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Annual Audit Letter 2013/14

Nottingham City Council

October 2014



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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.

This report summarises the key findings from our 2013/14 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 2013/14 financial statements and the 2013/14 VFM conclusion.

VFM conclusion	<p>We issued an unqualified conclusion on the Authority's arrangements to secure value for money (VFM conclusion) for 2013/14 on 26 September 2014. 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>
VFM risk areas	<p>We identified one significant risk to our VFM conclusion in respect of financial standing; relating to the continued financial pressures which require significant ongoing reductions in net expenditure. We considered the arrangements you have put in place to mitigate this and concluded that arrangements for maintaining financial resilience, as least in the short term, are sound.</p> <p>The Council has a good track record in delivering against its overall savings targets. However continuing to deliver such targets year on year is clearly demanding, and will require difficult decisions to be implemented, and close monitoring of the results including the impact on key services.</p>
Audit opinion	<p>We issued an unqualified opinion on your financial statements on 26 September 2014. 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. The financial statements also include those of the Authority's Group, which consists of the Authority itself and its six subsidiaries.</p>
Financial statements audit	<p>Our financial statements audit did not identify any material audit adjustments. A small number of non-material adjustments were identified and these were subsequently amended in the final version of the financial statements.</p> <p>Our audit testing confirmed that weaknesses previously identified in relation to controls around accounts payable and payroll have been addressed by the move to new Oracle financial system.</p> <p>However, Internal Audit identified a number of other control weaknesses in respect of the Oracle financial system provided through EMSS. As a consequence it was necessary for us to undertake additional work to obtain sufficient assurance that these control weaknesses did not have a material impact on the financial statements.</p>
Annual Governance Statement	<p>We reviewed your <i>Annual Governance Statement</i> and concluded that it was consistent with our understanding.</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.

Whole of Government Accounts	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.
High priority recommendations	We raised one high priority recommendation as a result of our 2013/14 audit work in respect of the control weaknesses identified at EMSS. This is detailed in Appendix 1 together with the action plan agreed by management.
Certificate	We issued our certificate on 3 October 2014 following completion of our work on Whole of Government Accounts. The certificate confirms that we have concluded the audit for 2013/14 in accordance with the requirements of the <i>Audit Commission Act 1998</i> and the Audit Commission's <i>Code of Audit Practice</i> .
Audit fee	Our planned audit fee for 2013/14 was £228,420, excluding VAT. We are currently in the process of agreeing an additional fee of £9,999 for additional work that was required in respect of control weaknesses at EMSS and £1,070 relating to national changes in arrangements for National Non Domestic Rates (NNDR) with the Audit Commission. Further detail is contained in Appendix 3.

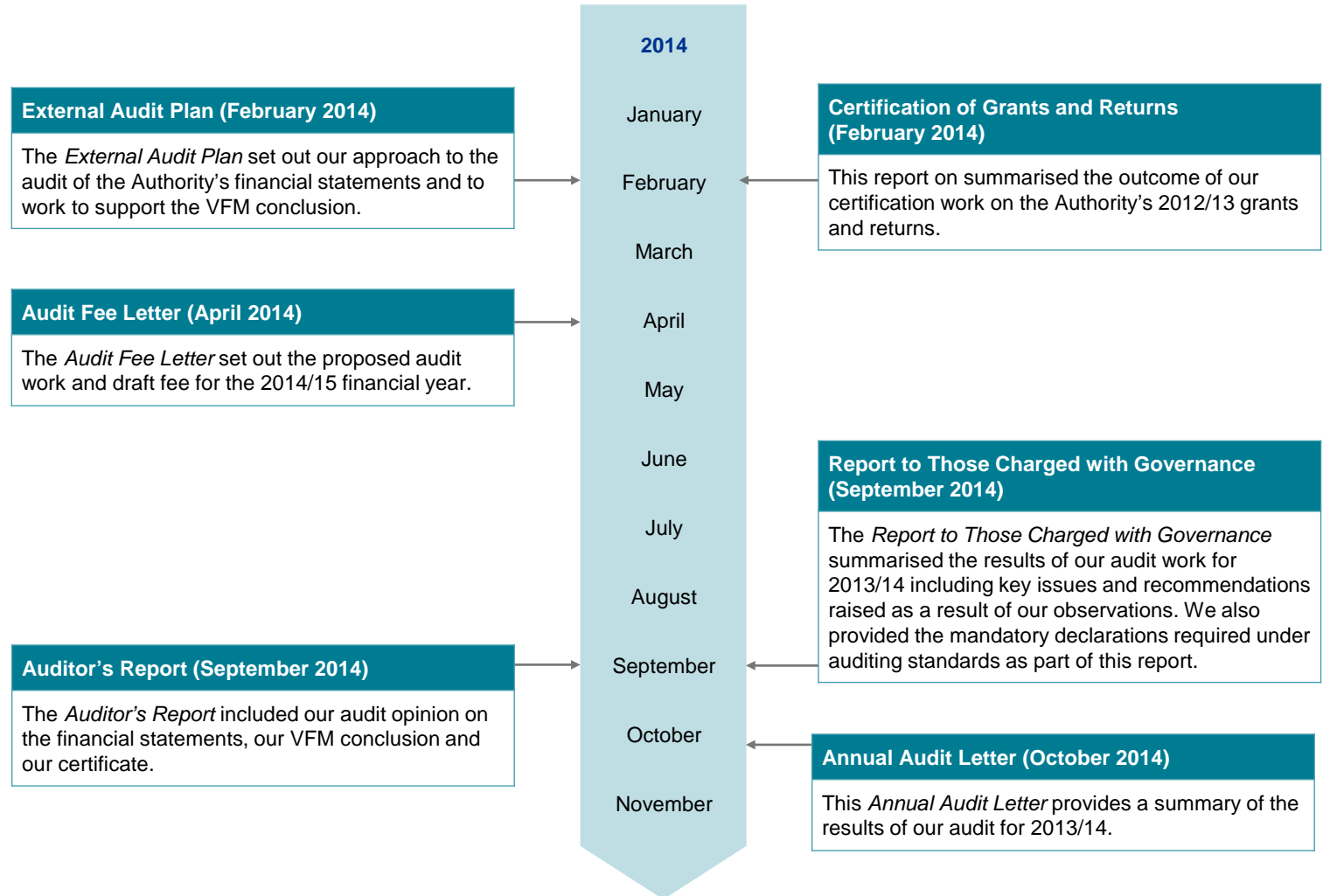
Appendix 1: Key issues and recommendations

This appendix summarises the high priority recommendation that we identified during our 2013/14 audit, along with your response.

No.	Issue and recommendation	Management response/ responsible officer/ due date
1	<p>Control Weaknesses at EMSS</p> <p>As reported to you by Internal Audit, there are weaknesses in the operation of controls by EMSS in the following systems:</p> <ul style="list-style-type: none"> ▪ Payroll ▪ Accounts Payable ▪ Accounts Receivable <p>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.</p> <p>Recommendation</p> <p>Implement the recommendations of Internal Audit in full as soon as possible.</p>	<p>The weaknesses raised by Internal Audit were identified through joint work with Strategic Finance and EMSS. They were mitigated during the year through, for example, manual interventions and system development. This is inefficient, however, and the EMSS partners have embarked upon a comprehensive improvement programme designed to evaluate and correct all processes in use within these systems. The objectives of this programme include the delivery of the Internal Audit recommendations, although they will be exceeded by the level of improvement being delivered. The issues raised by Internal Audit which relate to the availability of data have already been resolved.</p>

Appendix 2: Summary of reports issued

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



This appendix provides information on our final fees for 2013/14.

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 2013/14 planned audit fee.

External audit

The planned fee for the 2013/14 audit of the Authority was £228,420. A proposed additional fee of £11,069 is subject to final determination by the Audit Commission. The reasons for the variance are:

- in order to deliver our 2013/14 audit opinion there were two elements of our work that we had previously carried out while certifying LA01 (the NNDR3 return), and relied upon for our opinion audit. In 2013/14, as a result of there being no certification of the NNDR3 return, we have had to carry out this work as additional procedures to our audit opinion at a cost of £1,070; and
- additional testing to determine the impact on the financial statements audit of control weaknesses at EMSS at a cost of £9,999.

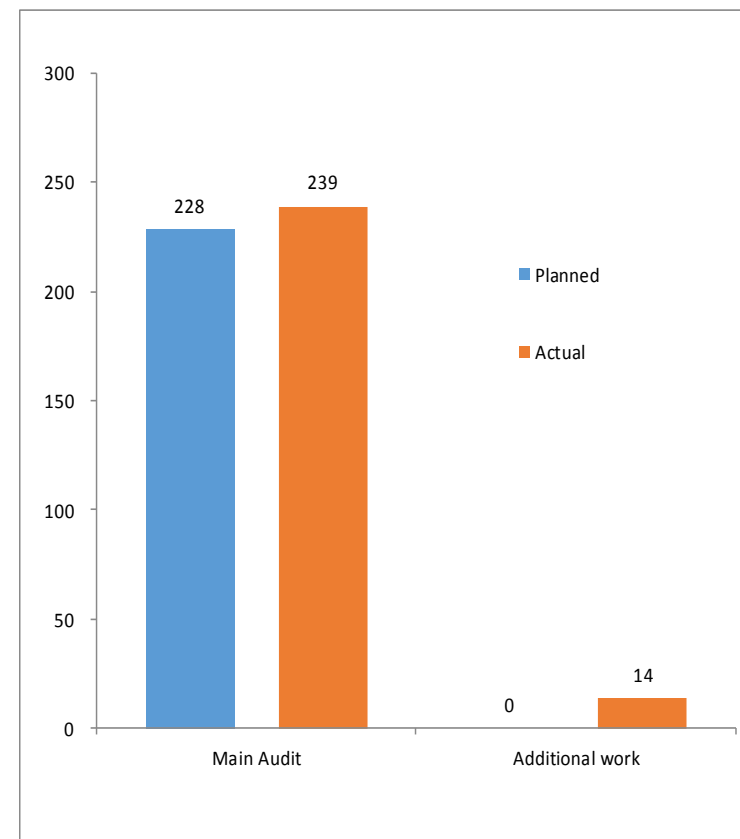
Certification of grants and returns

Our grants work is still ongoing and the fee will be confirmed through our report on the *Certification of Grants and Returns 2013/14* which we are due to issue in February 2015.

Other services

We also charged £7,000 for a reasonable assurance review of the 13/14 Nottingham Technology Grant, £3,500 for a reasonable assurance review of the 12/13 School Centred IT Training Grant and £3,000 for the 12/13 HCA Decent Homes Grant. This work was not related to our responsibilities under Audit Commission's *Code of Audit Practice*.

External audit fees 2013/14 (£'000)





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