

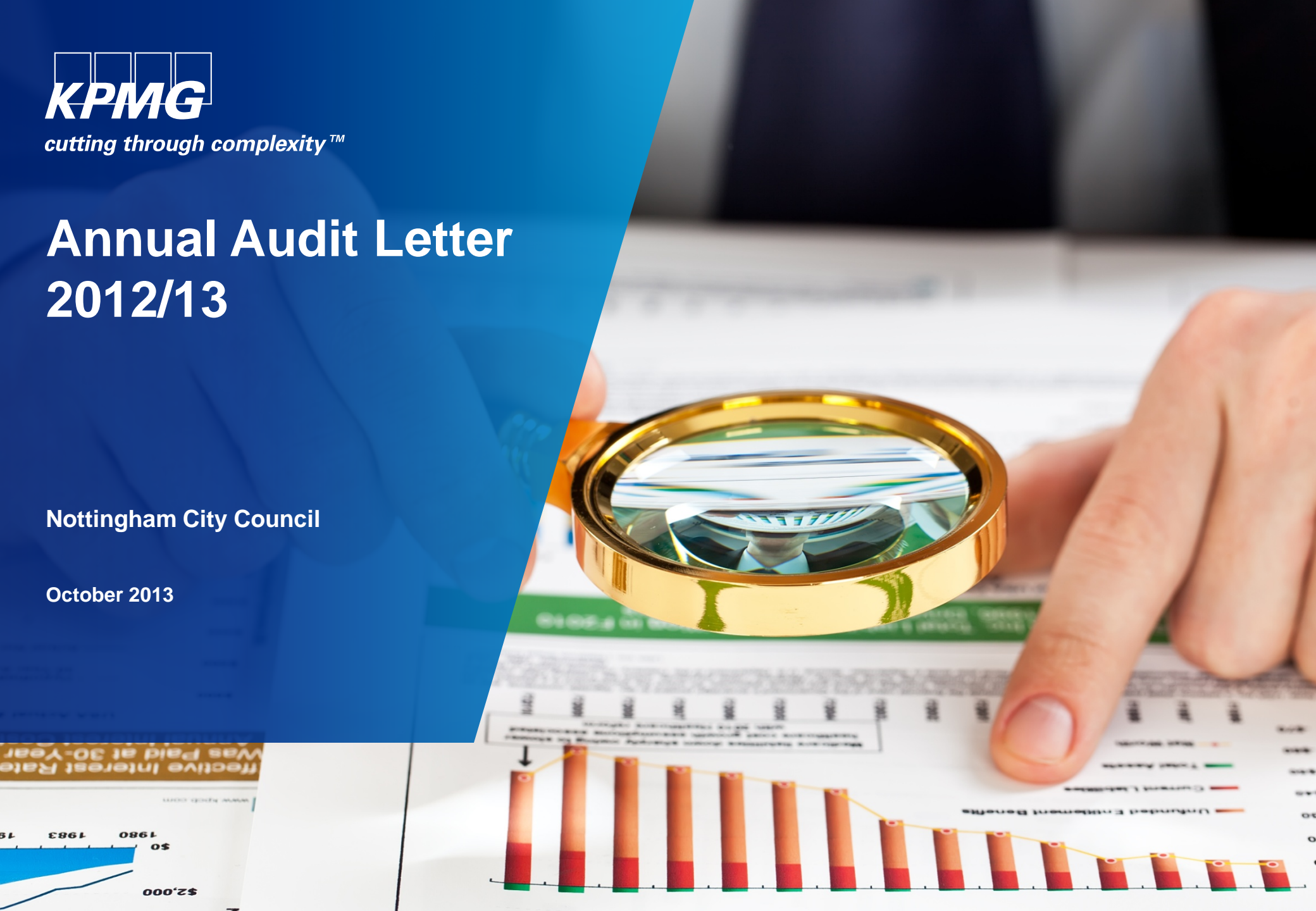


cutting through complexity™

# Annual Audit Letter 2012/13

Nottingham City Council

October 2013



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

**Sue Sunderland**

*Director*

*KPMG LLP (UK)*

Tel: 0115 945 4490

sue.sunderland@kpmg.co.uk

**Paul Hutchings**

*Manager*

*KPMG LLP (UK)*

Tel: 0115 945 4472

paul.hutchings@kpmg.co.uk

**Maria Riley**

*Assistant Manager*

*KPMG LLP (UK)*

Tel: 0115 935 3433

maria.riley@kpmg.co.uk

## Report sections

- Headlines

Page

2

## Appendices

1. Summary of reports issued
2. Audit fee

5

6

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](http://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](mailto: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, 3<sup>rd</sup> Floor, Fry Building, 2 Marsham Street, London, SW1P 4DF or by email to [complaints@audit-commission.gsi.gov.uk](mailto:complaints@audit-commission.gsi.gov.uk). Their telephone number is 03034448330.

This report summarises the key findings from our 2012/13 audit of Nottingham City Council (the Authority).

Although this letter is addressed to the Members of the Authority, it is also intended to communicate these issues to key external stakeholders, including members of the public.

Our audit covers the audit of the Authority's 2012/13 financial statements and the 2012/13 VFM conclusion.

<p><b>VFM conclusion</b></p>	<p>We issued an unqualified value for money (VFM) conclusion for 2012/13 on 27 September 2013.</p> <p>This means we are satisfied that you have proper arrangements for securing financial resilience and challenging how you secure economy, efficiency and effectiveness.</p> <p>To arrive at our conclusion we looked at your financial governance, financial planning and financial control processes, as well as how you are prioritising resources and improving efficiency and productivity.</p>
<p><b>VFM risk areas</b></p>	<p>We identified only one significant risk to our VFM conclusion linked to your continuing need to reduce costs and make savings. We have considered the arrangements you have put in place to mitigate this and concluded that:</p> <ul style="list-style-type: none"> <li>■ Although the Authority has a balanced budget for 2013/14 this requires nearly £19m of planned cost reductions/savings to be made. Specific savings schemes have been developed across individual portfolio areas to meet this target and these schemes are being rigorously monitored.</li> <li>■ 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.</li> </ul>
<p><b>Audit opinion</b></p>	<p>We issued an unqualified opinion on your financial statements on 27 September 2013. 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.</p> <p>The financial statements also include those of the Authority's Group, which consists of the Authority itself and the following organisations: Arrow Light Rail Limited, Bridge Estate Trust, EnviroEnergy Limited, Nottingham City Homes Limited, Nottingham City Transport Limited, Nottingham Ice Centre Limited and Nottingham &amp; Nottinghamshire Futures Limited.</p>
<p><b>Financial statements audit</b></p>	<p>The Authority has good processes in place for the production of the financial statements and good quality supporting working papers. Officers dealt efficiently with audit queries and the audit process has been completed within the planned timescales.</p> <p>We found two significant classification errors. Although these affected the Comprehensive Income and Expenditure Statement and Balance Sheet, these errors were not material and the Authority adjusted its statements. These errors had no impact on the Authority's overall expenditure on services or general fund reserves.</p> <p>Completion of our audit of the Authority's Group statements was later than expected. In one instance, audited financial statements for one group company were not available until October 2013. Management has agreed to work closely with group companies in future to bring forward the timing of these audits.</p>

We provide a summary of our key recommendations in Appendix 1.

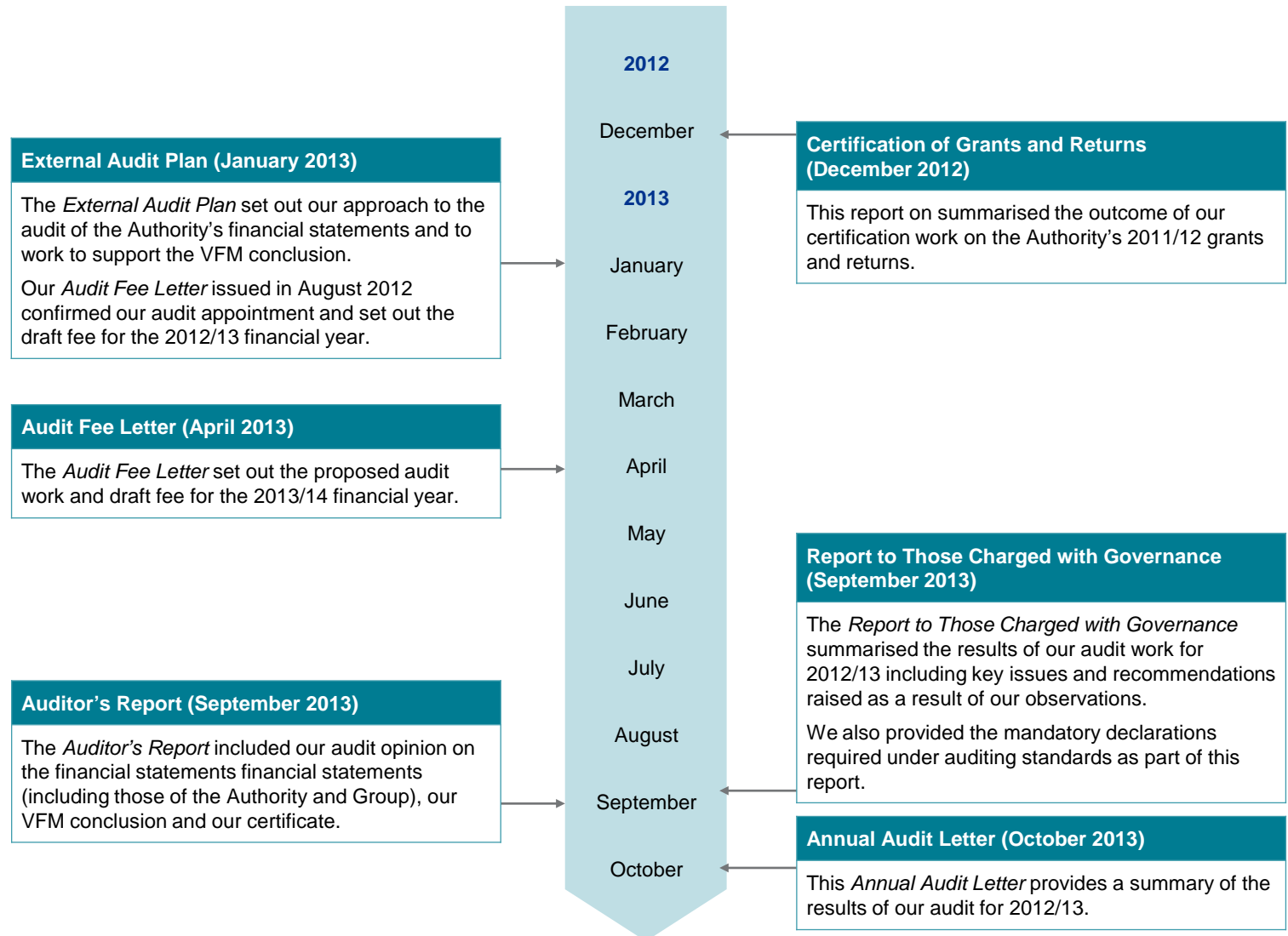
All the issues in this letter have been previously reported. The detailed findings are contained in the reports we have listed in Appendix 2.

<p><b>Financial statement risk areas</b></p>	<p>We identified two significant risk areas at the planning stage linked to the audit of the financial statements. Our audit tested and evaluated the impact of these risks and we concluded that:</p> <ul style="list-style-type: none"> <li>■ Accounting implications of the PFI tram extension NET2 - we found that the Authority has complied with relevant accounting standards and made appropriate disclosure of transactions within the financial statements.</li> <li>■ Continuing control weaknesses linked to payroll and accounts payable: <ul style="list-style-type: none"> <li>■ Payroll – we found that appropriate compensating controls were in place.</li> <li>■ Accounts payable - we were able to place reliance on additional substantive testing undertaken by the Authority’s officers and no additional fee was charged.</li> <li>■ The new shared service arrangement and associated system changes should permanently resolve these issues in 2013/14.</li> </ul> </li> </ul>
<p><b>Annual Governance Statement</b></p>	<p>We reviewed your <i>Annual Governance Statement</i> and concluded that it was consistent with our understanding.</p>
<p><b>Whole of Government Accounts</b></p>	<p>We reviewed the consolidation pack which the Authority prepared to support the production of Whole of Government Accounts by HM Treasury. We reported that the Authority’s pack was consistent with the audited financial statements.</p>
<p><b>Recommendations</b></p>	<p>We raised two recommendations in our Report to Those Charged with Governance as a result of our 2012/13 audit work. These covered minor IT system weaknesses with an action plan agreed by management in place. We will formally follow up these recommendations as part of our 2013/14 work.</p>
<p><b>Challenge</b></p>	<p>We received a question on the legality of the ‘no bedroom tax’ e-petition linked to requirements of the Recommended Code Practice for Local Authority Publicity (the Code).</p> <p>I concluded that the e-petition and associated narrative breached the Code. However I did not consider it appropriate to apply to the Courts for a declaration that the expenditure was contrary to law given:</p> <ul style="list-style-type: none"> <li>■ the insignificant expenditure involved; and</li> <li>■ your constructive response to ensure no similar breaches occur in the future, by extending the remit of your publicity vetting procedure.</li> </ul>

<b>Certificate</b>	<p>We issued our certificate on 27 September 2013.</p> <p>The certificate confirms that we have concluded the audit for 2012/13 in accordance with the requirements of the <i>Audit Commission Act 1998</i> and the Audit Commission's <i>Code of Audit Practice</i>.</p>
<b>Audit fee</b>	<p>Our fee for 2012/13 was £232,515 excluding VAT. This includes £4,095 for challenge work that we completed at the Authority which was not covered by our 2012/13 external audit plan. Further detail is contained in Appendix 2.</p>

## Appendix 1: Summary of reports issued

This appendix summarises the reports we issued since November 2012 when we were appointed as the Authority's auditor.



This appendix provides information on our final fees for 2012/13.

To ensure openness between KPMG and your Audit Committee about the extent of our fee relationship with you, we have summarised the outturn against the 2012/13 planned audit fee.

### External audit

Our final fee for the 2012/13 audit of the Authority was £232,515. This is an overall reduction of 39 percent on the comparative total fee for 2011/12 of £380,700. This reflects the significant reductions made nationally by the Audit Commission to its scale fees.

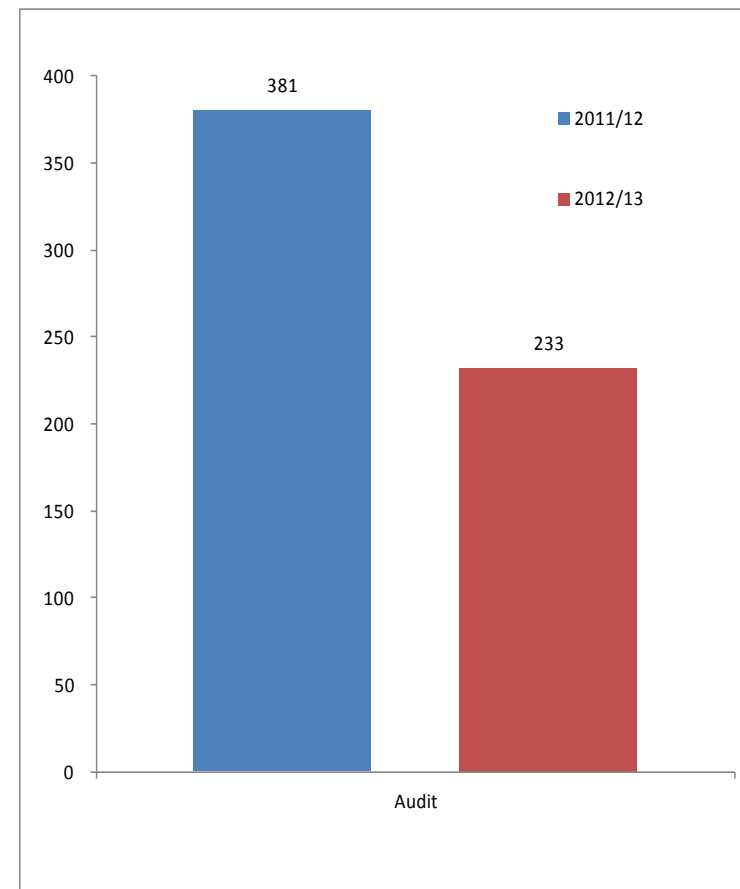
The final fee compares to a planned fee of £228,420. The reason for this variance is:

- additional work, which was not allowed for in our initial plan, namely costs associated with challenge work (£4,095).

### Certification of grants and returns

Our grants work is still ongoing and the fee will be confirmed through our report on the *Certification of Grants and Returns 2012/13* which we are due to issue in January 2014.

External audit fees 2012/13 (£'000)





*cutting through complexity™*

© 2013 KPMG LLP, a UK public limited liability partnership, is a subsidiary of KPMG Europe LLP and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative, a Swiss entity. All rights reserved.

The KPMG name, logo and 'cutting through complexity' are registered trademarks or trademarks of KPMG International Cooperative (KPMG International).