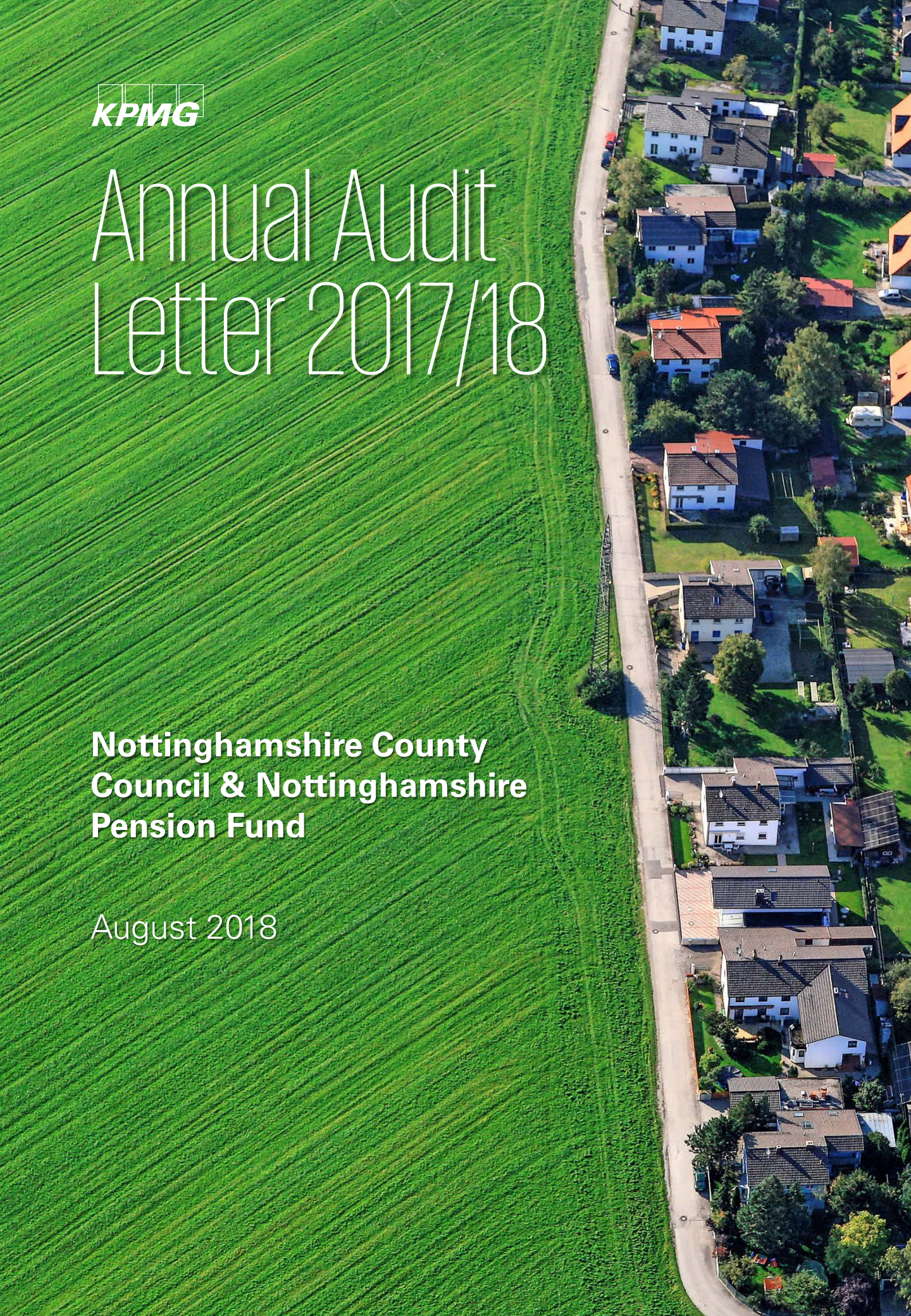




# Annual Audit Letter 2017/18

**Nottinghamshire County  
Council & Nottinghamshire  
Pension Fund**

August 2018



A group of business professionals in a meeting, looking at documents. The image is a close-up, slightly blurred, showing several people in business attire. A woman with dark hair is on the left, looking down. A man with grey hair is in the center, also looking down. Another woman is on the right, partially visible. They appear to be in a meeting or conference room, looking at documents or a screen. The overall tone is professional and focused.

**Section one**

# Summary for Governance and Ethics Committee

## Section one:

# Summary for Governance and Ethics Committee

This Annual Audit Letter summarises the outcome from our audit work at Nottinghamshire County Council ('the Authority') and Nottinghamshire Pension Fund in relation to the 2017/18 audit year.

Although it is addressed to Members of the Authority, it is also intended to communicate these key messages to external stakeholders, including members of the public, and will be placed on the Authority's website.

This is KPMG's last Annual Audit Letter to the Authority. We would like to take this opportunity to thank the Authority's officers and the members of the Governance and Ethics Committee (and previously the Audit Committee) for their support throughout the six years of our audit appointment.

## Audit opinion

We issued an unqualified opinion on the Authority's financial statements on 30 July 2018. This means that we believe the financial statements give a true and fair view of the financial position of the Authority and of its expenditure and income for the year.

## Financial statements audit

Our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole. Materiality for the Authority's accounts was set at £18.6 million which equates to 1.6 percent of gross expenditure. We design our procedures to detect errors in specific accounts at a lower level of precision. Materiality for the Pension Fund was set at £50 million which equates to just under one percent of total assets.

We consider that the overall process for the preparation of your financial statements is good. Our audit timetable was moved forward to accommodate the faster close, the Authority produced working papers and a first draft of the accounts on 30 May 2018 within the statutory deadline of 31 May 2018.

We report to the Governance and Ethics Committee any misstatements of lesser amounts, other than those that are "clearly trivial", to the extent that these are identified by our audit work. In the context of the Authority, an individual difference is considered to be clearly trivial if it is less than £0.93 million for the Authority (£2.5 million for the Pension Fund).

Our audit work was designed to specifically address the following significant risks:

- **Management Override of Controls** – our audit methodology incorporates the risk of management override as a default significant risk. We did not identify any specific additional risks of management override relating to the audit.
- **Valuation of PPE** – The Authority operates a cyclical revaluation approach, and the Authority is required to ensure that land and buildings are held at fair value unless specified otherwise. We considered the way in which the Authority ensures that assets not subject to in-year revaluation are not materially misstated. We also reviewed the instructions and source of the information provided to, and used by, the valuer to inform the Authority's valuation

# Summary for Governance and Ethics Committee

## Financial statements audit (cont.)

- **Pensions Liabilities** – The valuation of the Authority’s pension liability, as calculated by the Actuary, is dependent upon both the accuracy and completeness of the data provided and the assumptions adopted. We reviewed the processes in place to ensure accuracy of data provided to the Actuary and considered the assumptions used in determining the valuation.

We did not identify any evidence of material misstatement as a result of our audit work on these significant risk areas.

## Other information accompanying the financial statements

Whilst not explicitly covered by our audit opinion, we review other information that accompanies the financial statements to consider its material consistency with the audited accounts. This year we reviewed the Annual Governance Statement and Narrative Report. We concluded that they were consistent with our understanding and did not identify any significant issues.

## Pension fund audit

There were no significant issues arising from our audit of the pension fund and we issued an unqualified opinion on the pension fund financial statements as part of our audit report. Our audit work was designed to specifically address the following significant risk relating to the pension fund:

- **Valuation of hard to price investments** - The Pension Fund invests in a range of assets and funds, some of which are inherently harder to value due to there being no publicly available quoted prices. We have verified a sample of investments to third party information and confirmations.

## Whole of Government Accounts

We have reviewed the consolidation pack which the Authority has prepared to support the production of Whole of Government Accounts by HM Treasury and have confirmed to the National Audit Office that we have no matters to report.

## Value for Money conclusion

We issued an unqualified conclusion on the Authority’s arrangements to secure value for money (VFM conclusion) for 2017/18 on 30 July 2018. This means we are satisfied that during the year the Authority had appropriate arrangements for securing economy, efficiency and effectiveness in the use of its resources. To arrive at our conclusion we looked at the Authority’s arrangements to make informed decisions, undertake sustainable resource deployment and work with partners and third parties.

## Value for Money risk areas

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

- **Medium Term Financial Planning** – The Authority continues to face similar financial pressures and uncertainties to those experienced by others in the local government sector. For 2017/18, the Authority has a balanced budget, but the updated Medium Term Financial Strategy (MTFS) 2018/19 to 2021/22 identifies a gap of £54.7m as a result of increasing cost pressures and reductions in grant funding.

We have reviewed the arrangements the Authority has in place to ensure financial resilience. We were satisfied that there were adequate arrangements in place during 2017/18 and there were no significant matters relating to these risk areas which prevented us from giving an unqualified VFM conclusion.

## Section one:

# Summary for Governance and Ethics Committee

## High risk recommendations

We followed up the high risk recommendation that we made last year in relation to the IT controls over the SAP system. We found that considerable improvements have been made. We have made additional, lower level recommendations in this year's ISA 260 report that are designed to further enhance that control environment.

We did not issue any high risk recommendations this year.

## Certificate

We cannot formally conclude the audit and issue an audit certificate until we have completed our review of the outstanding objection to the 2015/16 statement of accounts, and also reviewed the Pension Fund annual report for consistency with the pension fund accounts. We are satisfied that these matters do not have a material effect on the financial statements or on our value for money conclusion.

## Audit fee

The scale fee set by Public Sector Audit Appointments Limited (PSAA) for the 2017/18 audit is £98,213 plus VAT. The PSAA scale fee for 2016/17 was £98,213 plus VAT. There were no matters that required additional fee in relation to 2017/18.

Our fee for the audit of the Pension Fund is £29,926 plus VAT (2016/17: £33,442 plus VAT).

There were no matters that required additional fee in relation to 2017/18.

Further detail is contained in Appendix 2.

## Exercising of audit powers

We have a duty to consider whether to issue a report in the public interest about something we believe the Authority should consider, or if the public should know about.

We have not identified any matters in relation to 2017/18 that would require us to issue a public interest report.

In addition, we have not had to exercise any other audit powers under the Local Audit & Accountability Act 2014.

# Appendices



## Appendix 1:

# Summary of reports issued

This appendix summarises the reports we issued since our last Annual Audit Letter.

### External Audit Plan

The External Audit Plan set out our approach to the audit of the Authority's financial statements and to support the VFM conclusion.

### Report to Those Charged with Governance

The Report to Those Charged with Governance summarised the results of our audit work for 2017/18 including key issues and recommendations raised as a result of our observations.

We also provided the mandatory declarations required under auditing standards as part of this report.

### Auditor's Report

The Auditor's Report included our audit opinion on the financial statements along with our VFM conclusion.

### Annual Audit Letter

This Annual Audit Letter provides a summary of the results of our audit for 2017/18.

2018

January

February

March

April

May

June

July

August

September

October

## Appendix 2:

# Audit fees

This appendix provides information on our final fees for the 2017/18 audit.

### External audit

The scale fee set by Public Sector Audit Appointments Limited (PSAA) for the 2017/18 audit is £98,213 plus VAT. The PSAA scale fee for 2016/17 was £98,213 plus VAT and we agreed an additional 2016/17 fee of £3,978 plus VAT in relation to additional work on IT controls, revision of the minimum revenue provision and discussion on group accounts. Our fee for the audit of the Pension Fund is £29,926 plus VAT (2016/17: £29,926 plus VAT, plus additional fee of £3,516 plus VAT in relation to the triennial valuation).

### Other services

We charged £3,000 for the independent assurance report on the Teachers' Pensions Return, £4,500 for Funding Assurance work relating to providing a Subcontractor Compliance certification as required by the Skills Funding Agency and £3,000 for the Local Transport Plan Major Projects return. All related to 2016/17 but were performed in 2017/18. These were not related to our responsibilities under the Code of Audit Practice and were agreed through separate Engagement Letters.





The key contacts in relation to our audit are:

**Tony Crawley**

Director

T: 07966184819

E: [tony.crawley@kpmg.co.uk](mailto:tony.crawley@kpmg.co.uk)

**Sayeed Haris**

Senior Manager

T: 07920 191951

E: [Sayeed.haris@kpmg.co.uk](mailto:Sayeed.haris@kpmg.co.uk)

[kpmg.com/uk](http://kpmg.com/uk)



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. We draw your attention to the Statement of Responsibilities of auditors and audited bodies, 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, Andrew Sayers, by email to [Andrew.Sayers@kpmg.co.uk](mailto:Andrew.Sayers@kpmg.co.uk). After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing [generalenquiries@psaa.co.uk](mailto:generalenquiries@psaa.co.uk) by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3HZ.

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