

## Audit Committee

**Wednesday, 02 September 2015 at 10:30**

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

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### AGENDA

- |   |  |         |
|---|--|---------|
| 1 | Minutes of the last meeting held on 10 June 15   | 3 - 6   |
| 2 | Apologies for Absence  |         |
| 3 | Declarations of Interests by Members and Officers:- (see note below)<br>(a) Disclosable Pecuniary Interests<br>(b) Private Interests (pecuniary and non-pecuniary) |         |
| 4 | External Audit - Annual Governance Reports   | 7 - 42  |
| 5 | Role of ICT and Audit Approach   | 43 - 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          10 June 2015 (commencing at 2.00 pm)

**membership**

Persons absent are marked with `A`

**COUNCILLORS**

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

Reg Adair  
John Clarke  
Stephen Garner  
John Handley

David Kirkham  
Ken Rigby  
John Wilmott

**ALSO IN ATTENDANCE**

Tony Crawley      -      KPMG LLP

**OFFICERS IN ATTENDANCE**

Sarah Ashton      -      Policy, Planning and Corporate Services

Nigel Stevenson    )  
John Bailey        )      Environment and Resources  
Glen Bicknell     )  
Clare Winter       )

**APPOINTMENT OF CHAIRMAN AND VICE-CHAIRMAN**

**RESOLVED 2015/008**

That the appointment of Councillor Keith Walker as Chairman and Councillor Sheila Place as Vice-Chairman by the County Council of 14 May 2015 for the ensuing year be noted.

**MEMBERSHIP**

**RESOLVED 2015/009**

That the membership: Councillors Reg Adair, John Clarke, Stephen Garner, John Handley, David Kirkham, Ken Rigby and John Wilmott be noted.

## **MINUTES OF THE LAST MEETING HELD ON 1 APRIL 2015**

The minutes of the last meeting of the Committee held on 1 April 2015, having been circulated, were confirmed and signed by the Chair.

## **APOLOGIES FOR ABSENCE**

None

## **DECLARATIONS OF INTEREST BY MEMBERS AND OFFICERS**

None

## **KPMG – AUDIT FEES 2015 / 16**

Nigel Stevenson (Service Director, Finance and Procurement) introduced Tony Crawley as KPMG's new Director of Audit.

Glen Bicknell (Senior Accountant) presented and explained the proposed KPMG audit fees for the 2015/16 financial year.

## **RESOLVED 2015/010**

That the proposed KPMG audit fee levels be noted.

## **MANDATORY INQUIRIES – 2014 / 15 STATEMENT OF ACCOUNTS**

Glen Bicknell (Senior Accountant) Informed Members of the external auditor's requirements for the provision of information with regards to fraud, litigation, laws and regulations and the responses related to these from 'Those Charged with Governance'

## **RESOLVED 2015/011**

That the inquiries for those charged with governance for the 2014/15 audit of the Statement of Accounts be noted

Members asked for Officers to arrange a positive press release with reference to how NCC deals with Fraud.

## **INTERNAL AUDIT ANNUAL REPORT 2014 / 15**

John Bailey (Head of Internal Audit) presented the Head of Internal Audit's Annual Report on the work carried out by Internal Audit during 2014/15 and gave his opinion on the adequacy of the internal control environment.

**RESOLVED 2015/012**

That the Head of Internal Audit's Annual Report for 2014/15 be noted.

**DRAFT ANNUAL GOVERNANCE STATEMENT 2014 / 15**

John Bailey (Head of Internal Audit) informed Members of the proposed Annual Governance Statement 2014/15.

**RESOLVED 2015/013**

That the Annual Governance Statement 2014/15 be endorsed and be submitted to Council along with the Statement of Accounts 2014/15 for approval.

**FINANCIAL REGULATIONS WAIVERS 2014 / 15**

Clare Winter (Group Manager, Procurement) informed Members about breaches to the Council's Financial Regulations and explained the 31 requests for waivers for the financial year 2014/15.

**RESOLVED 2015/014**

That the Financial Regulations Waivers 2014/15 and the continued progress to reduce the waivers to a minimum be noted.

**WORK PROGRAMME**

John Bailey (Head of Internal Audit) presented the work programme.

**RESOLVED: 2015/015**

Members agreed that the briefing for the December meeting would be with reference to Procurement and that the Committee's work programme be noted.

The meeting closed at 14.42 am

**CHAIRMAN**





## **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 17 September 2015.

#### **Information and Advice**

2. The External Auditors, KPMG, have now substantially completed their audit work on the Authority's financial statements for 2014/15 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. An outstanding item raised at the previous audit relating to how schools account for reclaimed VAT for the final month of the year has yet to be resolved. . 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. A process has now been agreed and will be in place for the 2015/16 closedown.
5. The Audit Director (KPMG), Tony Crawley 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.

**Nigel Stevenson**  
**Service Director – Finance & Procurement**

**For any enquiries about this report please contact:**  
Glen Bicknell

### **Constitutional Comments (HD 20/08/2015)**

8. This report is for noting only.

### **Financial Comments (GB 10/08/2015)**

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**

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**E** nigel.stevenson@nottscc.gov.uk  
**W** nottinghamshire.gov.uk

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

17 September 2015

Dear Mr Crawley,

**Nottinghamshire County Council and Nottinghamshire County Council Pension Fund -  
Audit for the year ended 31 March 2015**

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 2015, 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 2015 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 2015 and the amount and disposition of the Fund’s assets and liabilities as at 31 March 2015, 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 2014/15.

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 2015 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 2015 and the amount and disposition of the Fund's assets and liabilities as at 31 March 2015, 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 2014/15.

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 IAS 10 *Events after the reporting period* 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 confirms the following:
  - i. 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.

Included in the Appendix to this letter are the definitions of fraud, including misstatements arising from fraudulent financial reporting and from misappropriation of assets.

- ii. 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.

In respect of the above, 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.

8. 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.
9. 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 2014/15 all known actual or possible litigation and claims 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 IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, 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. All related party relationships and transactions have been appropriately accounted for and disclosed in accordance with IAS 24 *Related Party Disclosures*.
12. The Authority confirms that:
  - a) The financial statements disclose all of the key risk factors, assumptions made and uncertainties surrounding the Authority's ability to continue as a going concern as required to provide a true and fair view.
  - b) Any uncertainties disclosed are not considered to be material and therefore do not cast significant doubt on the ability of the Authority to continue as a going concern.
13. 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 and are in accordance with the requirements of IAS 19 (revised) *Employee Benefits*.

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 2 September 2015 and approved by full Council on 17 September.

Yours faithfully,

Signed

Name: Nigel Stevenson

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

Date: 17 September 2015

## 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 2014/15.

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.

A pension fund administering authority must prepare Pension Fund accounts in accordance with Chapter 6.5 of the Code of Practice.

An entity may use titles for the statements other than those used in IAS 1. For example, an entity may use the title 'statement of comprehensive income' instead of 'statement of profit or loss and other comprehensive income'

#### **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 Party and Related Party Transaction**

### **Related party:**

A related party is a person or entity that is related to the entity that is preparing its financial statements (referred to in IAS 24 *Related Party Disclosures* as the "reporting entity").

- a) A person or a close member of that person's family is related to a reporting entity if that person:
  - i. has control or joint control over the reporting entity;
  - ii. has significant influence over the reporting entity; or
  - iii. is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.
- b) An entity is related to a reporting entity if any of the following conditions applies:
  - i. The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
  - ii. One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
  - iii. Both entities are joint ventures of the same third party.
  - iv. One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
  - v. The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
  - vi. The entity is controlled, or jointly controlled by a person identified in (a).
  - vii. A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Key management personnel in a local authority context are all chief officers (or equivalent), elected members, the 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.

A reporting entity is exempt from the disclosure requirements of IAS 24.18 in relation to related party transactions and outstanding balances, including commitments, with:

- a) a government that has control, joint control or significant influence over the reporting entity;  
and
- b) another entity that is a related party because the same government has control, joint control or significant influence over both the reporting entity and the other entity.

**Related party transaction:**

A transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged.







*cutting through complexity*

# Report to those charged with governance (ISA 260) 2014/15

Nottinghamshire County Council and  
Nottinghamshire Pension Fund

**The contacts at KPMG in connection with this report are:**

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## Report sections

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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 issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies summarising where the responsibilities of auditors begin and end and what is expected from audited bodies. We draw your attention to this document which is available on Public Sector Audit Appointment's website ([www.psa.co.uk](http://www.psa.co.uk)).

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

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Tony Crawley the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Trevor Rees (on 0161 246 4000, or by email to [trevor.rees@kpmg.co.uk](mailto:trevor.rees@kpmg.co.uk)). After this, if you are still dissatisfied with how your complaint has been handled you can access PSA's complaints procedure by emailing [generalenquiries@psaa.co.uk](mailto:generalenquiries@psaa.co.uk), by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3HZ.

**This document summarises:**

- the key issues identified during our audit of the financial statements for the year ended 31 March 2015 for both the Authority and its pension fund; and
- our assessment of the Authority's arrangements to secure value for money.

**Scope of this report**

This report summarises the key findings arising from:

- our audit work at Nottinghamshire County Council ('the Authority') and Nottinghamshire Pension Fund in relation to the Authority's 2014/15 financial statements and those of the Local Government Pension Scheme it administers ('the Fund'); and
- the work to support our 2014/15 conclusion on the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources ('VFM conclusion').

**Financial statements**

Our *External Audit Plan 2014/15*, presented to you in April 2015, set out the four stages of our financial statements audit process.



This report focuses on the third stage of the process: substantive procedures. Our on site work for this took place during July 2015.

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 2014/15* explained our risk-based approach to VFM work. We have now substantially completed the work to support our 2014/15 VFM conclusion. This included:

- assessing the potential VFM risks and identifying the residual audit risks for our VFM conclusion; and

- considering the results of any relevant work by the Authority and other inspectorates and review agencies in relation to these risk areas.

**Structure of this report**

This report is structured as follows:

- Section two summarises the headline messages.
- Section three sets out our key findings from our audit work in relation to the 2014/15 financial statements of the Authority and the fund.
- Section four outlines our key findings from our work on the VFM conclusion.

We have also reviewed your progress in implementing prior recommendations and this is detailed in Appendix 2.

**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 for the Authority and the Fund. Sections three and four of this report provide further details on each area.

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

<b>Proposed audit opinion</b>	<p>We anticipate issuing an unqualified audit opinion on the Authority's financial statements by 30 September 2015. We will also report that your Annual Governance Statement complies with guidance issued by CIPFA/SOLACE in June 2007.</p> <p>We also anticipate issuing an unqualified audit opinion in relation to the Fund's financial statements, as contained both in the Authority's Statement of Accounts and the Pension Fund Annual Report by 30 September 2015.</p>
<b>Audit adjustments</b>	<p>Our audit has not identified any material audit adjustments within the financial statements. Our audit has identified some minor presentational adjustments to the financial statements presented for audit.</p>
<b>Key financial statements audit risks for the Authority</b>	<p>We identified the following key financial statements audit risks in our 14/15 External audit plan issued in March 2015.</p> <ul style="list-style-type: none"> <li>■ The accounting requirements for Local Authority maintained schools; and</li> <li>■ The transfer of banking services from the Co-operative to Barclays.</li> </ul> <p>We have worked with officers throughout the year to discuss how the Authority has responded to these key risks. Our detailed findings are reported in section three of this report.</p>
<b>Key financial statements audit risks for the Pension Fund</b>	<p>Our initial risk assessment for the Pension Fund's financial statements audit has identified the following significant risks:</p> <ul style="list-style-type: none"> <li>■ LGPS reform – From 1 April 2014, all members of the LGPS have automatically joined the new career average defined benefit scheme. The new scheme provides more flexibility on when members can take their pension and also how much they pay in; and</li> <li>■ Change in Pensions Database – During the year, the Authority has implemented a new Pensions database, migrating all member records from the previous Axise system to Civica.</li> </ul> <p>We have worked with officers throughout the year to discuss how the Fund has responded to these key risks. Our detailed findings are reported in section three of this report.</p> <p>We have raised a recommendation in relation to information provided to the Actuary, which are summarised in Appendix 1.</p>
<b>Accounts production and audit process</b>	<p>The Authority has good processes in place for the production of the accounts and good quality supporting working papers. Officers dealt efficiently with audit queries and the audit process has been completed within the planned timescales.</p> <p>The Authority has yet to implement the recommendation made in our <i>ISA 260 Report 2013/14</i> relating to the financial statements, and so this has been reiterated at Appendix 2.</p>

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

<p><b>Completion</b></p>	<p>At the date of this report our audit of the financial statements is substantially complete subject to completion of the following areas:</p> <ul style="list-style-type: none"> <li>■ Final review of non-pay expenditure</li> <li>■ Assessing the completeness of the information sent to the actuary</li> </ul> <p>Before we can issue our opinion we also require a signed management representation letter.</p> <p>We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.</p>
<p><b>VFM conclusion and risk areas</b></p>	<p>We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.</p> <p>We therefore anticipate issuing an unqualified VFM conclusion by 30 September 2015.</p>

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

We anticipated issuing an unqualified audit opinion in relation to the Authority's financial statements by 30 September 2015.

**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 recommendation of the Statement of Accounts by the Audit Committee on 2 September 2015, for approval at the meeting of the full Council on 17 September.

**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 5 for more information on materiality) level for this year's audit was set at £24 million. Audit differences below £1.2 million are not normally considered significant, however, may be reported should the issue be material by nature.

We did not identify any material misstatements.

Our audit identified one non-trivial audit difference relating to the classification of balances within notes to the Cash Flow Statement. It is our understanding that this will be adjusted in the final version of the financial statements. This amendment does not impact on the Cash Flow Statement itself.

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 2015.

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

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 2014/15 ('the Code')*. We understand that the Authority will be addressing these where significant.

Movements on the General Fund 2014/15		
£m	Pre-audit	Post-audit
Deficit on the provision of services	41	41
Adjustments between accounting basis & funding basis under Regulations	(31)	(31)
Transfers earmarked reserves	(8)	(8)
<b>Decrease in General Fund</b>	<b>2</b>	<b>2</b>

Balance Sheet as at 31 March 2015		
£m	Pre-audit	Post-audit
Property, plant and equipment	1,185	1,185
Other long term assets	31	31
Current assets	141	141
Current liabilities	(134)	(134)
Long term liabilities	(1,629)	(1629)
<b>Net worth</b>	<b>405</b>	<b>405</b>
General Fund	27	27
Other usable reserves	171	171
Unusable reserves	(603)	(603)
<b>Total reserves</b>	<b>(405)</b>	<b>(405)</b>

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

**We anticipate issuing an unqualified audit opinion in relation to the Fund's financial statements, as contained both in the Authority's Statement of Accounts and the by 30 September 2015.**

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

**Pension fund audit**

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

For the audit of the Fund we used a higher materiality level of £35m million. Audit differences below £1.7m are not considered significant.

Subject to all outstanding queries being resolved to our satisfaction, and final quality review, we anticipate issuing an unqualified audit opinion following recommendation of the Statement of Accounts by the Audit Committee on 2 September 2015, for approval at the meeting of the full Council on 17 September.

We have set out the significant audit differences in Appendix 3 and it is our understanding that these will be adjusted in the final version of the financial statements.

In addition, we identified a small number of presentational adjustments required to ensure that the accounts are compliant with the *CIPFA Code of Practice on Local Authority Accounting in the United Kingdom*. We understand that the Fund will be addressing these where significant.

**Annual Governance Statement**

We have reviewed the Annual Governance Statement and confirmed that:

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

**Annual Report**

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

**Pension Fund Annual Report**

We have reviewed the Pension Fund Annual Financial 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.

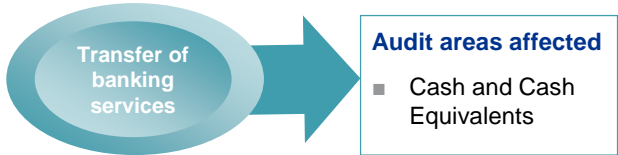
We anticipate issuing an unqualified opinion on the Pension Fund Annual Financial Report at the same time as our opinion on the Statement of Accounts.

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

**This section sets out our detailed findings on those risks**

In our *External Audit Plan 2014/15*, presented to you in April 2015, we identified the significant risks affecting the Authority and the Fund's 2014/15 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.

Significant audit risk	Issue	Findings
	<p>During the year, the Authority transferred the banking services from the Co-Operative Bank to Barclays. With a large number of accounts held for the main functions of the Authority, School bank accounts and the Pension Fund, there is risk relating to the transfer of balances and the recording of transactions post transfer.</p>	<p>We have reviewed the arrangements put in place for the transfer of the bank accounts and tested a sample of accounts to confirm they had closed by 31 March 2015. We have no concerns to report as a result of this testing.</p>



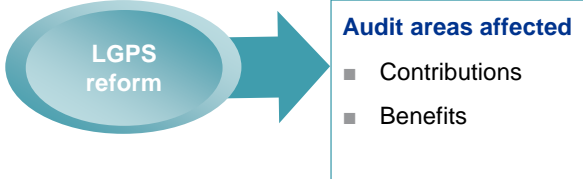
We have worked with the Authority throughout the year to discuss significant risks and key areas of audit focus

This section sets out our detailed findings on those risks

Significant audit risk	Issue	Findings
 <p>Accounting for Local Authority Maintained Schools</p> <p><b>Audit areas affected</b></p> <ul style="list-style-type: none"> <li>■ Property Plant and equipment</li> <li>■ CIES (Income /Expenditure)</li> </ul>	<p>LAAP Bulletin 101 <i>Accounting for School Assets used by Local Authority Maintained Schools</i> issued in December 2014 has been published to assist practitioners with the application of the Code in this respect. The challenges relate to school assets owned by third parties such as church bodies and made available to school governing bodies under a variety of arrangements. This includes assets used by Voluntary-Aided (VA) and Voluntary-Controlled (VC) Schools as well as Foundation Schools.</p> <p>Authorities will need to review the agreements under which assets are used by VA/VC and Foundation schools and apply the relevant tests of control in the case of assets made available free of charge, or risks and rewards of ownership in the case of assets made available under leases. This is a key area of judgement and there is a risk that Authorities could omit school assets from, or include school assets in, their balance sheet.</p> <p>Particular risks surround the recognition of Foundation School assets which may or may not be held in Trust. Authorities should pay particular attention to the nature of the relationship between the Trustees and the school governing body to determine whether the school controls the Trust and the assets should therefore be consolidated into their balance sheet.</p>	<p>As part of our audit we have reviewed the treatment for accounting for Local Authority maintained schools. We have:</p> <ul style="list-style-type: none"> <li>■ Reviewed the Authority's application of LAAP Bulletin 101 and Appendix E of the Code to confirm the correct treatment of schools;</li> <li>■ Had discussions with key members of the Authority's finance team to discuss the appropriate treatment and processes to achieve the treatment;</li> <li>■ Reviewed the amendments made to the Fixed Asset Register and confirmed that they were in accordance with the guidance and processes agreed;</li> <li>■ Carried out detailed testing on a sample of schools to ensure the changes made regarding these schools were materially correct; and</li> <li>■ Ensure all valuations were in accordance with information from the valuer.</li> </ul> <p>There are no significant matters we wish to raise with you.</p>

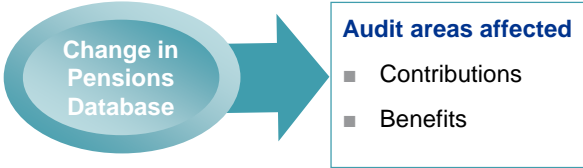
In this section we set out our assessment of the significant risks to the audit of the Pension Fund's financial statements for 2014/15.

For the key risk area we have outlined the impact on our audit plan.

Significant audit risk	Issue	Findings
 <p><b>LGPS reform</b></p> <p><b>Audit areas affected</b></p> <ul style="list-style-type: none"> <li>■ Contributions</li> <li>■ Benefits</li> </ul>	<p>From 1 April 2014, all members of the LGPS have automatically joined the new career average defined benefit scheme. The new scheme provides more flexibility on when members can take their pension and also how much they pay in. There is a risk that pension administration systems have not been set up to correctly reflect the changes resulting from LGPS 2014 and will therefore not accurately calculate the pension benefits due to members.</p> <p>While any errors in the system are unlikely to result in material misstatements in 14/15, the possible cumulative effect in future years means that specific audit work is needed on ensuring that the changes required to the system have been accurately reflected.</p>	<p>We have reviewed the controls and processes that the Pension Fund have put in place to capture the data required by LGPS 2014. Our work focused on reviewing the testing performed by the Authority systems team on the LGPS implementation within the Axise system. LGPS 2014 was already incorporated into the Civica system, and the review of this testing was completed as part of our new system implementation work.</p> <p>There are no significant matters we wish to raise with you.</p>



In this section we set out our assessment of the significant risks to the audit of the Pension Fund's financial statements for 2014/15.

For the key risk area we have outlined the impact on our audit plan.

Significant audit risk	Issue	Findings
	<p>During the year, the Authority has implemented a new Pensions database, migrating all member records from the previous Axise system to Civica. During any major system change, there is an inherent risk arising from this implementation in the following areas:</p> <ul style="list-style-type: none"> <li>■ Migration of data</li> <li>■ System parameters</li> <li>■ Reporting</li> <li>■ Operation of controls</li> </ul> <p>Our understanding from discussions with officers is that these areas have been reviewed internally, with the aid of software consultants, to mitigate the risk in order to gain assurance that the new system is fully operational, and supports the disclosures and working papers for the financial statements.</p>	<p>As part of our audit we have reviewed the change of the Pension Fund administration system from Axise to Civica. As part of this work we have:</p> <ul style="list-style-type: none"> <li>■ We have reviewed the controls and processes put in place to accurately migrate the data to the new system; and</li> <li>■ We also reviewed the controls implemented over the calculations performed within the Civica system.</li> </ul> <p>We are satisfied that the change in pensions database has not had a material impact on the 2014/15 financial statements.</p>

In our *External Audit Plan 2014/15* we reported that we would consider two risk areas that are specifically required by professional standards and report our findings to you. These risk areas were Management override of controls and the Fraud risk of revenue recognition.

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

Areas of significant risk	Summary of findings
 <p>Audit areas affected</p> <ul style="list-style-type: none"> <li>■ All areas</li> </ul>	<p>Our audit methodology incorporates the risk of management override as a default significant risk. 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. We have not identified any specific additional risks of management override relating to this audit.</p> <p>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.</p> <p>There are no matters arising from this work that we need to bring to your attention.</p>
 <p>Audit areas affected</p> <ul style="list-style-type: none"> <li>■ None</li> </ul>	<p>Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk.</p> <p>In our <i>External Audit Plan 2014/15</i> 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.</p> <p>This is still the case. Since we have rebutted this presumed risk, there has been no impact on our audit work.</p>

The Authority has a well established and strong accounts production process. This operated well in 2014/15, and the standard of accounts and supporting working papers was good.

Officers dealt promptly and efficiently with audit queries and the audit process was completed within the planned timescales.

The Authority has yet to implement the recommendation in our *ISA 260 Report 2013/14*.

**Accounts production and audit process**

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

We considered the following criteria:

Element	Commentary
<b>Accounting practices and financial reporting</b>	<p>The Authority continues to maintain a strong financial reporting process and produce statements of accounts to a good standard.</p> <p>We consider that accounting practices are appropriate</p>
<b>Completeness of draft accounts</b>	<p>We received a complete set of draft accounts on 25 June 2015.</p> <p>The Authority have made a small number of presentational changes to the accounts presented for audit however there have been no changes which we consider to be fundamental.</p>
<b>Quality of supporting working papers</b>	<p>We issued our <i>Accounts Audit Protocol</i> including our required working papers for the audit on 16 April 2015.</p> <p>The quality of working papers provided was high and fully met the standards specified in our <i>Accounts Audit Protocol</i>.</p>
<b>Response to audit queries</b>	<p>Officers resolved all audit queries in a timely manner.</p>

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

**Additional findings in respect of the control environment for key systems**

We have raised a recommendation in relation to the information provided to the Actuary. We identified during the course of our audit that a report detailing scheme membership was omitting data from the final output. Although this does not have a direct impact on the 14/15 Statement of Accounts, the Authority will need to provide this data for the next triennial valuation, as this data will be used for valuation purposes.

Appendix 1 provides further details.

**Prior year recommendations**

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

The Authority has yet to implement the recommendation in our *ISA 260 Report 2013/14*.

Appendix 2 provides further details.

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

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

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

### Declaration of independence and objectivity

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

In relation to the audit of the financial statements of Nottinghamshire County Council and Nottinghamshire Pension Fund for the year ending 31 March 2015, 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. This includes on pages 19-20 our review of an engagement for tax services. We have concluded that our objectivity has not been compromised, and we have set out the background and reasoning.

### Management representations

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

Other matters

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

- significant difficulties encountered during the audit;

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

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

**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

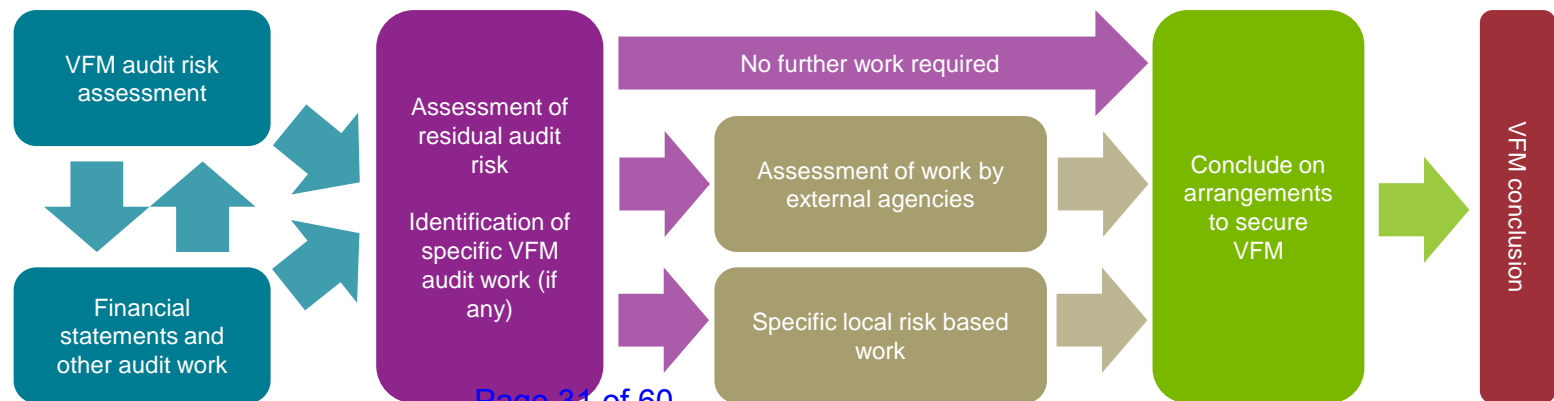
We performed a risk assessment earlier in the year and have reviewed this throughout the year.

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	✓



## Appendix 1: Key issues and recommendations

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.

Priority rating for recommendations		
<p><b>1</b> <b>Priority one:</b> 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.</p>	<p><b>2</b> <b>Priority two:</b> 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.</p>	<p><b>3</b> <b>Priority three:</b> 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.</p>

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



## Appendix 2: Follow up of prior year recommendations

The Authority has not implemented all of the recommendations in our ISA 260 Report 2013/14.

We re-iterate the importance of the outstanding recommendations and recommend that these are implemented as a matter of urgency.

This appendix summarises the progress made to implement the recommendations identified in our ISA 260 Report 2013/14 and re-iterates any recommendations still outstanding.

Number of recommendations that were:	
Included in original report	1
Implemented in year or superseded	0
Remain outstanding (re-iterated below)	1

No.	Risk	Issue and recommendation	Officer responsible and due date	Status as at August 2015
1	3	<p><b>Quality assurance procedures – Prior year follow up</b></p> <p>In 2013/14 we raised a recommendation relating to the reclaimed VAT cash balances for school accounts.</p> <p>We highlighted there were quality assurance procedures which could be strengthened, in particular:</p> <ul style="list-style-type: none"> <li>school bank reconciliations included amounts relating to reclaimed VAT in the cash balance even though the reclaimed VAT was not actually received late into the following month.</li> </ul> <p><b>Recommendation</b></p> <p>Although the financial impact of this recommendation is unlikely to be material, it is recommended that the Authority implement these additional quality assurance procedures regarding school bank accounts for completeness.</p>	<p><b>Responsible officer</b> Group Manager -Financial Management</p> <p><b>Due date</b> April 2015</p>	<p>Our work on school bank account reconciliations identified £683k VAT has been incorrectly included within the reported balances.</p> <p>We confirmed with officers that the recommendation has not yet been implemented.</p> <p>They have confirmed that the closedown procedures for 2015/16 will incorporate the additional review of school accounts balances.</p>

**This appendix set out the audit differences. There are no audit differences to report.**

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

**Uncorrected audit differences**

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

**Material misstatements**

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

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

**The Code of Audit Practice requires us to exercise our professional judgement and act independently of both Public Sector Audit Appointments Ltd and the Authority.**

### Requirements

Auditors appointed by Public Sector Audit Appointments Ltd 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 Public Sector Audit Appointments Ltd *Terms of Appointment* ('Public Sector Audit Appointments Ltd Guidance') and the requirements of APB Ethical Standard 1 *Integrity, Objectivity and Independence* ('Ethical Standards').

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

- Details of all relationships between the auditor and the client, its directors and senior management and its affiliates, including all services provided by the audit firm and its network to the client, its directors and senior management and its affiliates, that the auditor considers may reasonably be thought to bear on the auditor's objectivity and independence.

- The related safeguards that are in place.
- The total amount of fees that the auditor and the auditor's network firms have charged to the client and its affiliates for the provision of services during the reporting period, analysed into appropriate categories, for example, statutory audit services, further audit services, tax advisory services and other non-audit services. For each category, the amounts of any future services which have been contracted or where a written proposal has been submitted are separately disclosed. We do this in our *Annual Audit Letter*.

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

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

### 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.

**Disclosure of action concerning tax engagement**

KPMG member firms and KPMG professionals are required to comply with independence standards that meet or exceed those set out in the IESBA Code of Ethics. In addition, the UK firm and our professionals are also required to comply with the requirements of the APB Ethical Standards. We also adhere to the Public Sector Audit Appointment's (PSAA) specific requirements regarding non-audit services.

These professional standards require that where the firm has determined that a breach of an audit independence standard has occurred, we discuss this and the actions we have taken or propose to take with you as soon as possible, communicate with you in writing all

matters discussed and obtain your concurrence that action can be, or has been, taken to satisfactorily address the issue. This section of the report summarises such an instance requiring action.

In June 2006 the Authority engaged KPMG to provide services to assist you with the calculation and subsequent claims filed against the UK's HM Revenue & Customs for the recovery of tax credits in respect of dividend income for the years 1992 to 1997 for which it is argued (using European Law arguments), should have been available to the Pension Fund. The Authority was one of approximately 100 UK pension schemes to file such claims. The case has been taken by the Law Firm Pinsent Mason and has been progressing through the UK tax courts for several years. The fee agreed for these services was a success fee of 2% of any amounts recovered from HMRC if the claim was ultimately successful, capped at £150,000. Subsequently, in November 2012, KPMG LLP was appointed as auditor of the 2012/13 year of account and subsequent financial years. No work has been carried out in relation to this tax engagement in the period since KPMG LLP was appointed auditor.

Prior to 2010, the APB Ethical Standards did not prohibit such contingent fee arrangements, however in 2010 the standards were changed and paragraph 95 of APB Ethical Standard Number 5 now provides that an audit firm cannot provide services on a wholly or partly contingent basis where the outcome of those services is dependent upon the proposed application of tax law which is uncertain or has not been established. As the tax law applying to the subject matter of this engagement was and remains uncertain, following KPMG LLP's appointment as auditor the fee basis should have been revised to remove the contingent element in order to comply with this requirement. Action was therefore required to ensure compliance with the ethical standards.

This position was identified as our firm undertook a special exercise to ensure that any grandfathered tax contingent fee arrangements that were entered into with audit clients prior to the change in rules in 2010 had been correctly dealt with before 31 December 2014 which was the end of the grandfathering period provided for in the standard.

**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.**

This position was identified as our firm undertook a special exercise to ensure that any grandfathered tax contingent fee arrangements that were entered into with audit clients prior to the change in rules in 2010 had been correctly dealt with before 31 December 2014 which was the end of the grandfathering period provided for in the standard.

We have considered this matter, and given the following factors we have determined this to be a less than significant breach of the APB Ethical Standards because:

- no amounts are recognised in the Council's or Pension Fund's accounts for the potential recovery of this tax;
- the amount of tax that is potentially recoverable £5m is, in any event, not material to the Council or Pension Fund;
- KPMG has not received any contingent fee income in respect of this engagement and has not performed any work in relation to this engagement since the date of appointment as auditor; and
- the potential contingent fee that KPMG could have received in respect of this engagement of £102k is not material to our firm.

Based on the above in our professional judgment we concluded that our objectivity has not been compromised and the firm and the engagement team are independent of the Council and the Pension Fund.

#### **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 2015, 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.

For 2014/15 our materiality is £24 million for the Authority's accounts. For the Pension Fund it is £35 million.

We have reported all audit differences over £1.2 million for the Authority's accounts and £1.7 million for the Pension Fund, to the Audit Committee.

### Materiality

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

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

We reassessed materiality for the Authority at the start of the final accounts audit following receipt of the 2014/15 accounts, which confirmed the actual gross expenditure incurred by the Authority.

Materiality for the Authority's accounts was set at £24m which equates to around 2% percent of gross expenditure. We design our procedures to detect errors in specific accounts at a lower level of precision.

### Materiality – pension fund audit

The same principles apply in setting materiality for the Pension Fund audit. Materiality for the Pension Fund was set at £35 million which is approximately 1 percent of gross assets.

We design our procedures to detect errors at a lower level of precision, set at £1.7 million for 2014/15.

### Reporting to the Audit Committee

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

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

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

In the context of the Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £1.2 m 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 Audit Committee to assist it in fulfilling its governance responsibilities.

## Appendix 6: KPMG Audit Quality Framework

We continually focus on delivering a high quality audit.

This means building robust quality control procedures into the core audit process rather than bolting them on at the end, and embedding the right attitude and approaches into management and staff.

KPMG's Audit Quality Framework consists of seven key drivers combined with the commitment of each individual in KPMG.

The diagram summarises our approach and each level is expanded upon.

At KPMG we consider audit quality is not just about reaching the right opinion, but how we reach that opinion. KPMG views the outcome of a quality audit as the delivery of an appropriate and independent opinion in compliance with the auditing standards. It is about the processes, thought and integrity behind the audit report. This means, above all, being independent, compliant with our legal and professional requirements, and offering insight and impartial advice to you, our client.

KPMG's Audit Quality Framework consists of seven key drivers combined with the commitment of each individual in KPMG. We use our seven drivers of audit quality to articulate what audit quality means to KPMG.

We believe it is important to be transparent about the processes that sit behind a KPMG audit report, so you can have absolute confidence in us and in the quality of our audit.

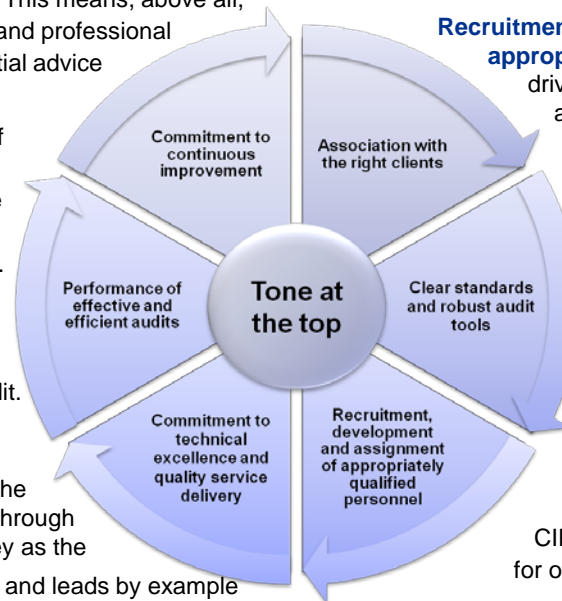
**Tone at the top:** We make it clear that audit quality is part of our culture and values and therefore non-negotiable. Tone at the top is the umbrella that covers all the drives of quality through a focused and consistent voice. Tony Crawley as the

Engagement Lead sets the tone on the audit and leads by example with a clearly articulated audit strategy and commits a significant proportion of his time throughout the audit directing and supporting the team.

**Association with right clients:** We undertake rigorous client and engagement acceptance and continuance procedures which are vital to the ability of KPMG to provide high-quality professional services to our clients.

**Clear standards and robust audit tools:** We expect our audit professionals to adhere to the clear standards we set and we provide a range of tools to support them in meeting these expectations. The global rollout of KPMG's eAudIT application has significantly enhanced existing audit functionality. eAudIT enables KPMG to deliver a highly

technically enabled audit. All of our staff have a searchable data base, Accounting Research Online, that includes all published accounting standards, the KPMG Audit Manual Guidance as well as other relevant sector specific publications, such as the Audit Commission's *Code of Audit Practice*.



**Recruitment, development and assignment of appropriately qualified personnel:** One of the key drivers of audit quality is assigning professionals appropriate to the Authority's risks. We take great care to assign the right people to the right clients based on a number of factors including their skill set, capacity and relevant experience.

We have a well developed technical infrastructure across the firm that puts us in a strong position to deal with any emerging issues. This includes:

- A national public sector technical director who has responsibility for co-ordinating our response to emerging accounting issues, influencing accounting bodies (such as CIPFA) as well as acting as a sounding board for our auditors.
- A national technical network of public sector audit professionals is established that meets on a monthly basis and is chaired by our national technical director.
- All of our staff have a searchable data base, Accounting Research Online, that includes all published accounting standards, the KPMG Audit Manual Guidance as well as other relevant sector specific publications, such as the Audit Commission's *Code of Audit Practice*.
- A dedicated Department of Professional Practice comprised of over 100 staff that provide support to our audit teams and deliver our web-based quarterly technical training.

We continually focus on delivering a high quality audit.

This means building robust quality control procedures into the core audit process rather than bolting them on at the end, and embedding the right attitude and approaches into management and staff.

Quality must build on the foundations of well trained staff and a robust methodology.

### **Commitment to technical excellence and quality service delivery:**

Our professionals bring you up- the-minute and accurate technical solutions and together with our specialists are capable of solving complex audit issues and delivering valued insights.

Our audit team draws upon specialist resources including Forensic, Corporate Finance, Transaction Services, Advisory, Taxation, Actuarial and IT. We promote technical excellence and quality service delivery through training and accreditation, developing business understanding and sector knowledge, investment in technical support, development of specialist networks and effective consultation processes.

**Performance of effective and efficient audits:** We understand that how an audit is conducted is as important as the final result. Our drivers of audit quality maximise the performance of the engagement team during the conduct of every audit. We expect our people to demonstrate certain key behaviors in the performance of effective and efficient audits. The key behaviors that our auditors apply throughout the audit process to deliver effective and efficient audits are outlined below:

- timely Engagement Lead and manager involvement;
- critical assessment of audit evidence;
- exercise of professional judgment and professional scepticism;
- ongoing mentoring and on the job coaching, supervision and review;
- appropriately supported and documented conclusions;
- if relevant, appropriate involvement of the Engagement Quality Control reviewer (EQC review);
- clear reporting of significant findings;
- insightful, open and honest two-way communication with those charged with governance; and
- client confidentiality, information security and data privacy.

**Commitment to continuous improvement:** We employ a broad range of mechanisms to monitor our performance, respond to feedback and understand our opportunities for improvement.

### **Our quality review results**

Public Sector Audit Appointments Ltd publishes information on the quality of work provided by us (and all other firms) for audits undertaken on behalf of them (<http://www.psa.co.uk/audit-quality/principal-audits/kpmg-audit-quality/>).

The latest Annual Regulatory Compliance and Quality Report (issued June 2014/2015) showed that we are meeting the overall audit quality and regulatory compliance requirements.





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## **REPORT OF SERVICE DIRECTOR, FINANCE AND PROCUREMENT**

### **ROLE OF ICT AND AUDIT APPROACH**

#### **Purpose of the Report**

1. To inform Members on the presentation of the Audit of ICT within the Authority.

#### **Information and Advice**

2. The Audit Committee has requested a brief presentation on the audit of ICT within the Authority. The presentation will provide the opportunity for Audit Committee members to receive a broad ranging presentation on the audit of ICT and raise questions on the approach.

#### **Other Options Considered**

3. The option of bringing in an independent speaker was considered. The Authority would have been charged for this.

#### **Reason/s for Recommendation/s**

4. To provide information to Members on the audit of ICT.

#### **Statutory and Policy Implications**

5. 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 the Head of Internal Audit and his colleagues provide a presentation on audit of ICT and members consider whether they would like further information in this respect.

**Nigel Stevenson**  
**Service Director (Finance and Procurement)**

**For any enquiries about this report please contact:**

John Bailey  
Head of Internal Audit

### **Constitutional Comments**

6. The report is to provide information.

### **Financial Comments (JMB 20/8/15)**

7. There are no costs arising from this report.

### **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

# ICT Audits

Paul Bellamy



Nottinghamshire  
County Council

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# Identify activities

- ICT Strategic Plan
- Council and service plans
- ICT infrastructure management system
- ICT Service catalogue
- Consultation with ICT and operational service managers



# Risk scoring

- Apply the Internal Audit risk scoring methodology
- Factors
  - Priority of service and the impact if it failed
  - Activity stability and complexity
  - Legal or regulatory compliance and the confidentiality nature of data held
  - Time since last audit and the outcome
- Target high and medium risk activities

# Service Delivery

- Internal by ICT services
- Externally by third party companies
- Partnership working involving the transfer of data between Nottinghamshire County Council and partner organisations



# Assurance Mapping

- Reviews and assessments by external bodies
  - Public Services Network assessment
- IT Health Checks
- Microsoft – Active Directory
- Risual – DirectAccess for connecting tablets to the network
- Management controls and reviews

# Internal Audit Approach

- External reviews
  - Examine review output
  - Determine the extent to which it covers the risks
  - Identify remedial actions to be taken and obtain details of planned and completed actions to remedy risks



# Internal Audit Approach

- Obtain details of management reviews of externally provided services
- Assess adequacy regarding frequency and range of coverage
- Check that issues have been raised with provider and remedial actions planned and taken

# Internal Audit Approach

- Identify and agree the risks with management
- Determine the expected controls and match against the actual management controls
- Test for compliance and substantiate that the expected results are produced
- Identify failures of control and/ or outcomes
- Make recommendations to improve control and agree actions with management

# High Risk Areas

- Business Management System
- Public Services Network
- Internet Controls
- Multi Agency Safeguarding Hub
- Frameworki
- Abacus



# Integration with Systems Audits

- ICT elements are reviewed as part of each relevant system audit
- Focus is on
  - Ownership and management
  - Security and access controls
  - Data input, processing and output controls
  - Business continuity arrangements

# Projects

- Identify projects to become involved in
- Role of “critical friend” to ensure that risks are identified and mitigated
- Example of projects reviewed
  - Business management System
  - Civica Universal Pensions Management
  - IT Mobilisation
- This work requires a much more proactive approach and the production of timely output







**REPORT OF CORPORATE DIRECTOR, POLICY, PLANNING AND  
CORPORATE SERVICES**

**WORK PROGRAMME**

**Purpose of the Report**

1. To consider the Committee's work programme for 2015/16.

**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 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 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 (NS)**

9. There are no financial implications arising directly from this report.

### **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

## 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>
<b>2 December 2015</b>				
Internal Audit Progress report for 2015/16	To provide details of internal audit work completed to the end of September 2015	Information	John Bailey	John Bailey
Review of Financial Regulations	To review and update the Financial Regulations	Decision	Nigel Stevenson	Glen Bicknell
External Audit – Annual Audit Letter 2014/15	KPMG summarises the findings from work carried out by the external auditors over the last financial year (2014/15)	Information	Nigel Stevenson	Glen Bicknell / External Auditor
Briefing – Procurement	Information given to Members to help them understand the Audit process	Information	Clare Winter	Clare Winter
<b>16 March 2016</b>				
Statement of Accounts 2015/16 – Accounting Policies	To outline proposed changes to the accounting policies used for the Authority's Statement of Accounts for 2015/16 for review and approval	Decision	Nigel Stevenson	Glen Bicknell
Internal Audit Plan for 2016/17	Report from the Head of Internal Audit providing details of the planned work for 2015/16	Information	John Bailey	John Bailey
External Audit Plan 2015/16	To provide information on the External Auditors' Audit Plan for their 2015/16 Audit.	Information	Nigel Stevenson	Glen Bicknell / External Auditor
Certification of Grants and Returns 2014/15	To provide information on the External Auditors' Annual Report 2014/15 on the certification of Grants and Returns	Information	Nigel Stevenson	Glen Bicknell / External Auditor
Briefing – Subject TBA	Information given to Members to help them understand the Audit process	Information	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>
<b>8 June 2016</b>				
Annual External Audit Fees	To inform Members of proposed external audit fees for 2016/17	Information	Nigel Stevenson	Glen Bicknell / External Auditor
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	Nigel Stevenson
Internal Audit Report 2015/16	Report of the Head of Internal Audit providing an internal audit opinion on the Authority's level of internal control during 2015/16	Information	John Bailey	John Bailey
Financial Regulations Waivers 2015/16	Inform Members of any braches of / and waivers of the Council's Financial Regulations	Information	Clare Winter	Clare Winter
Draft Annual Governance Statement 2015/16	Review and comment on the draft Annual Governance Statement prior to being forwarded on to Full Council to accompany the Statement of Accounts	Decision	John Bailey	John Bailey
Briefing – Subject TBA	Information given to Members to help them understand the Audit process	Information	John Bailey	John Bailey
<b>?? September 2016</b>				
External Audit Annual Governance Reports	To receive for information, and comment, the External Auditor's Annual Governance Reports on the County Council and Pension Fund, prior to these being forwarded to Full Council for approval	Information	Nigel Stevenson	Glen Bicknell / External Auditor
Review of Financial Regulations	To review and update the Financial Regulations	Decision	Nigel Stevenson	Glen Bicknell
Briefing – Subject TBA	Information given to Members to help them understand the Audit process	Information	John Bailey	John Bailey