Report to those charged with governance (ISA 260) 2012/13

Nottingham City Council

September 2013

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This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. The Audit Commission has issued a document entitled *Statement of Responsibilities of Auditors and Audited Bodies*. This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. We draw your attention to this document which is available on the Audit Commission's website at www.auditcommission.gov.uk.

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

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

Introduction

This report summarises:

- **the key issues identified during our audit of Nottingham City Council's (the Authority's) financial statements for the year ended 31 March 2013; and**
- **our assessment of the Authority's arrangements to secure value for money (VFM) in its use of resources.**

Financial statements

Our *External Audit Plan 2012/13* presented to you in February 2013 set out the four stages of our financial statements audit process.

Planning → Control Evaluation → Substantive Procedures → Completion

This report focuses on the second and third stages of the process: control evaluation and substantive procedures. Our on site work for these took place in two tranches during March 2013 (interim audit) and July 2013 (year end audit). We carried out the following work:

Control Evaluation	■ Evaluate and test selected controls over key financial systems ■ Review internal audit function ■ Review accounts production process ■ Review progress on critical accounting matters
Substantive Procedures	■ Planning and performing substantive audit procedures. ■ Concluding on critical accounting matters. ■ Identifying audit adjustments. ■ Reviewing the Annual Governance Statement.

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

Completion	■ Declaring our independence and objectivity. ■ Obtaining management representations. ■ Reporting matters of governance interest. ■ Forming our audit opinion.

VFM conclusion

Our *External Audit Plan 2012/13* explained our risk-based approach to VFM work, which follows guidance provided by the Audit Commission. We have completed our work to support our 2012/13 VFM conclusion. This included:

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

Structure of this report

This report is structured as follows:

- Section 2 summarises the headline messages.
- Section 3 sets out the key findings from our audit work in relation to the 2012/13 financial statements.
- Section 4 outlines the key findings from our work on the VFM conclusion.

Our recommendations are included in Appendix 1.

Acknowledgements

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

Headlines

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

Proposed audit opinion	We anticipate issuing an unqualified audit opinion by 30 September 2013. We will also report that the wording of your Annual Governance Statement accords with our understanding.
Audit adjustments	We are pleased to report that our audit of your financial statements did not identify any material adjustments. The Authority made a small number of non-trivial adjustments, most of which were of a presentational nature. There was no impact on the General Fund. For completeness, we have included a list of all non-trivial audit differences in Appendix 2. The Council have agreed that all of these will be adjusted. We have raised a number of recommendations arising from our work, which are summarised in Appendix 1.
Accounts production and audit process	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. We have worked with Officers throughout the year to discuss the specific risk areas for this year's audit. Appendix 3 summarises the issues along with our findings. Overall we have concluded that the Authority has addressed the issues appropriately.
Control environment	The Authority's organisation and IT control environment is effective, and controls over the key financial systems are generally sound. We are satisfied that internal audit are aware of and working towards being fully compliant with the new United Kingdom Public Sector Internal Audit Standards which are effective from April 2013. We have used their work to inform our assessment of the Authority's control environment and risks relevant to our work.
Completion	At the date of this report our audit of the financial statements is substantially complete. Before we can issue our opinion we require a signed management representation letter. We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.
VFM conclusion	We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources. We therefore anticipate issuing an unqualified VFM conclusion by 30 September 2013.

Proposed opinion and audit differences

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

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

Proposed audit opinion

Subject to all outstanding queries being resolved to our satisfaction, we anticipate issuing an unqualified audit opinion by 30 September 2013.

Audit differences

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

We did not identify any material misstatements.

Our audit identified a total of four audit differences, which we set out in Appendix 2. It is our understanding that these will be adjusted in the final version of the financial statements.

There is no net 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 the United Kingdom 2012/13 (‘the Code’)*. We understand that the Authority will be addressing these where significant.

Annual Governance Statement

We have reviewed the Annual Governance Statement and confirmed that:

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

Accounts production and audit process

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 could be completed within the planned timescales.

Accounts production and audit process

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

We considered the following criteria:

Element	Commentary
Accounting practices and financial reporting	The Authority has good financial reporting arrangements in place. We consider that accounting practices are appropriate.
Completeness of draft accounts	We received a complete set of draft accounts on 28 June 2013.
Quality of supporting working papers	Our *Accounts Audit Protocol*, which we issued in January and discussed with Barry Dryden (Senior Finance Manager), set out our working paper requirements for the audit. The quality of working papers provided met the standards specified in our *Accounts Audit Protocol*.
Critical accounting matters (key audit risks)	We have discussed with officers throughout the year the areas of specific audit risk and undertaken specific audit procedures. Appendix 3 sets out our findings on each matter. There are no matters to draw to your attention.
Response to audit queries	Officers resolved the majority of audit queries in a reasonable time.
Group audit	To gain assurance over the Authority's group accounts, we reviewed the consolidation process and the audited financial statements of all subsidiaries. There are no specific matters to report pertaining to the group audit. However, we have not yet received audited accounts for all of the group entities and we have made a recommendation related to the timing of the audit of group entities.

Prior year recommendations

The previous auditor made no recommendations in last years ISA 260 report.

Control environment

The Authority's organisation and IT control environment is effective, and controls over the key financial systems are generally sound.

We are satisfied that internal audit are aware of and working towards being fully compliant with the new United Kingdom Public Sector Internal Audit Standards which are effective from April 2013.

During March 2013 we completed our control evaluation work. We did not issue an interim report as there were no significant issues arising from this work. For completeness we reflect on key findings from this work.

Organisational and IT control environment

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

The Authority also relies on information technology (IT) to support both financial reporting and internal control processes. In order to satisfy ourselves that we can rely on the use of IT, we test controls over access to systems and data, system changes, system development and computer operations.

We found that your organisational and IT control environment is effective overall. However, we identified that the operation of system access and revocation controls for the Authority's Housing Benefits (Northgate) and Payroll (Delphi) systems did not in some cases operate as intended. We have made a recommendation to address this in Appendix 1.

Review of Internal Audit

We work with your internal auditors to assess the control framework for certain key financial systems and seek to rely on any relevant work they have completed to minimise unnecessary duplication of work.

Where we intend to rely on internal audit's work in respect of the Authority's key financial systems, auditing standards require us to complete an overall assessment of the internal audit function and to evaluate and test aspects of their work.

We have reviewed internal audit's reports throughout the year to inform ourselves of any significant risks in relation to our opinion work. However, there have been no specific instances during the course of the year where we have sought to rely on the work of internal audit.

Since April 2013, the United Kingdom Public Sector Internal Audit Standards (PSIAS) apply across the whole of the public sector, including local government. These standards are intended to promote further improvement in the professionalism, quality, consistency and effectiveness of internal audit across the public sector.

Internal Audit has reviewed these standards to assess where it already meets the PSIAS and those areas where work is needed to ensure full compliance. An action plan to define the work required is in place and being implemented. This includes a proposed revision of internal audit's terms of reference (Charter) to be considered by the Audit Committee in September 2013.

Controls over key financial systems

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

Based on the work of your internal auditors, and our own work on controls over the year end process, the controls over the financial systems are generally sound. However, your previous auditor reported control weaknesses over the Authority's accounts payable and payroll systems. These weaknesses continued in 2012/13 requiring us to performed additional audit procedures to gain sufficient assurance in these areas. This work is summarised in Appendix 3. The Authority has introduced new financial systems (Oracle) from 1 April 2013 which it considers will address these weaknesses.

Completion

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 Nottingham City Council for the year ending 31 March 2013, we confirm that there were no relationships between KPMG LLP and Nottingham City Council, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Audit Commission's requirements in relation to independence and objectivity.

We have provided a detailed declaration in Appendix 4 in accordance with ISA 260.

Management representations

You are required to provide us with representations on specific matters such as your financial standing and whether the transactions within the accounts are legal and unaffected by fraud. We have provided a template to the Chief Financial Officer, a draft of which is reproduced in Appendix 5. 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' .

There are no others matters which we wish to draw to your attention in addition to those highlighted in this report relating to the audit of the Authority's 2012/13 financial statements.

VFM conclusion

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. Our approach was set out in more detail in our *External Audit Plan 2012/13*.

Risk assessment

Our initial risk assessment identified the following key business risk which is also relevant to our VFM conclusion:

- Delivery of future savings in a way that secures longer term financial and operational sustainability. Our *External Audit Plan 2012/13* noted that the authority needs to achieve £16.7 million of savings during 2013/14 .with the annual savings requirement increasing to £20.5 million by 2015/16 to address the further reductions to local authority funding. This is against a backdrop of continued demand pressures in Adult Social Care and Children's Services.

Appendix 3 summarises our assessment of this risk.

We are satisfied that, sufficient work in relation to this risk had been carried out by the Authority, to mitigate the audit risks for our VFM conclusion. We concluded that we did not need to carry out any specific additional work ourselves.

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.

We will formally follow up these recommendations next year.

Priority rating for recommendations		
❶ ***Priority one***: issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.	❷ ***Priority two***: issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.	❸ ***Priority three***: issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.

No.	Risk	Issue and recommendation	Management response / responsible officer / due date
1	❷	**IT access (revenue and benefits system)** Issue Procedures for the prompt revocation of user access to the Northgate system do not operate properly. We found that reporting of leavers having Northgate access rights to the IT systems team was inconsistent. Reliance is placed on a review of inactive users every 45 days to flag leavers. Recommendation Improve procedures for the revocation of user access rights to the Northgate system. Ensure that system access revocation is activated promptly and is linked to HR processes for leavers and where individuals change jobs within the Authority.	Response To complement the existing Corporate IT parameter that highlights user inactivity after 45 days, the service will also remind team leaders of the approach that needs to be taken for staff leaving the authority. Team leaders will be reminded to notify both IT and HR as soon as it is known a person is leaving. This activity will complement the existing process of capturing any users hitting the 45-day parameter by running Northgate report NCC 850. This two-pronged approach will reduce the time taken from users leaving to the revocation of their system access. IT will work towards a workable and sustainable solution with HR to link in to their processes in the long term. Officer Responsible: Ian Roper, Revenues and Benefits Business Support Manager Due date: End of October 2013

Appendix 1: Key issues and recommendations

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No.	Risk	Issue and recommendation	Management response / responsible officer / due date
2	❷	**IT access (payroll system)** Issue Procedures for setting up user access to the Delphi system did not operate properly. Our controls testing found the audit trail was incomplete for three employees given access to the Delphi system during the year. Recommendation Ensure new user forms are completed and retained when assigning user access rights to the Delphi system.	Response The recent acquisition of a new Finance and HR ERP System has led to a review of the process for access to information. All access rights are agreed as part of service redesign processes and as part of the transition all NCC employees have newly created access rights which are maintained on a system known as “Shuffle” by the Systems Administration and Development Team. This will therefore ensure that we are able to monitor and control access and user rights systematically. Delphi will be maintained as a Read Only basis for historical data/information and so employees will not have access to this system going forward. Officer Responsible: - Due date: -

Appendix 1: Key issues and recommendations

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

We will formally follow up these recommendations next year.

Priority rating for recommendations		
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No.	Risk	Issue and recommendation	Management response / responsible officer / due date
3	❷	**Group statements** Issue As at 17 September signed audited accounts have yet to be received for: • Arrow Light Rail (expected 24 September – no requirement for audit) • Enviroenergy (not expected until October) • Bridge Estate (expected 27 September) Whilst individually none of the group entities are classed as significant components, some consolidated entries within the group accounts are material. As a consequence we do need assurance that the figures contained within the group accounts are materially accurate. Receipt of signed audited accounts provides the necessary evidence to support this. Recommendation The City Council should work with each group entity to ensure that the audit of their financial statements is timed to enable signed audited statements to be available by mid September at the latest.	Response Timings for the signed audited accounts for our group members is negotiated with the organisations involved and their external auditors, which are not KPMG. For the 2012/13 accounts all group members were requested to provide signed audited accounts by 16 August 2013. All audited group accounts were received by NCC by 17 September 2013, in advance of NCC Audit Committee's consideration of our own accounts. Five of the six consolidated group accounts will have been considered by their respective boards by 27 September 2013. The final one will take place on 19 October 2013. The timeliness of signed accounts will be discussed again with group organisations with a view to providing signed accounts earlier where appropriate. Specifically the Trusts and Charities Committee will be asked to bring forward the September 2014 meeting to earlier in the month. Officer Responsible: Barry Dryden, Senior Finance Manager Due date: June 2014

Appendix 2: Audit differences

This appendix sets out the significant/ non-trivial audit differences.

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

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

Corrected audit differences

The following table sets out the significant audit differences identified by our audit of Nottingham City Council's financial statements for the year ended 31 March 2013. It is our understanding that these will be adjusted. However, we have not yet received a revised set of financial statements to confirm this.

	Impact					
No.	Income and Expenditure Statement	Movement in Reserves Statement	Assets	Liabilities	Reserves	Basis of audit difference
1	Dr Other Operating Expenditure £2.908m Cr Transfer of School Buildings to Academies £2.908m					The 'Transfer of school buildings to academies' entry in the CIES should be £23.665m. One School was incorrectly derecognised but the subsequent reversal , totalling (£2.908m), has been accounted for against 'Other Operating Expenditure - Gains/Losses on the disposal of non-current assets' entry in the CIES rather than against the 'Transfer of school buildings to academies'.
2				Dr Short term provisions £4.319m Cr Long term provisions £4.319m		Provision for the implementation of single status for non teaching staff in schools was classified as long term. Provision should have been treated as short term. All payments related to this provision made in 2013/14 as intended .
	£0	**£0**	**£0**	**£0**	**£0**	**Total impact of adjustments**

Appendix 2: Audit differences (continued)

This appendix sets out the significant/ non-trivial audit differences.

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

No.	Impact: Income and Expenditure Statement	Impact: Movement in Reserves Statement	Impact: Assets	Impact: Liabilities	Impact: Reserves	Basis of audit difference
3	No impact on 2012-13 disclosure					Agreement of the statements to prior year comparatives identified a prior year error that has been corrected by the Authority. The group surplus on provision of services at Note 8.4.4 was stated at(£410.193m) for 2011/12 and did not agree to the prior year statements entry of (£401.263m). The variance noted is £8.930m Officers have confirmed that the entry in the current period statements is correct and the prior year figure was incorrectly put together from the individual group statements without accounting for intra-group transactions.
4	Disclosure issue only					Inconsistent disclosure has been identified at Notes 6.3.1 and 6.2.13(c) in relation to REFCUS funded by capital grants totalling £9.876m. At note 6.3.1 REFCUS has been netted by the total funded by grants. Note 6.2.13(c) shows nil capital grants funded by REFCUS and this has instead been included within the capital grants applied total. Disclosure at 6.2.13(c) requires amendment.
	£0	**£0**	**£0**	**£0**	**£0**	**Total impact of adjustments**

Appendix 3: Key risk areas

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

In our *External Audit Plan 2012/13*, presented to you in February, we identified the key risks affecting the Authority's 2012/13 financial statements.

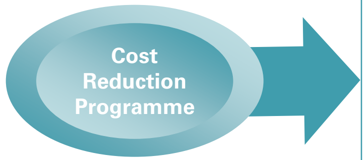
We have now completed our testing of these areas and set out our evaluation following our substantive work.

The table below sets out our detailed findings for each risk.

Key audit risk	Issue	Findings
PFI Accounting (NET2)	Implementation of the new PFI scheme for expansion of the Nottingham tram network (NET 2) will lead to transactions and balances linked to this expansion being recognised on the Authority's financial statements this year. Since these are large and complex, the Authority will need to assure itself that these transactions and balances meet the requirements of relevant accounting standards and secure VFM.	We have reviewed the Authority's IFRIC 12 assessment for this scheme and tested the associated transactions and balances as part of our opinion audit. We found that the Authority has complied with relevant accounting standards and made appropriate disclosure of transactions within the financial statements.
Weakness in Controls	Last year, your previous auditor flagged specific payroll and accounts payable risks . These risks remain this year. **Payroll** Existence controls in this area remain weak as the Authority does not have an establishment list. The Authority needs to put a list in place and has plans in place to do so. These are dependent on new payroll and HR systems linked to the introduction of its new shared service arrangements. These will not be in place until 2013/14. **Accounts Payable** New accounts payable arrangements introduced in 2009 led to weaker controls in this area. Although the Authority has made good progress to address these some weaknesses remain. The Authority will need to assure itself that these weaknesses are fully addressed by implementing its new ledger system (Oracle) in 2013/14.	**Payroll** We have reviewed the work carried out by the Authority during 2012/13 to validate its payroll records and found that appropriate compensating controls were in place. **Accounts Payable** We assessed the design and operation of controls in place during the year and concluded that further substantive work was required to provide sufficient assurance for the opinion . We were able to place reliance on additional substantive testing undertaken by the Authority's officers and no additional fee was charged.

Appendix 3: Key risk areas

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

Key audit risk	Issue	Findings
	The Authority currently estimates that it will need to deliver £16.7 million in savings during 2013/14 to address further reductions to local authority funding and continued cost pressures. The Authority will need to establish and manage its savings plans to secure longer term financial and operational sustainability.	Our VFM conclusion work assessed the arrangements the Authority has in place to secure financial resilience in future years. We reviewed the Authority 's Medium Term Financial Plan (MTFP) 2013/14 – 2015/16 and associated savings plans. The MTFP shows a balanced budget for 2013/14 but contains nearly £19m of planned cost reductions/ savings for 2013/14. Specific 'Strategic Choice' and 'Big Ticket' savings schemes have been developed across individual portfolio areas to deliver this and these are being rigorously monitored. Looking ahead, the financial outlook remains challenging with funding gaps of over £22m for 2014/15 and £43m for 2015/16 still to be addressed. The Authority recognises that it must continue to develop, implement and monitor savings plans.

Appendix 4: Declaration of independence and objectivity

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

Requirements

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

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

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code, the detailed provisions of the Statement of Independence included within the Audit Commission's Standing guidance for local government auditors (Audit Commission Guidance) and the requirements of APB Ethical Standard 1 *Integrity, Objectivity and Independence* (Ethical Standards).

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

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

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

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

Appendix 4: Declaration of independence and objectivity (continued)

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.

Auditor declaration

In relation to the audit of the financial statements of Nottingham City Council for the financial year ending 31 March 2013, we confirm that there were no relationships between KPMG LLP and Nottingham City Council, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Audit Commission's requirements in relation to independence and objectivity.

Appendix 5: Draft management representation letter

We ask you to provide us with representations on specific matters such as whether the transactions within the accounts are legal and unaffected by fraud.

The wording for these representations is prescribed by auditing standards.

We require a signed copy of your management representations before we issue our audit opinion.

Dear Sirs

This representation letter is provided in connection with your audit of the financial statements of Nottingham City Council ("the Authority") for the year ended 31 March 2013, 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 and the Group as at 31 March 2013 and of the Authority's and the Group's expenditure and income for the year then ended; and

ii. 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 2012/13

These financial statements comprise the Authority and Group Movement in Reserves Statements, the Authority and Group Comprehensive Income and Expenditure Statements, the Authority and Group Balance Sheets, the Authority and Group Cash Flow Statements, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and the Collection Fund 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 and the Group as at 31 March 2013 and of the Authority's and the Group's expenditure and income for the year then ended; and
   - have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

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

2. Measurement methods and significant assumptions used by the Authority in making accounting estimates, including those measured at fair value, are reasonable.

3. All events subsequent to the date of the financial statements and for which the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 requires adjustment or disclosure have been adjusted or disclosed.

Information provided

4. 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 and Group from whom you determined it necessary to obtain audit evidence.

5. All transactions have been recorded in the accounting records and are reflected in the financial statements. [

6. The Authority acknowledges its responsibility for such internal control as it determines necessary for the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In particular, the Authority acknowledges its responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

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

Appendix 5: Draft management representation letter

We ask you to provide us with representations on specific matters such as whether the transactions within the accounts are legal and unaffected by fraud.

The wording for these representations is prescribed by auditing standards.

We require a signed copy of your management representations before we issue our audit opinion.

7. 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 the Group 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.
8. The Authority has disclosed to you all known instances of non-compliance or suspected non-compliance 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 2012/13 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 the identity of the Authority's and the Group's related parties and all the related party relationships and transactions of which it is aware and all related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

    Included in the Appendix to this letter are the definitions of both a related party and a related party transaction as the Authority understands them and as defined in IAS 24, except where interpretations or adaptations to fit the public sector are detailed in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

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

   The Authority further confirms that:

   a) all significant retirement benefits, including any arrangements that:
      - are statutory, contractual or implicit in the employer's actions;
      - arise in the UK and the Republic of Ireland or overseas;
      - are funded or unfunded; and
      - are approved or unapproved,

   have been identified and properly accounted for; and

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

This letter was tabled and agreed at the meeting of the Audit Committee on 27 September 2013.

Yours faithfully,

Chair of the Audit Committee

Chief Financial Officer

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