consultant to undertake a systems review in ASCHPP	The S151 Officer deemed it urgent to appoint someone to undertake a review of systems in ASCHPP. The need was an immediate appointment with market credibility.
FR119	Public Health	£68k	Supply of needle and syringe exchange supplies	An interim solution as the incumbent supplier couldn't supply to non-health commissioners at the time of handover of service from NHS to LA. Tender to be let for 2014 includes this service.
FR132	ASC	£61k	Deaf Floating Support Service	Extension of contract to allow the scope of the services provided to be re-assessed. This is due to the re-tender not producing an acceptable result.
FR123	E&R	£60k	Highways data collection equipment	Waiver to provide more time to develop an enhanced specification before going to tender.

FR139	CFCS	£50k	Short Breaks in Partnership	Request to use a preferred supplier list rather than tender a framework as this did not produce a satisfactory result.
FR136	E&R	£45k	Performance Bond	The ICELS Partnership was formed to provide a community equipment service for the county. An extension to this contract is valued at £1.5m which under Financial Regulations requires a performance bond. An internal audit in 2013 recommended that the decision to have a performance bond was re-visited. This concluded that a bond was not value for money.
Sub-total		£580k		
PLANNING RELATED WAIVERS				
FR125	Public Health	£26m	Extension of Public Health contracts 2014-15	The range and complexity of contracts inherited from the NHS requires a phased approach to ensure that sufficient resource is available to support these re-procurements.
FR104 FR128	CFCS E&R	£540k £290k	Partnership with local adoption agency Bailiff procurement	Short notice grant for recruitment of additional adopters. In April 2013 work began to re-procure this service using an ESPO framework. However, late in the process, ESPO stopped their procurement exercise. This waiver is to give NCC time to conduct their own procurement.
FR140	CFCS	£107k	Short Breaks, Childcare & Play for Disabled Children Provider Framework	Two key providers failed to meet the deadline to submit a tender. These are considered to be essential providers to avoid additional support costs to the Council. Waiver agreed subject to them re-bidding next time the framework opens for bids (2015)
FR121	CFCS	£49k	Expansion of early education to two year olds	The Government introduced a new targeted free access to early education. The timescales involved do not allow for rigorous evaluation of alternative suppliers to the incumbent who has provided a value for money service so far.
Sub-total		£26,986m		

PILOT RELATED WAIVERS

FR116	CFCS	£494k	Extension to contract with PACEY and PSLA	Temporary extension to the existing contracts to allow changes in legislation to be assessed. Tender will then commence.
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Sub-total £494k

CALL-OFF RELATED WAIVERS

FR127	CFCS	£36k	Child minder resource pack	IT resources to meet the needs of the early years roll out (see FR121). The service was to have been provided through a contracted supplier who sub-contracted the work but then withdrew from the scheme. This waiver is to continue to use the sub-contractor.
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FR133	CFCS	£35k	Intensive Monitoring Project for Vulnerable Young People	This third phase of the project is single-sourced to the provider who delivered the first 2 phases to ensure continuity and delivery to timescales.
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Sub-total £71k

MONOPOLY SUPPLIER

FR105	E&R	£328k	Residential development of Chartwell Grove and Podder Lane	HSE require roads on new estate to be built. Builder went into receivership so Council called in bonds to have the work done. In the meantime another builder has acquired the sites and won't grant access to another party.
FR106	PPCS	£58k	HIS Information Systems	An online service that provides access to a wide range of information. No other provider has access to the same range.
FR130	CFCS	£40k	CCTV at Clayfields House	To meet OFSTED requirements, CCTV needs to be installed to give full coverage. Best Value dictates that the previous supplier is used.
FR109	E&R	£30k	BMS/BSC specialist contractor	Specialist support for the development of BMS payroll for schools. Formerly sourced via Logica. Consultant now freelance at a lower rate.

FR110	ASC	£30k	Appointment of forensic accountants
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Operation Spinnaker is a national investigation into fraud. QC advice was to engage the services of a forensic accountant to investigate and provide evidence. Costs to be reimbursed by National Trading Standards Board. Chosen accountant recommended by QC.

Sub-total	£486k
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TOTAL	£28,617m
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Appendix 3

Applications for waivers from other financial regulations.

Waiver Ref	Requesting Department	Value	Description of Contract	Summary of Decision
FR137	Public Health	£74k	Performance Bond - Substance Misuse Service and Obesity and Weight Management Service	This is a tender on behalf of Public Health. The contract required the winning bidders) to have business continuity and disaster recovery plans in place together with a parent company guarantee where appropriate. This means that the cost of a performance bond (typically 3% of the contract value) would not represent good value for money.
FR136	E&R	£45k	Performance Bond	The ICELS Partnership was formed to provide a community equipment service for the county. An extension to this contract is valued at £1.5m which under Financial Regulations requires a performance bond. An internal audit in 2013 recommended that the decision to have a performance bond was re-visited. This concluded that a bond was not value for money.
FR138	E&R	£25k	Waste PFI Project Plan	Services of a consultant to support the plan.
FR135	CFCS	£13k	Expansion of Early Education for 2 Year Olds	Resources for child-minders to support children in their care.
TOTAL		£157k		

REPORT OF SERVICE DIRECTOR – FINANCE AND PROCUREMENT**EXTERNAL AUDIT – ANNUAL GOVERNANCE REPORTS****Purpose of the Report**

1. To receive for information, and comment upon, the External Auditor's Annual Governance Reports on the County Council and Pension Fund, prior to these being forwarded to Full Council for approval on 18 September 2014.

Information and Advice

2. The External Auditors, KPMG, have now substantially completed their audit work on the Authority's financial statements for 2013/14 and propose to issue unqualified audit opinions on the County Council and Pension Funds' accounts, subject to satisfactory clearance of the remaining issues.
3. In the course of their work the External Auditors have identified a number of matters, detailed in the attached reports, which they wish to bring to the Audit Committee and Full Council's attention. Whilst the Councils Balance Sheet has been restated since the draft accounts were prepared in June, the overall net worth of the Council has not altered, and the remaining main statements are unchanged.
4. The External Auditors have also made a recommendation relating to how schools account for reclaimed VAT for the final month of the year. This is currently included in their adjusted cash balance, but due to the timing of when reimbursements are actually received from HMRC, should be classed as a short term debtor. Although this improvement was identified in the previous year's audit, it was not implemented for the 2013/14 accounts. However, a process has now been agreed and will be in place for the 2014/15 closedown.
5. The Audit Director (KPMG), Neil Bellamy will be in attendance at the meeting to present the report and to respond to Members' queries.
6. As part of the Audit of Financial Statements process, the Section 151 Officer is required to prepare a Letter of Representation to the External Auditor and the proposed Letter is attached for Members' agreement.

Statutory and Policy Implications

7. This report has been compiled after consideration of implications in respect of crime and disorder, finance, human resources, human rights, the public sector equality duty, safeguarding of children and vulnerable adults, service users, sustainability and the environment and ways of working and where such

implications are material they are described below. Appropriate consultation has been undertaken and advice sought on these issues as required.

RECOMMENDATION/S

- 1) That Members of the Audit Committee note the External Auditor's Annual Governance Reports on the County Council and Pension Fund accounts and:
 - a) note the matters raised in the report before the financial statements are re-signed by the Section 151 Officer
 - b) note the Letter of Representation attached to this report.

Paul Simpson
Service Director – Finance & Procurement

For any enquiries about this report please contact:
Nigel Stevenson

Constitutional Comments (KK 15/08/2014)

8. Audit Committee is responsible for overseeing the external auditor's annual audit of the accounts and is the appropriate body to consider the content of this report.

Financial Comments (PM 13/08/2014)

9. The anticipated total fees, excluding the indicative fee for grant claim certification, are £130,950 for Nottinghamshire County Council and £29,926 for the Nottinghamshire Pension Fund. This is in line with the initial proposal and budget provision is in place.

Background Papers and Published Documents

Except for previously published documents, which will be available elsewhere, the documents listed here will be available for inspection in accordance with Section 100D of the Local Government Act 1972.

- 'None'

Electoral Division(s) and Member(s) Affected

- 'All'

This matter is being dealt with by:
Nigel Stevenson

T 0115 977 3033

E nigel.stevenson@nottsc.gov.uk

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Neil Bellamy
Director, Infrastructure & Government & Healthcare
KPMG LLP UK
St Nicholas House
31 Park Row
Nottingham
NG1 6FQ

18 September 2014

Dear Mr Bellamy,

**Nottinghamshire County Council and Nottinghamshire County Council Pension Fund -
Audit for the year ended 31 March 2014**

This representation letter is provided in connection with your audit of the financial statements of Nottinghamshire County Council and Nottinghamshire Pension Fund ("the Authority") for the year ended 31 March 2014, for the purpose of expressing an opinion:

- i. as to whether these financial statements give a true and fair view of the financial position of the Authority as at 31 March 2014 and of the Authority's expenditure and income for the year then ended;
- ii. whether the Pension Fund financial statements give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2014 and the amount and disposition of the Fund's assets and liabilities as at 31 March 2014, other than liabilities to pay pensions and other benefits after the end of the scheme year; and
- iii. whether the financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

These financial statements comprise the Authority Movement in Reserves Statement, the Authority Comprehensive Income and Expenditure Statement, the Authority Balance Sheet, the Authority Cash Flow Statement and the related notes. The Pension Fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes.

The Authority confirms that the representations it makes in this letter are in accordance with the definitions set out in the Appendix to this letter.

The Authority confirms that, to the best of its knowledge and belief, having made such inquiries as it considered necessary for the purpose of appropriately informing itself:

Financial statements

1. The Authority has fulfilled its responsibilities, as set out in regulation 8 of the Accounts and Audit (England) Regulations 2011, for the preparation of financial statements that:
 - give a true and fair view of the financial position of the Authority as at 31 March 2014 and of the Authority's expenditure and income for the year then ended;
 - give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2014 and the amount and disposition of the Fund's assets and liabilities as at 31 March 2014, other than liabilities to pay pensions and other benefits after the end of the scheme year; and
 - have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

The financial statements have been prepared on a going concern basis.

2. Measurement methods and significant assumptions used by the Authority in making accounting estimates, including those measured at fair value, are reasonable.
3. All events subsequent to the date of the financial statements and for which the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 requires adjustment or disclosure have been adjusted or disclosed.
4. The effects of uncorrected misstatements are immaterial, both individually and in the aggregate, to the financial statements as a whole.

Information provided

5. The Authority has provided you with:
 - access to all information of which it is aware, that is relevant to the preparation of the financial statements, such as records, documentation and other matters;
 - additional information that you have requested from the Authority for the purpose of the audit; and
 - unrestricted access to persons within the Authority from whom you determined it necessary to obtain audit evidence.
6. All transactions have been recorded in the accounting records and are reflected in the financial statements.
7. The Authority acknowledges its responsibility for such internal control as it determines necessary for the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In particular, the Authority acknowledges its responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

The Authority has disclosed to you the results of its assessment of the risk that the financial statements may be materially misstated as a result of fraud.
8. The Authority has disclosed to you all information in relation to:

(a) Fraud or suspected fraud that it is aware of and that affects the Authority and involves:

- management;
- employees who have significant roles in internal control; or
- others where the fraud could have a material effect on the financial statements; and

(b) allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.

9. The Authority has disclosed to you all known instances of non-compliance or suspected noncompliance with laws and regulations whose effects should be considered when preparing the financial statements.
10. The Authority has disclosed to you and has appropriately accounted for and/or disclosed in the financial statements in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.
11. The Authority has disclosed to you the identity of the Authority's related parties and all the related party relationships and transactions of which it is aware and all related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

Included in the Appendix to this letter are the definitions of both a related party and a related party transaction as the Authority understands them and as defined in IAS 24, except where interpretations or adaptations to fit the public sector are detailed in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

12. On the basis of the process established by the Authority and having made appropriate enquiries, the Authority is satisfied that the actuarial assumptions underlying the valuation of pension scheme liabilities are consistent with its knowledge of the business.

The Authority further confirms that:

(a) all significant retirement benefits, including any arrangements that:

- are statutory, contractual or implicit in the employer's actions;
- arise in the UK and the Republic of Ireland or overseas;
- are funded or unfunded; and
- are approved or unapproved,
- have been identified and properly accounted for; and

(b) all settlements and curtailments have been identified and properly accounted for.

This letter was agreed at the meeting of the Audit Committee on 3 September 2014 and approved by full Council on 18 September.

Yours faithfully,

Signed

Name: Nigel Stevenson

Position: Service Director (Finance and Procurement), Nottinghamshire County Council

Date: 18 September 2014

Appendix A

Representation Letter of Nottinghamshire County Council and Nottinghamshire Pension Fund: Definitions

Financial Statements

A complete set of financial statements comprises:

- Comprehensive Income and Expenditure Statement for the period
- Balance Sheet as at the end of the period
- Movement in Reserves Statement for the period
- Cash Flow Statement for the period
- Notes, comprising a summary of significant accounting policies and other explanatory information, and
- Balance Sheet as at the beginning of the earliest comparative period (i.e. a third Balance Sheet) when an authority applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements.

A local authority is required to present group accounts in addition to its single entity accounts where required by chapter nine of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

A housing authority must present:

- a HRA Income and Expenditure Statement; and
- a Movement on the Housing Revenue Account Statement.

A billing authority must present a Collection Fund Statement for the period showing amounts required by statute to be debited and credited to the Collection Fund.

For pension funds participating in the following pension schemes, pension fund accounts must be prepared by the local authority that administers the Pension Fund:

- a) the Local Government Pension Scheme (in England and Wales)
- b) the Local Government Pension Scheme (in Scotland).

For pension funds participating in the following pension schemes, pension fund accounts must be prepared:

- a) the Firefighters' Pension Scheme for England
- b) the Firefighters' Pension Scheme for Wales
- c) the Police Pension Scheme in England and Wales.

The financial statements of a defined benefit pension fund and of police authorities and fire and rescue service authorities in England and Wales must contain:

- a) A fund account disclosing changes in net assets available for benefits.
- b) A net assets statement showing the assets available for benefits at the year end.
- c) Notes to the accounts.

Material Matters

Certain representations in this letter are described as being limited to matters that are material.

IAS 1.7 and IAS 8.5 state the following:

Material omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions that users make on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor.

Fraud

Fraudulent financial reporting involves intentional misstatements including omissions of amounts or disclosures in financial statements to deceive financial statement users.

Misappropriation of assets involves the theft of an entity's assets. It is often accompanied by false or misleading records or documents in order to conceal the fact that the assets are missing or have been pledged without proper authorisation.

Error

An error is an unintentional misstatement in financial statements, including the omission of an amount or a disclosure.

Prior period errors are omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:

- a) was available when financial statements for those periods were authorised for issue, and
- b) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.

Management

For the purposes of this letter, references to "management" should be read as "management and, where appropriate, those charged with governance".

Related parties

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions or if the related party entity and another entity are subject to common control.

Related parties include:

- a) entities that directly, or indirectly through one or more intermediaries, control, or are controlled by the authority (i.e. subsidiaries);
- b) associates;
- c) joint ventures in which the authority is a venture;
- d) an entity that has an interest in the authority that gives it significant influence over the authority;
- e) key management personnel, and close members of the family of key management personnel; and
- f) post-employment benefit plan (pension fund) for the benefit of employees of the authority, or of any entity that is a related party of the authority.

Key management personnel are all chief officers (or equivalent), elected members, chief executive of the authority and other persons having the authority and responsibility for planning, directing and controlling the activities of the authority, including the oversight of these activities.

The following are deemed not to be related parties by the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14:

- a) providers of finance in the course of their business in that regard and trade unions in the course of their normal dealings with an authority by virtue only of those dealings; and
- b) an entity with which the relationship is solely that of an agency.

Related party transaction

Related party transaction is a transfer of resources or obligations between related parties, regardless of whether a price is charged. Related party transactions exclude transactions with any other entity that is a related party solely because of its economic dependence on the authority or the government of which it forms part.



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Report to those charged with governance (ISA 260) 2013/14

Nottinghamshire County Council

September 2014

The contacts at KPMG in connection with this report are:

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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. The Audit Commission has issued a document entitled *Statement of Responsibilities of Auditors and Audited Bodies*. This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. We draw your attention to this document which is available on the Audit Commission's website at www.auditcommission.gov.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.

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Neil Bellamy, the appointed engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees on 0161 246 4000, or by email to trevor.rees@kpmg.co.uk, who is the national contact partner for all of KPMG's work with the Audit Commission. After this, if you are still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. Put your complaint in writing to the Complaints Unit Manager, Audit Commission, 3rd Floor, Fry Building, 2 Marsham Street, London, SW1P 4DF or by email to complaints@audit-commission.gsi.gov.uk. Their telephone number is 03034448330.

This document summarises:

- the key issues identified during our audit of the financial statements for the year ended 31 March 2014 for the Authority; 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 2013/14 financial statements; and
- the work to support our 2013/14 conclusion on the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources ('VFM conclusion').

We have separately issued our *Report to those charged with governance (ISA 260) 2013/14* in respect of the Pension Fund administered by Nottinghamshire County Council in September 2014.

Financial statements

Our *External Audit Plan 2013/14*, presented to you in March 2014, set out the four stages of our financial statements audit process.



This report focuses on the second and third stages of the process: control evaluation and substantive procedures. Our on site work for these took place during February 2014 (interim audit) and July 2014 (year end audit).

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 2013/14* explained our risk-based approach to VFM work, which follows guidance provided by the Audit Commission. We have now completed our work to support our 2013/14 VFM conclusion. This included:

- assessing the potential VFM risks and identifying the residual audit risks for our VFM conclusion;
- 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 two summarises the headline messages.
- Section three sets out our key findings from our audit work in relation to the 2013/14 financial statements.
- Section four outlines our key findings from our work on the VFM conclusion.

Our recommendations are included in Appendix 1. We have also reviewed your progress in implementing prior recommendations and this is detailed 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.

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

Proposed audit opinion	We anticipate issuing an unqualified audit opinion on the Authority's financial statements by 30 September 2014. We will also report that the wording of your Annual Governance Statement accords with our understanding.
Audit adjustments	Our audit has not identified any material audit adjustments within the financial statements.
Key financial statements audit risks	We have worked with officers throughout the year to discuss specific risk areas. The Authority addressed the issues appropriately. We identified one audit difference above our reporting threshold which has been amended by management. This is detailed in Appendix 2.
Accounts production and audit process	We have noted an improvement in the quality of the accounts and the supporting working papers. Officers dealt efficiently with audit queries and the audit process has been completed within the planned timescales. We have identified that a prior year recommendation has not been fully implemented with regards to quality assurance procedures. This recommendation is detailed in Appendix 1.
Control environment	The Authority's organisational control environment is effective overall, and we have not identified any significant weaknesses in controls over key financial systems. We undertook a review of the work of internal audit. Our review did not identify any significant issues and were able to rely on their work where this was relevant to our work.
Completion	At the date of this report our audit of the financial statements is substantially complete subject to final checks, including Director review, as part our completion procedures. Before we can issue our opinion we require a signed management representation letter. 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.
VFM conclusion and risk areas	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 VFM conclusion by 30 September 2014.

Acknowledgements

We would like to take this opportunity to thank Paul Simpson (Director of Finance & Procurement), Nigel Stevenson (Group Manager) and all other staff who have assisted us during our audit.

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

We anticipate issuing an unqualified audit opinion in relation to the Authority's financial statements by 30 September 2014.

The wording of your Annual Governance Statement accords with our understanding.

Proposed audit opinion

Subject to all outstanding queries being resolved to our satisfaction, we anticipate issuing an unqualified audit opinion on the Authority's financial statements following approval of the Statement of Accounts by the Audit Committee on 3 September 2014.

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.

We did not identify any material misstatements. We identified a small number of issues that have been adjusted by management.

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 2014.

In addition, we identified a small number of presentational adjustments required to ensure that the accounts are compliant with the *Code of Practice on Local Authority Accounting the United Kingdom 2013/14* ('the Code'). We understand that the Authority 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.

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.

Movements on the General Fund 2013/14		
£m	Pre-audit	Post-audit
Deficit on the provision of services	107	107
Adjustments between accounting basis & funding basis under Regulations	(91)	(91)
Transfers to earmarked reserves	(3)	(3)
Decrease in General Fund	13	13

Balance Sheet as at 31 March 2014		
£m	Pre-audit	Post-audit
Property, plant and equipment	1,184	1,184
Other long term assets	30	30
Current assets	93	88
Current liabilities	(155)	(150)
Long term liabilities	(1,277)	(1,277)
Net worth	(125)	(125)
General Fund	29	29
Other usable reserves	181	181
Unusable reserves	(335)	(335)
Total reserves	(125)	(125)

Section three

Key financial statements audit risks


We have worked with officers throughout the year to discuss specific risk areas. The Authority addressed the issues appropriately.

In our External Audit Plan 2013/14, presented to you in March 2014, we identified the key risks affecting the Authority's 2013/14 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.

Additionally, we considered the risk of management override of controls, which is a standard risk for all organisations.

Our 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, did not identify any issues.

Key audit risk	Issue	Findings
	<p>During the year, the Pension Fund has undergone a triennial valuation with an effective date of 31 March 2013 in line with the Local Government Pension Scheme (Administration) Regulations 2008. 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 numbers to be included in the financial statements for 2013/14 will be based on the output of the triennial valuation rolled forward to 31 March 2014. For 2014/15 and 2015/16 the actuary will then roll forward the valuation for accounting purposes based on more limited data.</p> <p>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 accounts. The Pension Fund only includes limited disclosures around pensions liabilities but we anticipate that this will be identified as a risk area by some of the admitted bodies, whose pension liabilities represent a significant element of their balance sheet. This includes the Authority itself.</p>	<p>We have reviewed the data provided to the actuary to ensure:</p> <ul style="list-style-type: none"> ■ The process was undertaken in a suitable control environment; ■ the accuracy of the information provided by agreeing a sample of data to source documentation; ■ the reasonableness of the completeness of the data by conducting an analysis of movements during the period, and reviewing the overall amount of records provided. <p>Our work did not identify any significant issues relating to the accounting or reporting requirements.</p>

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We have noted an improvement in the quality of the accounts and the supporting working papers.

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

The Authority has not implemented of the recommendation in our *ISA 260 Report 2012/13* in full.

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
Accounting practices and financial reporting	<p>The Authority has strengthened its financial reporting process through early discussions with us over key risk areas. There is scope to improve this further by completing final quality assurance over procedures prior to submission of the accounts.</p> <p>We consider that accounting practices are appropriate.</p>
Completeness of draft accounts	<p>We received a complete set of draft accounts on 27 June 2014. The Authority made a number of amendments of a presentational nature after this date but prior to the start of the audit.</p>
Quality of supporting working papers	<p>Our <i>Accounts Audit Protocol</i>, which we issued on 23 March 2014 and discussed with the Senior Accountant, set out our working paper requirements for the audit.</p> <p>The quality of working papers provided was variable but met the standards specified in our <i>Accounts Audit Protocol</i>.</p>
Response to audit queries	<p>Officers resolved audit queries in a reasonable time. However, we experienced some delays, specifically where multiple staff from various departments were involved in providing the response.</p>

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 not implemented the recommendation in full in our *ISA 260 Report 2012/13*, specifically relating to the reclaimed VAT balances for school cash accounts.

Appendix 1 provides further details.

Section three

Controls over key financial systems

Based on the review of internal audit findings, the areas identified as **Limited Assurance** is not considered to have a material impact on the accounts.

Work completed

We review the outcome of internal audit's work on the financial systems to influence our assessment of the overall control environment, which is a key factor when determining the external audit strategy.

Where we have determined that this is the most efficient audit approach to take, we test selected controls that address key risks within these systems. The strength of the control framework informs the substantive testing we complete during our final accounts visit.

Our assessment of a system will not always be in line with your internal auditors' opinion on that system. This is because we are solely interested in whether our audit risks are mitigated through effective controls, i.e. whether the system is likely to produce materially reliable figures for inclusion in the financial statements.

Key findings

Based on the work of your internal auditors, we have considered the opinions submitted to management, and conclude that the areas identified as Limited Assurance are not considered to have a material impact on the statement of accounts.

Department and Audit Area	Internal audit rating
Adult Social Care, Health and Public Protection	
Fairer Contributions and financial assessments	Substantial Assurance
Financial monitoring and auditing of direct payments– follow-up audit	Reasonable Assurance
Children, Families and Cultural Services	
School Funding Formula	Substantial Assurance
Country Parks and Green Estates	Substantial Assurance
Environment and Resources	
ICT Backup and Recovery	Reasonable Assurance
Council-wide Procurement	Reasonable Assurance
Imprest accounts – corporate controls	Limited Assurance
BMS Accounts Receivable (Debtors) Process Map Compliance	Reasonable Assurance
BMS Payroll Process Map Compliance	Reasonable Assurance
BMS Authorisation and Security	Reasonable Assurance
Policy, Planning and Corporate Services	
Better Broadband for Nottinghamshire Programme	Substantial Assurance
Business	
Business Continuity	Limited Assurance
Purchase Cards: Follow-up and new BMS Process	Reasonable Assurance
Medium Term Financial Strategy	Substantial Assurance

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 for the year ending 31 March 2014, we confirm that there were no relationships between KPMG LLP and Nottinghamshire County Council, 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 Audit Commission's requirements in relation to independence and objectivity.

We have provided a detailed declaration in Appendix 3 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 Group Manager 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 or our previous reports relating to the audit of the Authority's 2013/14 financial statements.

Our VFM conclusion considers how the Authority secures financial resilience and challenges how it secures economy, efficiency and effectiveness.

We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Background

Auditors are required to give their statutory VFM conclusion based on two criteria specified by the Audit Commission. These consider whether the Authority has proper arrangements in place for:

- securing financial resilience: looking at the Authority's financial governance, financial planning and financial control processes; and
- challenging how it secures economy, efficiency and effectiveness: looking at how the Authority is prioritising resources and improving efficiency and productivity.

We follow a risk based approach to target audit effort on the areas of greatest audit risk. We consider the arrangements put in place by the Authority to mitigate these risks and plan our work accordingly.

The key elements of the VFM audit approach are summarised in the diagram below.

Work completed

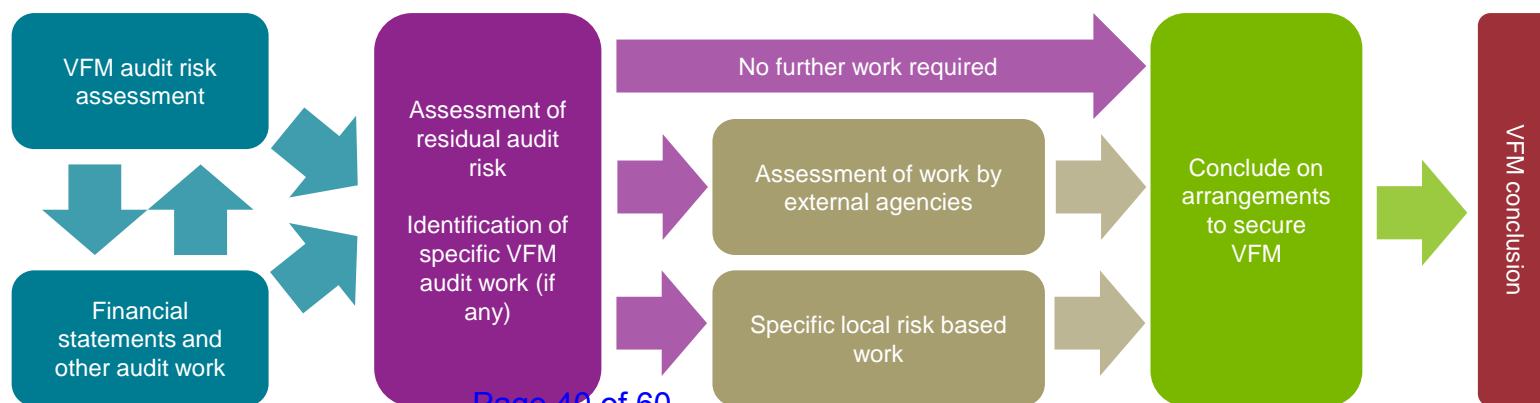
We performed a risk assessment earlier in the year and have reviewed this throughout the year.

We have not identified any significant risks to our VFM conclusion and therefore have not completed any additional work.

Conclusion

We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

VFM criterion	Met
Securing financial resilience	✓
Securing economy, efficiency and effectiveness	✓



We have given each recommendation a risk rating and agreed what action management will need to take.

The Authority should closely monitor progress in addressing specific risks and implementing our recommendations.

We will formally follow up these recommendations next year.

Priority rating for recommendations

- | | | |
|--|--|---|
| 1 Priority one: 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. | 2 Priority two: 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. | 3 Priority three: issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them. |
|--|--|---|

No.	Risk	Issue and recommendation	Management response / responsible officer / due date
1	3	<p>Quality assurance procedures – Prior year follow up</p> <p>In 2013/14 we raised a recommendation relating to the reclaimed VAT cash balances for school accounts.</p> <p>We highlighted there were quality assurance procedures which could be strengthened, in particular:</p> <ul style="list-style-type: none"> 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. <p>We have confirmed with officers that this element of the recommendation has not been implemented for 2013/14.</p> <p>Recommendation</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>Response</p> <p>Although the balances concerned are not material to the overall accounts, (less than £1 million), the Council recognizes that strengthening internal control procedures to address this issue will result in improved reporting.</p> <p>As such a task has been added to the accounts closedown timetable to input a journal entry to transfer the balance from cash to debtors. The nominated Finance Business Partner has been informed and understands what is required and why.</p> <p>Responsible officer</p> <p>Neil Robinson, Group Manager - Financial Management</p> <p>Due date</p> <p>April 2015</p>

This appendix sets out the significant audit differences.

It is our understanding that all of these will be adjusted.

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.

Corrected audit differences

The following table sets out the significant audit differences identified during the audit of Nottinghamshire County Council's financial statements for the year ended 31 March 2014. This issue has been amended for.

No.	Impact					Basis of audit difference
	Income and Expenditure Statement	Movement in Reserves Statement	Assets	Liabilities	Reserves	
1	-	-	Cr Debtors £4.5m	Dr Creditors £4.5m	-	It was identified that a corrective journal between debtors and creditors had been incorrectly input.
	-	-	Cr £4.5m	Dr £4.5m	-	Total impact of adjustments: £4.5m

Uncorrected audit differences

There were no uncorrected audit differences identified by our audit of Nottinghamshire County Council's financial statements for the year ended 31 March 2014.

The Code of Audit Practice requires us to exercise our professional judgement and act independently of both the Commission and the Authority.

Requirements

Auditors appointed by the Audit Commission must comply with the *Code of Audit Practice* (the 'Code') which states that:

"Auditors and their staff should exercise their professional judgement and act independently of both the Commission and the audited body. Auditors, or any firm with which an auditor is associated, should not carry out work for an audited body that does not relate directly to the discharge of auditors' functions, if it would impair the auditors' independence or might give rise to a reasonable perception that their independence could be impaired."

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 Audit Commission's *Standing Guidance for Local Government Auditors* ('Audit Commission 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. Audit Commission 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.

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.

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.

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.

For the non audit work provided we have established the following safeguards to maintain the integrity of the audit team:

- Separate teams to conduct the audit and non audit work
- Internal risk assessment process prior to conducting any non audit work
- External approval from the Audit Commission

Auditor declaration

In relation to the audit of the financial statements of Nottinghamshire County Council for the financial year ending 31 March 2014, we confirm that there were no relationships between KPMG LLP and Nottinghamshire County Council, 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 Audit Commission's requirements in relation to independence and objectivity.



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Report to those charged with governance (ISA 260) 2013/14

Nottinghamshire Pension Fund

September 2014

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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. The Audit Commission has issued a document entitled *Statement of Responsibilities of Auditors and Audited Bodies*. This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. We draw your attention to this document which is available on the Audit Commission's website at www.auditcommission.gov.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.

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Neil Bellamy, the appointed engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees on 0161 246 4000, or by email to trevor.rees@kpmg.co.uk, who is the national contact partner for all of KPMG's work with the Audit Commission. After this, if you are still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. Put your complaint in writing to the Complaints Unit Manager, Audit Commission, 3rd Floor, Fry Building, 2 Marsham Street, London, SW1P 4DF or by email to complaints@audit-commission.gsi.gov.uk. Their telephone number is 0303 4448 330.

This document summarises the key issues identified during our audit of the Nottinghamshire Pension Fund's (the Fund's) financial statements for the year ended 31 March 2014.

Scope of this report

The Audit Commission's Code of Audit Practice requires us to summarise the work we have carried out to discharge our statutory audit responsibilities together with any governance issues identified and report to those charged with governance. We are also required to comply with International Standard on Auditing ('ISA') 260 which sets out our responsibilities for communicating with those charged with governance.

This report meets both these requirements. It summarises the key issues identified during our audit of the Fund's financial statements for the year ended 31 March 2014.

Financial statements

As with the main audit of Nottinghamshire County Council (the Authority), our audit of the Fund follows a four stage audit process.



This report focuses on the second and third stages of the process: control evaluation and substantive procedures.

Our on site work for these took place during February 2014 (interim audit) and July 2014 (year end audit).

Some of our responsibilities under ISA 260 relate to the Authority as administering authority as a whole and are discharged through our separate ISA 260 Report and Annual Audit Letter for the Authority.

This specifically includes our work in the completion stage:

- Declaring our independence and objectivity;
- Obtaining management representations; and
- Reporting matters of governance interest, including our audit fees.

Structure of this report

This report is structured as follows:

- Section two summarises the headline messages.
- Section three sets out the findings from our audit work on the Fund's financial statements in more detail.

Acknowledgements

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

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

Proposed audit opinion	<p>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 30 September 2014.</p> <p>At the date of this report our audit of the Fund's financial statements is substantially complete and the document is due to be approved by the Audit Committee on 3 September 2014. Our remaining completion procedures are carried out jointly with those for the main audit. This includes obtaining a signed management representation letter, which covers the financial statements of both the Authority and the Fund.</p>
Audit adjustments	<p>We are pleased to report that our audit of the Fund's financial statements did not identify any material adjustments. The Authority made a small number of non trivial adjustments, most of which were of a presentational nature.</p>
Accounts production and audit process	<p>The Authority continues to have good processes in place for the production of the Fund's financial statements 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>We have worked with officers throughout the year to discuss the specific risk areas for this year's audit. The Authority addressed the issues appropriately.</p>
Control environment	<p>The Fund's organisational control environment is effective overall, and we have not identified any significant weaknesses in controls over key financial systems.</p>

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

Proposed audit opinion

Subject to all outstanding queries being resolved to our satisfaction, we anticipate issuing an unqualified audit opinion following approval of the Statement of Accounts by the Audit Committee on 3 September 2014.

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.

We did not identify any material misstatements. We identified a number of issues that have been adjusted by management .

In addition, we identified a small number of presentational adjustments required to ensure that the accounts are compliant with the Code of Practice on local Authority Accounting in the United Kingdom 2013/14 ('the Code'). We understand that the Authority will be addressing these where significant.

Completion

At the date of this report, our audit of the Fund's financial statements is substantially complete.

Before we can issue our opinion we require a signed management representation letter. The representations in relation to the Fund will be included in the Authority's representation letter.

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Fund's financial statements. A full declaration of our independence is set out in the main *ISA 260 Report* for the Authority.

Annual Report

We have reviewed the Pension Fund Annual Report and confirmed that:

- the financial and non-financial information it contains is not inconsistent with the financial information contained in the audited financial statements.

The statutory deadline for publishing the document is 1 December 2014. The Pension Fund Annual Report is currently due to be approved by the Pensions Committee in October 2014. We will also need to complete additional work in respect of subsequent events to cover the period between signing our opinions on the Statement of Accounts and the Pension Fund Annual Report .

We have noted an improvement in the quality of the accounts and the supporting working papers.

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

Accounts production and audit process

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

We considered the following criteria:

Element	Commentary
Accounting practices and financial reporting	The Authority has good financial reporting arrangements over the Fund's financial statements in place. We consider that accounting practices are appropriate.
Completeness of draft accounts	We received a complete set of draft accounts on 27 June 2013.
Quality of supporting working papers	Our <i>Accounts Audit Protocol</i> , which we issued on 23 March 2014 and discussed with Senior Pensions Accountant, set out our working paper requirements for the audit. The quality of working papers provided was variable but met the standards specified in our <i>Accounts Audit Protocol</i> .
Critical accounting matters (key audit risks)	We have discussed with officers throughout the year the areas of specific audit risk and undertaken specific audit procedures. There are no matters to draw to your attention.
Response to audit queries	Officers resolved audit queries in a reasonable time.

The controls over all of the Fund's key financial systems are sound.

During February 2014 we completed our control evaluation work. We did not issue an interim report as there were no significant issues arising from this work. For completeness we reflect on key findings from this work.

Organisational control environment

Controls operated at an organisational level often have an impact on controls at an operational level and if there were weaknesses this would have implications for our audit. We therefore obtain an understanding of the Authority's overall control environment and determine if appropriate controls have been implemented.

Most of the controls we look at do not just relate to the Fund but the Authority as a whole.

We found that your organisational control environment is effective overall.

ISAE 3402 reports

The Fund used a total of three different fund managers during 2013/14. Most fund managers provide assurance reports under International Standard on Assurance Engagements (ISAE) 3402 or equivalents. ISAE 3402 reports provide assurance over the controls at a service organisation where these controls are likely to be relevant to user entities' internal control over financial reporting.

Assurance reports were available for all fund managers.

Work on behalf of admitted body auditors

The auditors of admitted bodies requested us to complete specific work on controls operated by the Fund on behalf of the admitted bodies over certain data provided to the actuaries in order to determine the pensions liabilities and related disclosures for the admitted bodies as part of the 31 March 2013 triennial valuation.

Our work did not identify any specific issues.

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Fund'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 Pension Fund for the year ending 31 March 2014, we confirm that there were no relationships between KPMG LLP 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 Audit Commission's requirements in relation to independence and objectivity.

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 Authority's Group Manager 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 or our previous reports relating to the audit of the Fund's 2013/14 financial statements.



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**REPORT OF CORPORATE DIRECTOR, POLICY, PLANNING AND
CORPORATE SERVICES****WORK PROGRAMME****Purpose of the Report**

1. To consider the Committee's work programme for 2014/15.

Information and Advice

2. The County Council requires each committee to maintain a work programme. The work programme will assist the management of the committee's agenda, the scheduling of the committee's business and forward planning. The work programme will be updated and reviewed at each pre-agenda meeting and committee meeting. Any member of the committee is able to suggest items for possible inclusion.
3. The attached work programme has been drafted in consultation with the Chairman and Vice-Chairman, and includes items which can be anticipated at the present time. Other items will be added to the programme as they are identified.
4. As part of the transparency introduced by the revised committee arrangements from 2012, committees are expected to review day to day operational decisions made by officers using their delegated powers. It is anticipated that the committee will wish to commission periodic reports on such decisions. The committee is therefore requested to identify activities on which it would like to receive reports for inclusion in the work programme.

Other Options Considered

5. None.

Reason/s for Recommendation/s

6. To assist the committee in preparing its work programme.

Statutory and Policy Implications

7. This report has been compiled after consideration of implications in respect of finance, equal opportunities, human resources, crime and disorder, human rights,

the safeguarding of children, sustainability and the environment and those using the service and where such implications are material they are described below. Appropriate consultation has been undertaken and advice sought on these issues as required.

RECOMMENDATION/S

- 1) That the committee's work programme be noted, and consideration be given to any changes which the committee wishes to make.

Jayne Francis-Ward

Corporate Director, Policy, Planning and Corporate Services

For any enquiries about this report please contact: Sarah Ashton x 73962

Constitutional Comments (HD)

8. The Committee has authority to consider the matters set out in this report by virtue of its terms of reference.

Financial Comments (PS)

9. There are no direct financial implications arising from the contents of this report. Any future reports to Committee on operational activities and officer working groups, will contain relevant financial information and comments.

Background Papers

None.

Electoral Division(s) and Member(s) Affected

All

AUDIT COMMITTEE - WORK PROGRAMME

<u>Report Title</u>	<u>Brief summary of agenda item</u>	<u>For Decision or Information</u>	<u>Lead Officer</u>	<u>Report Author</u>
3 December 2014				
Internal Audit Progress Report for 2014/15	To provide details of internal audit work completed to the end of September 2014	Information	John Bailey	John Bailey
1 April 2015				
Statement of Accounts 2014/15 – Accounting Policies	To outline proposed changes to the accounting policies used for the Authority's Statement of Accounts for 2014/15 for review and approval	Decision	Nigel Stevenson	Glen Bicknell
Internal Audit Plan for 2015/16	Report from the Head of Internal Audit providing details of the planned work for 2015/16	Information	John Bailey	John Bailey
External Audit Plan 2014/15	To provide information on the External Auditors' Audit Plan for their 2014/15 Audit.	Information	Nigel Stevenson	Glen Bicknell/ External Audit
Certification of Grants and Returns 2013/14	To provide information on the External Auditors' Annual Report 2013/14 on the certification of Grants and Returns	Information	Nigel Stevenson	Glen Bicknell/ External Audit
10 June 2015				
Annual External Audit Fees	To inform Members of proposed external audit fees for 2014/15	Information	Nigel Stevenson	Glen Bicknell/ External Audit
Mandatory Inquiries	To provide information on the External Auditors' requirement for the provision of information regarding the Council's approach to dealing with fraud, litigation, laws and regulations as part of their audit.	Decision	Nigel Stevenson	Glen Bicknell
Internal Audit Report 2014/15	Report of the Head of Internal Audit providing an internal audit opinion on the Authority's level of internal control during 2014/15	Information	John Bailey	John Bailey
Draft Annual Governance Statement 2014/15	Review and comment on the draft Annual Governance Statement prior to being forwarded on to	Decision	John Bailey	John Bailey

<u>Report Title</u>	<u>Brief summary of agenda item</u>	<u>For Decision or Information</u>	<u>Lead Officer</u>	<u>Report Author</u>
	Full Council to accompany the Statement of Accounts			