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Annual Audit Letter 2014/15

Nottingham City Council

October 2015

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

Richard Walton

Manager

KPMG LLP (UK)

Tel: 0115 945 4471

richard.walton@kpmg.co.uk

Janet Dean

Assistant Manager

KPMG LLP (UK)

Tel: 0115 935 3418

janet.dean@kpmg.co.uk

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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 issued a document entitled *Statement of Responsibilities of Auditors and Audited Bodies* summarising where the responsibilities of auditors begin and end and what is expected from audited bodies. We draw your attention to this document which is available on Public Sector Audit Appointment's website (www.psa.co.uk).

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

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact **Sue Sunderland**, the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Trevor Rees (on 0161 246 4000, or by email to trevor.rees@kpmg.co.uk). After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing generalenquiries@psaa.co.uk, by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3HZ.

This report summarises the key findings from our 2014/15 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 2014/15 financial statements and the 2014/15 VFM conclusion.

VFM conclusion	<p>We issued an unqualified conclusion on the Authority's arrangements to secure value for money (VFM conclusion) for 2014/15 on 30 September 2015. This means we are satisfied that that Authority had proper arrangements for securing financial resilience and challenging how it secures economy, efficiency and effectiveness.</p> <p>To arrive at our conclusion we looked at the Authority's financial governance, financial planning and financial control processes, as well as the arrangements for prioritising resources.</p>
VFM risk areas	<p>We undertook a risk assessment as part of our VFM audit work to identify the key areas impacting on our VFM conclusion and considered the arrangements you have put in place to mitigate these risks.</p> <p>Our initial risk assessment work at the planning stage of the audit identified the following significant matter:</p> <ul style="list-style-type: none"> ■ Challenges linked to the ongoing need to deliver savings and cost reductions to maintain financial resilience. <p>We critically assessed the controls the Authority has in place to ensure a sound financial standing and reviewed how the Authority is planning and managing its savings plans. We concluded that we did not need to carry out additional work for this risk as there was sufficient relevant work that had been completed by the Authority in relation to this risk area.</p> <p>We concluded that adequate arrangements are in place to manage the Authority's finances, in particular, the new 'Strategic Choices' service based cost reduction approach involving front line staff has worked well and underpins the budget plans for 2015/16. However, we noted that the Authority faces on-going financial challenges including:</p> <ul style="list-style-type: none"> ■ managing a £2m in year reduction in Public Health funding ■ the need to make further substantial financial savings and cost reduction to close the predicted gap between funding and demand for services in future years ■ the need to adjust housing business plans to reflect the impact of the annual 1% rent reduction over the next 4 years.
Audit opinion	<p>We issued an unqualified opinion on the Authority's financial statements on 30 September 2015. 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>
Financial statements audit	<p>We identified one material misstatement in the course of the audit which was corrected by officers.</p> <p>Our initial risk assessment at the planning stage of the audit identified a number of significant risk areas.</p> <ul style="list-style-type: none"> ■ Controls over transactions administered by EMSS ■ HRA – valuation of council housing ■ NET2 and its status ■ Accounting for Schools, following LAAP Bulletin 101 ■ New Company for administration of Revenues and Benefits; and

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

<p>Financial statements audit</p>	<ul style="list-style-type: none"> ■ New banking arrangements <p>We have tested each of these areas as part of the audit and apart from the controls over transactions administered by EMSS we have no issues to report.</p> <p>Our initial testing of controls over transactions administered by EMSS focused on checking the progress on implementing Internal Audit's recommendations in respect of the shared service as well as testing key controls. Whilst we identified some improvements, we identified two specific control weaknesses, in relation to non pay expenditure. As a consequence we had to undertake additional substantive testing to provide sufficient assurance that these weaknesses had not led to a material misstatement in the accounts.</p> <p>We received the accounts on 29 June 2015. The majority of working papers were received by us on the same day which was the first day of the audit site visit.</p> <p>On the whole, officers dealt with audit queries quickly and the majority of the audit process was completed within the planned timescales. Some key staff were absent during part of our site visit which delayed our review of pensions, payroll and property, plant and equipment. We did experience a delay with queries raised with EMSS initially but after discussion, with the finance team, the majority of these were resolved promptly.</p>
<p>Annual Governance Statement</p>	<p>We reviewed your <i>Annual Governance Statement</i> and concluded that it was consistent with our understanding.</p>
<p>Whole of Government Accounts</p>	<p>The Authority prepares a consolidation pack 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. Although it did not prove possible to complete the work required and submit the pack until 1 October this was still before the 2 October deadline.</p>
<p>High priority recommendations</p>	<p>We raised three high priority recommendations as a result of our 2014/15 audit work all of which are linked to improving the effectiveness of controls. These are summarised in Appendix 1.</p>
<p>Certificate</p>	<p>We issued our certificate on 1 October 2015 following completion of our work on the Whole of Government Accounts. The certificate confirms that we have concluded the audit for 2014/15 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>
<p>Audit fee</p>	<p>Our fee for 2014/15 was £234,665, excluding VAT. Further detail is contained in Appendix 3.</p>

Appendix 1: Key issues and recommendations

This appendix summarises the high priority recommendations that we identified during our 2014/15 audit, along with your responses to them.

Lower priority recommendations are contained, as appropriate, in our other reports, which are listed in Appendix 2.

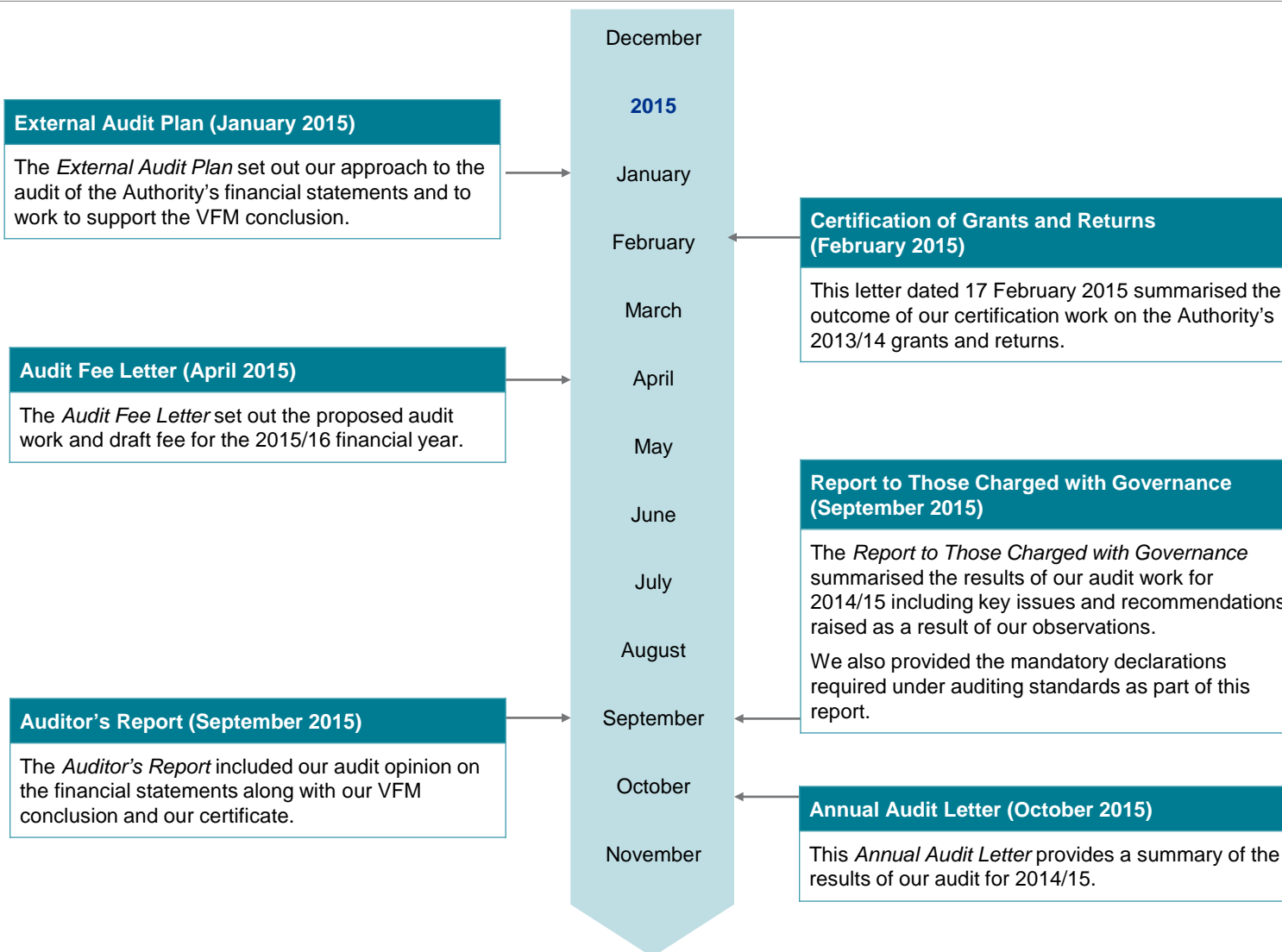
We held a debrief meeting with officers to discuss the learning points from this year's audit, including minor issues that we have not formally reported.

No.	Issue and recommendation	Management response / responsible officer / due date
1	<p><u>Authorisation of expenditure</u></p> <p>As part of our controls testing in respect of non-pay expenditure, we tested 75 items; 25 of each type of payment - purchase order invoice, non-purchase order invoice, request for payment. We identified two items that had not been authorised appropriately:</p> <ul style="list-style-type: none"> • A request for payment totalling £117,000 had been authorised by an employee with an authorisation limit of £100,000. The expenditure was legitimate. Additional testing identified four further examples of authorisation levels being exceeded although in each case we confirmed that the expenditure was legitimate. • The second item was a non-purchase order invoice where no authority was provided in workflow despite the item being redirected to several individuals with increasing levels of seniority. The item was paid as it is possible to override the workflow function. We did not identify any other examples of this. <p>It is worth noting that taking all our testing together we are satisfied that we have sufficient assurance that these weaknesses have not led to a material misstatement in the accounts.</p> <p><u>Recommendation</u></p> <p>The Council should put in place measures to prevent payments being made without appropriate authorisation.</p>	<p>The colleagues involved have been reminded of their authorisation limits.</p> <p>The management structure and processes within EMSS have been reviewed and changed during the past year. The practice of overriding the approval process is no longer sanctioned by senior management.</p>

No.	Issue and recommendation	Management response / responsible officer / due date
<p>2</p>	<p><u>Journals</u></p> <p>As part of our audit approach we routinely test journals, throughout the year and journals created for the closedown period. Our testing identified a journal with a value of £47 billion. This journal had to be created to correct a posting error resulting in a misstatement of £47 billion. Best practice is that a posting error of such a large and unusual value should not be possible and that a ledger system should flag and prevent such an entry being posted.</p> <p><u>Recommendation</u></p> <p>The Council should review the ledger system to identify if it is possible to input parameters beyond which postings cannot be made.</p>	<p>A review of the parameters will be undertaken. Person Responsible: Jeff Abbott Due Date: 31/3/16</p>
<p>3</p>	<p><u>Control weaknesses in EMSS over payroll</u></p> <p>Throughout work on payroll we identified that EMSS do not undertake a payroll reconciliation for Nottingham City Council although they do this for Leicester City Council.</p> <p>Exception reports, one of the outputs from payroll are not checked by EMSS.</p> <p>We expect that the responsibilities of EMSS should be set out in an Service Level Agreement to enable both parties to be clear what tasks should be carried out by each party.</p> <p><u>Recommendation</u></p> <p>Nottingham City Council and East Midlands Shared Service should set up a Service Level Agreement as soon as possible</p>	<p>Responsibility for the reconciliations has been passed over to EMSS. An SLA with EMSS is in the process of being set up. Person Responsible: Jeff Abbott Due Date: 31/12/15</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 the 2014/15 audit.

To ensure transparency about the extent of our fee relationship with the Authority we have summarised below the outturn against the 2014/15 planned audit fee.

External audit

Our final fee for the 2014/15 audit was £234,665, which includes an additional fee of £5,175 to cover the extra controls testing referred to on page 3.

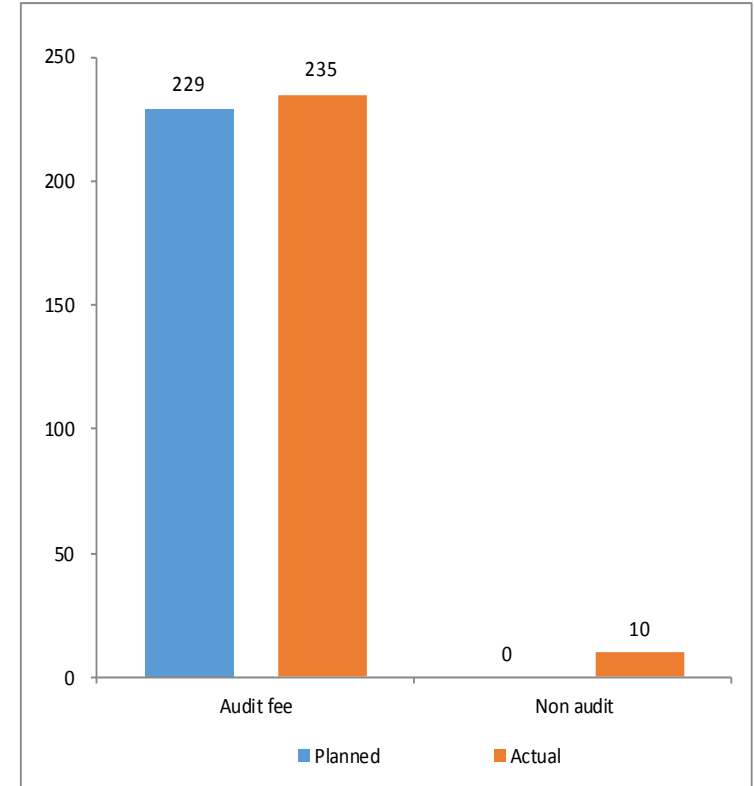
Our proposed additional fee is still subject to final determination by Public Sector Audit Appointments (PSAA Ltd).

Certification of grants and returns

Under our terms of engagement with PSAA Ltd we undertake prescribed work in order to certify the Authority's housing benefit grant claim. This certification work is still ongoing. The final fee will be confirmed through our reporting on the outcome of that work in January 2016.

Other services

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





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