



# Annual Audit Letter 2017/18

**Nottingham City  
Council**



August 2018



A group of business professionals, including a woman with dark hair and a man with grey hair, are shown in profile, looking down at documents. They are wearing suits and ties. The image is overlaid with a blue horizontal band containing text.

**Section one**

# Summary for Audit Committee

# Summary for Audit Committee

This Annual Audit Letter summarises the outcome from our audit work at Nottingham City Council ("the Authority") in relation to the 2017-18 audit year.

Although it is addressed to Members of the Authority, it is also intended to communicate these key messages to key external stakeholders, including members of the public, and will be placed on the Authority's website.

## Audit opinion

We issued an unqualified opinion on the Authority's financial statements on 31 July 2018. 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 the consolidated financial statements for Authority's Group.

## Financial statements audit

Our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole. Materiality for the Authority's accounts was set at £10.5 million which equates to around one percent of gross expenditure. We design our procedures to detect errors in specific accounts at a lower level of precision. Materiality for the Group was set at £11 million which is approximately one percent of gross expenditure.

We report to the Audit Committee any misstatements of lesser amounts, other than those that are "clearly trivial", to the extent that these are identified by our audit work. In the context of the Authority, an individual difference is considered to be clearly trivial if it is less than £0.525 million..

We have identified no material audit adjustments. The statutory deadlines for both the unaudited and audited accounts moved forward by one and two months respectively this year, and officers recognised the additional pressures that this would bring and took appropriate action. This was particularly important in relation to the Group accounts given the comparatively large structure. Delivering this successfully was a significant achievement by all concerned.

Officers also provided good quality working papers with clear management trails for the information despite the shorter timescale, and as in previous years they responded promptly to our audit queries.

Our audit work was designed to specifically address the following significant risks:

- **Management Override of Controls** – our audit methodology incorporates the risk of management override as a default significant risk. We did not identify any specific additional risks of management override relating to the audit.;
- **Valuation of PPE** – The Authority operates a cyclical revaluation approach, and the Authority is required to ensure that land and buildings are held at fair value unless specified otherwise. We considered the way in which the Authority ensures that assets not subject to in-year revaluation are not materially misstated, and this year officers significantly increased the amount of revaluations in order to increase the level of assurance. We also reviewed the instructions and source of the information provided to, and used by, the valuer to inform the Authority's valuation, and made use of a KPMG valuer to help us assess the figures and methodologies employed.;
- **Pensions Liabilities** – The valuation of the Authority's pension liability, as calculated by the Actuary, is dependent upon both the accuracy and completeness of the data provided and the assumptions adopted. We reviewed the processes in place to ensure accuracy of data provided to the Actuary and considered the assumptions used in determining the valuation.;

# Summary for Audit Committee (cont.)

**Faster Close** – the bringing forward of the national year-end timetable represented a risk to the completion of the audit by the 31 July deadline.

We did not identify any evidence of material misstatement as a result of our audit work on these significant risk areas. In addition to these risks, we needed to carry out considerable additional procedures because the Authority is designated as an EU Public Interest Entity (EU PIE) as it has £0.617 million of listed debt on the London Stock Exchange.

## Other information accompanying the financial statements

Whilst not explicitly covered by our audit opinion, we review other information that accompanies the financial statements to consider its material consistency with the audited accounts. This year we reviewed the Annual Governance Statement and Narrative Report. We concluded that they were consistent with our understanding and did not identify any issues.

## Whole of Government Accounts

We have reviewed the consolidation pack which the Authority has prepared to support the production of Whole of Government Accounts by HM Treasury and have confirmed to the National Audit Office that we have no matters to report.

## Value for Money conclusion

We issued an unqualified conclusion on the Authority's arrangements to secure value for money (VFM conclusion) for 2017-18 on 31 July. This means we are satisfied that during the year the Authority had appropriate arrangements for securing economy, efficiency and effectiveness in the use of its resources.

To arrive at our conclusion we looked at the Authority's arrangements to make informed decision making, sustainable resource deployment and working with partners and third parties.

## Value for Money risk areas

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.

Our work identified the following significant matters at the planning stage:

- **Delivery of Budgets** – the Authority was projecting a second year of overspend on the general fund, and forecasting the need for further savings in future years. In addition, external borrowing was projected to increase by £255m within year, taking the total level to above £1 billion;
- **Group Governance** – the Authority has a relatively complex group structure, and recognised that it needed to improve the group governance structure in order to ensure that there are appropriate accountability and monitoring arrangements in place.

We have reviewed the arrangements the Authority has in place to ensure financial resilience. We were satisfied that there were adequate arrangements in place during 2017/18 and there were no significant matters relating to these risk areas which prevented us from giving an unqualified VFM conclusion. We have set out our findings in more detail in our report to the Audit Committee on 20 July, and the first three recommendations overleaf arose from our VFM conclusion work.

## Section one:

# Summary for Audit Committee (cont.)

## High priority & other recommendations

We raised no high priority recommendations as a result of our 2017-18 work. We did raise 8 that were medium priority, as set out in our report to the Audit Committee on 20 July. These related to the need for

- the Corporate Leadership Team working together to ensure the sustainability of the financial budget, with a focus on ensuring that any non-recurrent measures are taken into account;
- further progress in the developing group governance structure and meeting the target of September 2018 for having it in place;
- finalisation of the Capital Investment Strategy;
- incorporation of improved journal authorisation into the design of the new ledger system;
- review of the process for capturing and accounting for capital accruals;
- review of the capitalization of Highways and Energy Infrastructure project management costs and the 'surplus recovery fee for internally managed capital projects;
- an update of the service level agreement with Enviroenergy (a group subsidiary), including reviewing the financial aspects of the Authority's relationship with it; and
- prompt removal of leavers from the Northgate system

## Certificate

The certificate confirms that we have concluded the audit for 2017-18 in accordance with the requirements of the Local Audit & Accountability Act 2014 and the Code of Audit Practice. We could not formally conclude the audit until we had completed the work necessary to issue our assurance statement in respect of the Authority's Whole of Government Accounts consolidation pack (deadline 31 August 2018). We completed this work by the deadline, and were then able to issue our certificate on 31 August 2018.

## Audit fee

The scale fee for 2017-18 was £172,118, excluding VAT (2017: £172,118 – additional fees were £6,609). We have needed to carry out additional work in a number of areas in 2017-18. Further detail is contained in Appendix 2.

## Exercising of audit powers

We have a duty to consider whether to issue a report in the public interest about something we believe the Authority should consider, or if the public should know about.

We have not identified any matters that would require us to issue a public interest report.

In addition, we have not had to exercise any other audit powers under the Local Audit & Accountability Act 2014.

# Appendices



## Appendix 1:

# Summary of reports issued

This appendix summarises the reports we issued since our last Annual Audit Letter. These reports can be accessed via the Audit Committee pages on the Authority's website.

### External Audit Plan

The External Audit Plan set out our approach to the audit of the Authority's financial statements, including those of the Group and to support the VFM conclusion.

### Updated Audit Plan

We updated our plan to take into account the requirements resulting from the Authority having EU PIE status.

### Report to Those Charged with Governance

The Report to Those Charged with Governance summarised the results of our audit work for 2017-18 including key issues and recommendations raised as a result of our observations.

We also provided the mandatory declarations required under auditing standards as part of this report.

### Auditor's Report

The Auditor's Report included our audit opinion on the financial statements including the group accounts along with our VFM conclusion.

### Certificate and Annual Audit Letter

We issued our certificate following the completion of our Whole of Government Accounts work. This Annual Audit Letter provides a summary of the results of our audit for 2017-18.

2018

January

February

March

April

May

June

July

August

September

October

## Appendix 2:

# Audit fees

This appendix provides information on our final fees for the 2017-18 audit.

### External audit

The proposed final fee for the 2017-18 audit of the Authority is £185,164, This compares to the scale fee of £172,118, and a total fee for 2016-17 of £178,727 (scale fee plus additional fee of £6,609). The reasons for the proposed variance from the scale fee are:

- assessment of the significant uplift in property valuations resulting from the comprehensive review undertaken this year, including consultation with a KPMG valuation specialist on the methodology and assumptions used for a number of key individual properties (£2,072);
- review and discussion in relation to the Authority's proposal to change the MRP policy within year (£989);
- discussion and review relating to revision of the group governance structure (£1,038);
- work required to gain the required level of assurance over the accounts of Robin Hood Energy (RHE) Ltd, as it was a significant component within the group accounts. We liaised with RHE Ltd's auditors, including reviewing their audit file and seeking specific assurances on their approach (£1,572);
- review and discussion relating to the Authority's decision to exchange debt for equity in relation to RHE (£843);
- additional work on capital additions cut-off and on the charging mechanism for internally managed capital projects to establish if there was a material issue arising from issues arising (there was not, but we made two medium priority recommendations in the report to 20 July Audit Committee) (£1,587); and
- additional work resulting from the Authority's EU PIE status. Additional tasks included the requirement to provide the more complicated long-form audit report rather than the standard report used previously (this in particular required detailed consultation with our Department of Policy and Practice), to consult with a KPMG Treasury specialist, lowering materiality to 1% and consideration of the additional disclosure and other regulatory requirements. (£4,945);

Our fees in relation to the above are still subject to final determination by Public Sector Audit Appointments.

### Certification of grants and returns

Under our terms of engagement with Public Sector Audit Appointments we undertake prescribed work in order to certify the Authority's housing benefit grant claim. The planned fee for this work is £18,458 and the final fee will be confirmed through our reporting on the outcome of that work.

We also charged £4k for certification work in regards to Pooling of Capital Receipts Return, £4k for certification work in regards to SFA subcontracting, and £2.5k for certification work in regards to Teachers Pension Return, which are outside of Public Sector Audit Appointment's certification regime.

### Other services

We charged £19,750 for pension advisory services to Nottingham City Transport. This work was not related to our responsibilities under the Code of Audit Practice.



The key contacts in relation to our audit are:

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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. We draw your attention to the Statement of Responsibilities of auditors and audited bodies, which is available on Public Sector Audit Appointment's website ([www.psa.co.uk](http://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 Tony Crawley 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, Andrew Sayers, by email to [Andrew.Sayers@kpmg.co.uk](mailto:Andrew.Sayers@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](mailto: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.

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