



cutting through complexity

2014/15 External audit progress report and technical update

Office of the Police and Crime Commissioner for
Nottinghamshire
Nottinghamshire Chief Constable

December 2015

This report provides the Joint Audit & Scrutiny Panel (JASP) with an overview on 2014/15 audit progress in delivering our responsibilities as your external auditors.

The report also highlights the main technical issues which are currently having an impact in local government.

If you require any additional information regarding the issues included within this report, please contact a member of the audit team.

We have flagged the articles that we believe will have an impact at the organisation and given our perspective on the issue:

- High impact
- Medium impact
- Low impact
- For info

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This report is made solely to the PCC/CC in accordance with the 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).

This report has been released to the PCC/CC on the basis that it shall not be copied, referred to or disclosed, in whole or in part, without prior written consent. We consent to its disclosure in full within the public domain, but without accepting or assuming any responsibility or liability to any such persons in connection with our work for the PCC/CC or our report made to the PCC/CC. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the PCC/CC for our work, for this report, or the opinions we have formed.

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 Andrew Cardoza, the engagement lead to the PCC/CC, 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 PSA'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 document provides the JASP with a high level overview on progress in delivering our responsibilities as your external auditors.

At the end of each stage of the audit we issue certain deliverables, including reports and opinions. A summary of progress against these deliverable is provided in Appendix 1 of this report.

Area of responsibility	Commentary
Financial statements, value for money and certificate	<p>Since the last meeting of the JASP we have finalised our audit of the 2014/15 Financial Statements and issued our Annual Audit Letter. We completed our work and issues an unqualified opinion on the Financial Statement and an unqualified conclusion on the value for money arrangements on the 29 September 2015.</p> <p>We also issued the audit certificate on the 29 September 2015. 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>
2015/16 Planning	<p>We are about to start work on planning the 2015-16 audit and our work over the coming quarter will include:</p> <ul style="list-style-type: none"> ■ ongoing liaison with finance staff to discuss issues arising from previous work, relevant current and emerging issues in respect of the accounts and value for money; ■ Meeting with Senior Officers as part of the detailed planning process to better understand the current an longer term issues that the council is addressing; ■ liaising with internal audit with a view to maximising audit efficiency (whilst recognising the differences in our roles); and ■ updating our risk assessment and developing our detailed draft Audit Plan which we expect to submit to the JASP early in 2016. This will set out the scope of the audit in more detail. <p>At this stage our planning is likely to include particular focus on:</p> <ul style="list-style-type: none"> ■ The organisations arrangements in relation to the Value for Money criteria; ■ The impact on our audit of any changes to the accounts as a result of central guidance; and ■ Any learning opportunities from the 2014/15 audit which we can use to improve the process in 2015/16.

Area	Level of Impact	Comments	KPMG perspective
<p>Pension Ombudsman’s decision – Government Actuary’s Department (GAD) commutation factors</p>	<p style="text-align: center;">● Medium</p>	<p>In May 2015, the Pension Ombudsman determined that the calculation of pensioners’ lump sum amounts on commutation since 1998 was based on out-of- date actuarial data. This means that some pensioners may have received too little lump sum in return for commuting some of their pension, or may have commuted more of their pension than was necessary in order to secure a particular lump sum.</p> <p>The Ombudsman’s determination was in respect of a retired firefighter, but the issue also applies to police pensions. A formal decision is yet to be made as to how these additional costs will be funded.</p> <p>The Ombudsman’s decision can be found on the Pension Ombudsman website at www.pensions-ombudsman.org.uk/determinations/2015/po-1327/firefighters-pension-scheme/</p> <p>The Home Office issued guidance to local police bodies on 17 July. This will enable local bodies to calculate the necessary provision for their 2014/15 accounts. A spreadsheet tool to help police bodies with their calculations is expected to be issued shortly.</p> <p>In respect of Fire and Rescue Authorities, equivalent guidance is expected to be issued by the Department of Communities and Local Government (DCLG) in August 2015.</p>	<p><i>The Committee may wish to seek assurances that the impact for their Authority is understood and the required provision for the 2014/15 accounts has been made</i></p>

Area	Level of impact	Comments	KPMG perspective
New local audit framework	 Medium	<p>The Local Audit and Accountability Act 2014 included transitional arrangements covering the audit contracts originally let by the Audit Commission in 2012 and 2014. These contracts covered the audit of accounts up to 2016/17, and gave the Department for Communities and Local Government (DCLG) the power to extend these contracts to 2019/20.</p> <p>DCLG have now announced that the audit contracts for large local government bodies (including district, unitary and county councils, police and fire bodies, transport bodies, combined authorities and national parks) will be extended to include the audit of the 2017/18 financial statements. From 2018/19, local government bodies will need to appoint their own auditors; it is not yet clear whether there will be a sector-led body that is able to undertake this role on behalf of bodies.</p> <p>NHS and smaller local government bodies (town and parish councils, and internal drainage boards), will not have their contracts extended, and will have to appoint their own auditors for 2017/18, one year earlier than for larger local government bodies.</p>	<p><i>We understand guidance is being prepared by CIPFA on the request of the NAO.</i></p> <p><i>We will also be preparing a briefing note for clients.</i></p>

Area	Level of Impact	Comments	KPMG perspective
<p>Local Audit and Accountability Act 2014 – provisions affecting auditors’ work from 1 April 2015</p>	<p>● Low</p>	<p>With effect from 1 April 2015, certain provisions of the <i>Local Audit and Accountability Act 2014</i> (LAAA 2014) came into force and are applicable to auditors’ work for the year 2015/16. Whilst the <i>Audit Commission Act 1998</i> is transitionally saved for audit work on 2014/15, insofar as auditors are engaged in planning work for 2015/16, or possibly considering public interest reports (PIRs) to be made during 2015/16, they need to be aware of the provisions of LAAA 2014 that are already in force.</p> <p>Provisions affecting auditors’ work with effect from 1 April 2015 are:</p> <p>1) <i>New duty to publish PIRs on audited bodies’ websites</i></p> <p>Under the new audit regime, there is an emphasis on the publication of relevant information on the relevant authority’s website. The following provisions are relevant to auditors carrying out work on 2015/16 if they decide to issue a public interest report during the audit.</p> <p>Under Schedule 7 LAAA 2014, the following matters must be published on the relevant authority’s website (if it has one):</p> <ul style="list-style-type: none"> ■ PIRs (relating to the relevant authority or a connected entity); ■ notice of a meeting to consider a PIR/written recommendation; and ■ notice summarising those decisions approved by the auditor as a result of consideration of the PIR/recommendation. <p>Where the relevant authority does not have a website, it is instead generally required to make the relevant publication “in such manner as it thinks is likely to bring the notice or report to the attention of persons who live in its area”. This could be, for example, in a local newspaper (as was required in certain cases under the previous legislation).</p>	<p><i>The Committee need to be aware of the provisions that are in place from 1 April 2015</i></p>

Area	Level of Impact	Comments	KPMG perspective
<p>Local Audit and Accountability Act 2014 – provisions affecting auditors’ work from 1 April 2015 (continued)</p>	<p>● Low</p>	<p>2) Prohibition on disclosure</p> <p>The prohibition against disclosure that was previously to be found in section 49 of the <i>Audit Commission Act 1998</i> has been repealed and replaced by provisions in Schedule 11 of LAAA 2014. This change has not been transitionally introduced and auditors and local authority bodies need to be aware that this applies to all audits, irrespective of the year. Thus, any reference to the prohibition against disclosure needs to be to Schedule 11 and not section 49. There are no material differences between the two sets of provisions.</p> <p>3) Connected entities</p> <p>LAAA 2014 introduces a new concept into the audit regime, “connected entities”. Connected entities are bodies that are separate to the relevant authority, but are associated with the authority in such a manner that requires the authority to record financial information relating to the entity in its accounts.</p> <p>The full definition of “connected entities” is set out in paragraph 8 of Schedule 4 LAAA 2014.</p> <p>For the purposes of this Act, an entity (“E”) is connected with a relevant authority at any time if E is an entity other than the relevant authority and the relevant authority considers that, in accordance with proper practices in force at that time:</p> <ul style="list-style-type: none"> ■ The financial transactions, reserves, assets and liabilities of E are to be consolidated into the relevant authority's statement of accounts for the financial year in which that time falls; ■ The relevant authority's share of the financial transactions, reserves, assets and liabilities of E is to be consolidated into the relevant authority's statement of accounts for that financial year; or ■ The relevant authority's share of the net assets or net liabilities of E, and of the profit or loss of E, are to be brought into the relevant authority's statement of accounts for that financial year. 	<p><i>The Committee need to be aware of the provisions that are in place from 1 April 2015</i></p>

Area	Level of Impact	Comments	KPMG perspective
<p>Local Audit and Accountability Act 2014 – provisions affecting auditors’ work from 1 April 2015 (continued)</p>	<p>● Low</p>	<p>3) Connected entities (continued)</p> <p>Authorities have a number of duties in relation to their connected entities under LAAA 2014 beyond those which are expanded on below:</p> <ul style="list-style-type: none"> ■ Auditors have a right to access documents (at all reasonable times) relating to connected entities, as well as those relating to the “parent” relevant authority. The auditor can inspect, copy or take away documents. The auditor can also require people who are in possession or are accountable for the document (or have been in the past) to provide the auditor with any information or explanation that may be needed, and can require a meeting with such persons. Where a document is stored electronically, the auditor can require assistance from the relevant person at the connected entity or relevant authority in accessing the document. The connected entity must provide the auditor with such facilities and information as are reasonably required to carry out the audit functions. ■ The right to information and explanation, or to require a meeting, extends in relation to connected entities to: <ul style="list-style-type: none"> – Any persons elected or appointed to an entity; – Any employee of the entity; and – An auditor of the accounts of the entity. <p>Many of the provisions on PIRs and written recommendations in Schedule 7 apply to connected entities. Accordingly, auditors must consider whether a PIR should be made on any matter coming to their attention during the audit and relating to the authority and/or a connected entity. Similarly, an auditor may make a written recommendation to a relevant authority relating to a connected entity.</p>	<p><i>The Committee need to be aware of the provisions that are in place from 1 April 2015</i></p>

Area	Level of Impact	Comments	KPMG perspective
Local Audit and Accountability Act 2014 – provisions affecting auditors’ work from 1 April 2015 (continued)	<p style="text-align: center;">● Low</p>	<p>4) Power to call for information: exception for legally professionally privileged information</p> <p>Section 22(12) LAAA 2014 clarifies that the auditor’s right to information and documents cannot be used to compel disclosure of legally privileged information. If a person would be entitled to refuse to produce documents in legal proceedings in reliance on the doctrine of legal professional privilege, they are equally entitled to refuse to provide the relevant information or documents to the auditor. This is a notable new provision and auditors will need to bear this in mind in requesting sight of an audited body’s own legal advice. Any provision of such will be voluntary and cannot be compelled.</p>	<p><i>The Committee need to be aware of the provisions that are in place from 1 April 2015</i></p>

Deliverable	Purpose	Timing	Status
Planning			
Fee letter	Communicate indicative fee for the audit year.	April 2015	Complete
External audit plan	Outline our audit strategy and planned approach. Identify areas of audit focus and planned procedures.	January 2015	Complete
Substantive procedures			
Report to those charged with governance (ISA+260 report)	Details the resolution of key audit issues. Communication of adjusted and unadjusted audit differences. Performance improvement recommendations identified during our audit. Commentary on the PCC/CC's value for money arrangements.	September 2015	Complete
Completion			
Auditor's report	Providing an opinion on your accounts (including the Annual Governance Statement). Concluding on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the VFM conclusion).	September 2015	Complete
WGA	Concluding on the Whole of Government Accounts consolidation pack in accordance with guidance issued by the National Audit Office.	September 2015	Complete
Annual audit letter	Summarise the outcomes and the key issues arising from our audit work for the year.	November 2015	Complete



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