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

Nottingham City Council

September 2014

Contents

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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 0303 4448 330.

Section one

Introduction

This document summarises:

- **the key issues identified during our audit of the financial statements for the year ended 31 March 2014 for the Authority; and**
- **our assessment of the Authority's arrangements to secure value for money.**

Scope of this report

This report summarises the key findings arising from:

- our audit work at Nottingham City Council ('the Authority') in relation to the Authority's 2013/14 financial statements; and
- the work to support our 2013/14 conclusion on the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources ('VFM conclusion').

Financial statements

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

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

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

VFM conclusion

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

- assessing the potential VFM risks and identifying the residual audit risks for our VFM conclusion; 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 2013/14 financial statements.
- Section four outlines our key findings from our work on the VFM conclusion.

Our one recommendation is 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. Sections three and four of this report provide further details on each area.

Proposed audit opinion	We anticipate issuing an unqualified audit opinion on the Authority's financial statements by 30 September 2014. We will also report that the wording of your Annual Governance Statement accords with our understanding.
Audit adjustments	Our audit has not identified any material audit adjustments within the financial statements. We identified two audit differences above our reporting threshold which have been amended by management. Of these one was considered significant and is detailed in Appendix 2.
Key financial statements audit risks	We have worked with officers throughout the year to discuss specific risk areas. The Authority addressed most of the issues appropriately. However, Internal Audit have given 'limited assurance' on three aspects of the Oracle financial system provided through EMSS. As a consequence we have had to undertake additional work in order to obtain sufficient assurance that there has been no material impact on the financial statements as a consequence of the control weaknesses identified. We will need to charge an additional fee for this work (subject to approval by the Audit Commission) and will update the Audit Committee on this once we have completed the work. It is important that action is taken to address Internal Audit's recommendations as soon as possible.
Accounts production and audit process	We have noted an improvement in the presentation of the accounts which are supported by good quality working papers. Officers dealt efficiently with audit queries allowing the audit process to be completed before the statutory deadline. The Authority has implemented the recommendations in our *ISA 260 Report 2012/13* relating to the financial statements.
Control environment	The Authority's organisational and IT control environment is effective overall. We have, however, identified some weaknesses in controls linked to the introduction of the new Oracle financial system which are detailed in section three of this report.
Completion	At the date of this report our audit of the financial statements is substantially complete all that remains outstanding is completion of the mitigating assurance work in regard to the controls issues linked to the new Oracle systems provided by EMSS. Before we can issue our opinion we require a signed management representation letter. We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.
VFM conclusion and risk areas	We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources. We therefore anticipate issuing an unqualified VFM conclusion by 30 September 2014.

Proposed opinion and audit differences

Our audit has identified two audit adjustments which are above our reporting threshold.

The impact of these adjustments is to increase the net worth of the Authority as at 31 March 2014 by £7 million.

Proposed audit opinion

Subject to a final review of the audit file and completion of the mitigating assurance work around the Oracle system, we anticipate issuing an unqualified audit opinion on the Authority's financial statements following approval of the Statement of Accounts by the Audit Committee on 19 September 2014.

Audit differences

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

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

Our audit identified one significant audit difference, which is set out in Appendix 2. It is our understanding that this will be adjusted in the final version of the financial statements.

The table on the right illustrates the impact of audit differences on the Authority's movements on the balance sheet and General Fund as at 31 March 2014.

This is mainly the result of the an amendment to reinstate a school asset which was incorrectly derecognised prior to formal transfer of the building to the academy.

Balance Sheet as at 31 March 2014

£m	Pre-audit	Post-audit	*Ref (App.3)*
Property, plant and equipment	1,967	1,974	*1*
Other long term assets	169	169	
Current assets	331	331	
Current liabilities	(227)	(227)	
Long term liabilities	(1,353)	(1,353)	
Net worth	**887**	**894**	
General Fund	12	12	
Other usable reserves	77	77	
Unusable reserves	798	805	*1*
Total reserves	**887**	**894**	

Movements on the General Fund 2013/14

£m	Pre-audit	Post-audit	*Ref (App.3)*
Surplus on the provision of services	1.7	9.3	
Adjustments between accounting basis & funding basis under Regulations	26.8	19.2	
Transfers to earmarked reserves	(30.1)	(30.1)	
Decrease in General Fund	**(1.6)**	**(1.6)**	

Proposed opinion and audit differences (continued)

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

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

We identified one other, non significant audit adjustment, the misclassification of a £1.7m provision in respect of NET 2 as a short term creditor.

There was no overall impact on the general fund or reserves as a result of this adjustment.

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

Annual Governance Statement

We have reviewed the Annual Governance Statement and confirmed that:

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

Key financial statements audit risks

We have worked with officers throughout the year to discuss specific risk areas.

The Authority has addressed most of the issues appropriately. However, Internal Audit have given ‘limited assurance’ on three aspects of the Oracle financial system provided through EMSS.

It is important that action is taken to address Internal Audit’s recommendations as soon as possible.

In our *External Audit Plan 2013/14*, presented to you in February, we identified the key risks affecting the Authority’s 2013/14 financial statements. We have now completed our testing of these areas and set out our evaluation following our substantive work.

The table below sets out our detailed findings for each of the risks that are specific to the Authority.

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

Our controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual, did not identify any issues.

Key audit risk	Issue	Findings
LGPS Triennial Review	During the year, the Pension Fund has undergone a triennial valuation with an effective date of 31 March 2013 in line with the Local Government Pension Scheme (Administration) Regulations 2008. The share of pensions assets and liabilities for each admitted body is determined in detail, and a large volume of data is provided to the actuary to support this triennial valuation. The pension numbers to be included in the financial statements for 2013/14 will be based on the output of the triennial valuation rolled forward to 31 March 2014. For 2014/15 and 2015/16 the actuary will then roll forward the valuation for accounting purposes based on more limited data. There is a risk that the data provided to the actuary for the valuation exercise is inaccurate and that these inaccuracies affect the actuarial figures in the accounts. Most of the data is provided by Nottinghamshire County Council who administer the Pension Fund.	We have reviewed the data provided to the actuary to ensure: ▪ The process was undertaken in a suitable control environment; ▪ the accuracy of the information provided by agreeing a sample of data to source documentation; ▪ the reasonableness of the completeness of the data by conducting an analysis of movements during the period, and reviewing the overall amount of records provided. Our work did not identify any significant issues relating to the accounting or reporting requirements.

Key financial statements audit risks (continued)

Key audit risk	Issue	Findings
New ledger system (Oracle)	Implementation of a new accounting system by a new shared service provider (East Midlands Shared Services – EMSS) on 1 April 2013 increases the risk of data being lost or migrated incorrectly during the transition from the Council's existing One World system. There is a risk that changes to controls may lead to weaknesses that had not previously been present.	Our IT specialists reviewed the data transfer to the new Oracle ledger system and we have no issues to report to you as a result of this work.
Weakness in controls	Weakness previously identified in controls over accounts payable and the existence of staff and related payroll expenditure should have been addressed by the move to the new accounting system from 1 April 2013 (Oracle). There is a risk that these control weaknesses have not been fully addressed.	The weaknesses previously identified have been addressed by the move to Oracle, however, for the 2013/14 year Internal Audit have only given "Limited Assurance" ratings for the following systems operated by EMSS: • Payroll • Accounts Payable • Accounts Receivable Therefore we have had to carry out additional work in these areas to gain the required assurance for our opinion. This work is almost complete and we will provide an update to the Audit Committee on this. Internal Audit have flagged areas for improvement in the controls in place and whilst we have confirmed that the impact of these issues are not material to the financial statements this represents a significant weakness in internal control. We recommend that Internal Audit's recommendations are implemented in full.

Accounts production and audit process

We have noted an improvement in the presentation of the accounts which are supporting by good quality working papers.

Officers dealt efficiently with audit queries and the audit process could be completed before the statutory deadline.

The Authority has implemented the recommendations in our *ISA 260 Report 2012/13.*

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	During the year the Authority has undertaken an extensive exercise to streamline the presentation of its financial statements in line with updated guidance from CIPFA. This exercise has significantly improved the readability of complex information to the public. Despite significant changes to the ledger system resulting from the migration to Oracle and the introduction of EMSS, the Authority has been able adopt a robust financial reporting process which is demonstrated by the small number of non material adjustments required to the accounts. There is scope to improve this further by carrying out a full review of the control environment and further improving the links between the Authority and EMSS. We consider that accounting practices are appropriate.
Completeness of draft accounts	We received a complete set of draft accounts on 30 June 2014.
Quality of supporting working papers	Our *Accounts Audit Protocol*, which we issued on 6 March 2014 and discussed with the Senior Finance Manager, set out our working paper requirements for the audit. The quality of working papers provided was variable but met the standards specified in our *Accounts Audit Protocol*.
Response to audit queries	Officers resolved audit queries in a reasonable time.
Group audit	To gain assurance over the Authority's group accounts, we placed reliance on work completed by component auditors on the financial statements of Enviroenergy Limited, Nottingham City Transport Limited, Nottingham Ice Centre Limited, Bridge Estate and Futures Advice, Skills and Employment Limited. There are no specific matters to report pertaining to the group audit, however, we have not yet received the final signed accounts for Bridge Estate and Futures Advice, Skills and Employment Limited.

Prior year recommendations

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

The Authority has implemented the recommendations in our *ISA 260 Report 2012/13*.

The controls over the key financial systems are sound.

However, there are some weaknesses in respect of the overall control environment which need to be addressed.

Recommendations are included in Appendix 1.

Work completed

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

We also work with your internal auditors to update our understanding of some of the Authority's key financial processes where these are relevant to our final accounts audit.

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

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

Key findings

Based on the work of your internal auditors and our own testing, the controls over the key financial systems are generally sound.

We have, however, noted some weaknesses in respect of individual financial systems which has required us to undertake some additional testing to obtain sufficient assurance that there has been no material impact on the financial statements. This work is currently being finalised.

Internal audit included recommendations in their reports as appropriate and it is important that these are implemented as soon as possible. Our recommendation included at Appendix 1 seeks to reinforce the need for action on Internal Audit's findings. The weaknesses identified meant that we needed to complete substantial additional work at year-end and an additional audit fee will be necessary.

Financial system	Controls Assessment
Property, Plant & Equipment	3
Accounts Payable	2
Accounts Receivable	2
Cash	3
Pensions Liabilities	3

Key:
- 1 Significant gaps in the control environment.
- 2 Deficiencies in respect of individual controls.
- 3 Generally sound control environment.

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 2014, 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 Senior Finance Manager for presentation to the Audit Committee. We require a signed copy of your management representations before we issue our audit opinion.

Other matters

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

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

There are no others matters which we wish to draw to your attention in addition to those highlighted in this report or our previous reports relating to the audit of the Authority's 2013/14 financial statements.

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.

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

Work completed

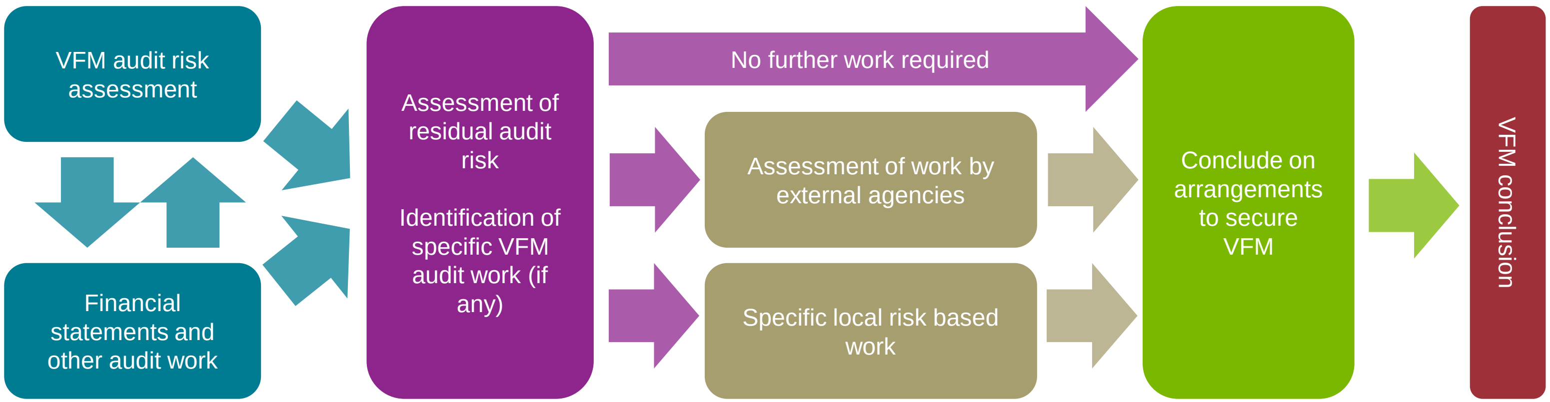
We performed a risk assessment earlier in the year and have reviewed this throughout the year.

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	✓



Specific VFM risks

We have identified one specific VFM risks.

In this case we are satisfied that external or internal scrutiny provides sufficient assurance that the Authority's current arrangements in relation to these risk areas are adequate.

Work completed

In line with the risk-based approach set out on the previous page, and in our *External Audit Plan* we have:

- assessed the Authority's key business risks which are relevant to our VFM conclusion;
- identified the residual audit risks for our VFM conclusion, taking account of work undertaken in previous years or as part of our financial statements audit; and
- considered the results of relevant work by the Authority, inspectorates and review agencies in relation to these risk areas.

Key findings

Below we set out the findings in respect of those areas where we have identified a residual audit risk for our VFM conclusion.

We concluded that we did not need to carry out additional work for these risks as there was sufficient relevant work that had completed by the Authority, inspectorates and review agencies in relation to these risk areas.

Key VFM risk	Risk description and link to VFM conclusion	Assessment
	As at January 2014, the Authority is forecasting that it will deliver its 2013/14 budget in overall terms. Looking ahead, the Authority's draft medium term financial plan (MTFP) as at December 2013 includes a provisional balanced budget for 2014/15. There are projected budget shortfalls in both the following two financial years, rising from £36m in 2015/16 to £55m in 2016/17. Significant savings will be required to address these shortfalls as reductions to local authority funding continue. Against a backdrop of continued demand pressures in Adult Social Care and Children in Care services it will become increasingly difficult to deliver savings in a way that secures longer term financial and operational sustainability. This is relevant to the financial resilience criterion of the VFM conclusion.	The Council delivered its budget with an overall underspend of £0.5m for 2013/14 despite slight overspends within some portfolios. The Council has set a balanced budget for 2014/15, incorporating £22.6m of agreed savings. The Council has a good track record in delivering against its overall savings targets, which demonstrates that its arrangements for maintaining financial resilience are sound. The saving targets for 2015/16 and 2016/17 remain although work has already started to identify how these targets can be met. However continuing to deliver such demanding targets year on year is clearly demanding, and will require difficult decisions to be implemented, and close monitoring of the results and the impact on key services. **Specific risk based work required: No**

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		
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	❶	**Control Weaknesses at EMSS** As reported to you by Internal Audit there are weaknesses in the operation of controls by EMSS in the following systems: • Payroll • Accounts Payable • Accounts Receivable Whilst we have confirmed through our additional testing that these have not had a material impact on the financial statements the weaknesses remain and need to be addressed. **Recommendation** Implement the recommendations of Internal Audit in full as soon as possible.	

Appendix 2: Audit differences

We have no uncorrected misstatements to report and there were no material misstatements.

Although not material this appendix sets out the one significant audit difference identified by our audit.

It is our understanding that the accounts will be adjusted.

We are required by ISA 260 to report all uncorrected misstatements, other than those that we believe are clearly trivial, to those charged with governance (which in your case is the Audit Committee). There are no uncorrected misstatements.

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. There are no material misstatements.

Corrected audit differences

Although not material the following table sets out the one significant audit difference identified by our audit of Nottingham City Council's financial statements for the year ended 31 March 2014. It is our understanding that the accounts 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	Cr Other operating expenditure £7.586m	Dr Adjustment between accounting basis and funding basis £7.586m	Dr PPE £7.586m		Cr Revaluation reserve £1.291m Cr Capital adjustment account £6.295m	A school asset was derecognised as it was expected to transfer to an academy during the year. However, as the formal transfer of the building has not taken place the asset should remain on balance sheet as at 31/3/14.
	Cr £7.586m	**Dr £7.586m**	**Dr £7.586m**	**-**	**Cr £7.586m**	**Total impact of adjustments**

Appendix 3: 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 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.

Appendix 3: 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 2014, 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.

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