For Information / Consideration / Comment	
Public/Non Public	**Public**
Report to:	**Joint Audit and Scrutiny Panel**
Date of Meeting:	**17th June 2014**
Report of:	**Chief Finance Officer**
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Other Contacts:	**John Cornett & Adrian Benselin (KPMG)**
Agenda Item:	**13**

External Audit Plan 2013-14

1. Purpose of the Report

1.1 To inform members of the process taken by external audit in the auditing of the 2013-14 statement of accounts and annual governance statements.

2. Recommendations

2.1 Members are requested to consider and scrutinise the proposed plan.

3. Reasons for Recommendations

3.1 This complies with good governance arrangements and the relevant statutory and regulatory requirements.

4. Summary of Key Points

4.1 This report of the external auditors provides an insight to findings being made in relation to the accounts for 2013-14 and starts to highlight some areas of potential risk.

4.2 The final report of the Auditors will be reported to the September meeting of the Audit & Scrutiny Panel (IAS260 Report).

4.3 This report highlights risks relating to the format of the accounts and specifically in relation to A19. These and other potential risks will be examined by the external auditors and discussed with the Force and PCC CFO's prior to the September report.

5. Financial Implications and Budget Provision

5.1 None as a direct result of this report. Risks identified will be subject to financial evaluation.

6. Human Resources Implications

6.1 None as a direct result of this report.

7. Equality Implications

7.1 None as a direct result of this report.

8. Risk Management

8.1 None as a direct result of this report. Risks have been identified and are being managed.

9. Policy Implications and links to the Police and Crime Plan Priorities

9.1 None as a direct result of this report.

10. Changes in Legislation or other Legal Considerations

10.1 Legislation is requiring further changes to the format of the accounts for the 2014-15 financial year to reflect the stage 2 transition within the two legal entities. This will require a significant change to the format of the accounts – Chief Constable, Police & Crime Commissioner and Joint Accounts for 2014-15.

11. Details of outcome of consultation

11.1 Not applicable

12. Appendices

12.1 A – Nottinghamshire PCC and CC Joint External Audit Plan 2013-14 cutting through complexity™

External Audit Plan 2013/14

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

June 2014

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This report is addressed to the Police and Crime Commissioner for Nottinghamshire and Chief Constable for Nottinghamshire and has been prepared for the sole use of the PCC and CC. 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.audit-commission.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 John Cornett, the appointed engagement lead to the PCC and CC audits, 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 complaints@audit-commission.gsi.gov.uk. Their telephone number is 0303 444 8330.

Introduction

This document describes how we will deliver our audit work for the Police and Crime Commissioner for Nottinghamshire and the Chief Constable for Nottinghamshire

Scope of this report

This document supplements our *Audit Fee Letters 2013/14* issued to you in April 2013. It describes how we will deliver our financial statements audit work for both the Police and Crime Commissioner for Nottinghamshire and the Chief Constable for Nottinghamshire ('the PCC and CC'). It also sets out our approach to value for money (VFM) work for 2013/14.

We are required to satisfy ourselves that your accounts comply with statutory requirements and that proper practices have been observed in compiling them. We use a risk based audit approach.

The audit planning process and risk assessment is an on-going process and the assessment and fees in this plan will be kept under review and updated if necessary.

Statutory responsibilities

Our statutory responsibilities and powers are set out in the *Audit Commission Act 1998* and the Audit Commission's *Code of Audit Practice*.

The *Code of Audit Practice* summarises our responsibilities into two objectives, requiring us to review and report on your:

- *financial statements (including the Annual Governance Statements):* providing opinions on your accounts; and
- *use of resources:* concluding on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the value for money conclusions).

The Audit Commission's *Statement of Responsibilities of Auditors and Audited Bodies* sets out the respective responsibilities of the auditor and the PCC and CC.

Structure of this report

This report is structured as follows:

- Section 2 includes our headline messages, including any key risks identified this year for the financial statements and Value for Money audits.
- Section 3 describes the approach we take for the audits of the financial statements.
- Section 4 provides further detail on the financial statements audit risks.
- Section 5 explains our approach to VFM work.
- Section 6 provides information on the audit team, our proposed deliverables, the timescales and fees for our work.

Acknowledgements

We would like to take this opportunity to thank officers and the Joint Audit and Scrutiny Panel for their continuing help and co-operation throughout our audit work.

Headlines

This table summarises the headline messages. The remainder of this report provides further details on each area.

Audit approach	Our overall audit approach is unchanged from last year. Our work is carried out in four stages and the timings for these, and specifically our on site work, have been agreed with the Chief Finance Officer and Assistant Chief Officer (Resources). Our audit strategy and plan remain flexible as risks and issues change throughout the year. We will review the initial assessments presented in this document throughout the year and should any new risks emerge we will evaluate these and respond accordingly.
Key financial statements audit risks	We have completed our initial risk assessments for the financial statements audits and have identified the following significant risks: ■ CIPFA has issued guidance on the form and content of the 2013/14 accounts. In particular, they expect to see policing activities accounted for in the Chief Constable's accounts in recognition of the control that the Chief Constable exercises in practice. This is a significant departure from the treatment adopted in the 2012/13 accounts, when all transactions were accounted for in the Commissioner's accounts, and will require restatement of last year's accounts to be consistent with the new approach. We will need to form a view as to whether transactions and balances are reasonably split between the two bodies. ■ The recent employment tribunal ruling that Nottinghamshire's use of regulation A19 to require officers with more than 30 years' pensionable service to retire was unlawful. As auditors we need to assess the financial impact of the tribunal decision on the 2013/14 financial statements. You have lodged an appeal which is unlikely to be determined before the accounts are approved but we would expect there to be a material financial impact in terms of contingent liabilities and/or provisions this year. ■ During the year, the Local Government Pension Scheme has undergone a triennial valuation with an effective date of 31 March 2013. The IAS 19 numbers to be included in the financial statements of all admitted bodies for 2013/14 will be based on the output of the triennial valuation for the first time. The valuation is rolled forward to 31 March 2014, 31 March 2015 and 31 March 2016 for accounting purposes. As data provided to the actuaries for the triennial valuation (mostly by the pension fund) is more extensive than for the roll forward, it is likely that this year there is a risk around the accuracy of the estimate for pensions liabilities. Please note that this only relates to the pensions of police staff and not police officers who are members of a separate pension scheme. These risks are described in more detail on pages 11 to 13. We will assess the PCC and CC's progress in addressing these risk areas as part of our interim work and conclude this work at our year end visit.

Headlines (continued)

This table summarises the headline messages. The remainder of this report provides further details on each area.

VFM audit approach	At this stage, we have identified the recent A19 ruling as a significant risk to our VFM conclusion for 2013/14. The ruling may impact on the 2014/15 budget and therefore our assessment of financial resilience for the VFM conclusion. We will update the Joint Audit and Scrutiny Panel of any findings or changes once we have completed our detailed risk assessment.
Audit team, deliverables, timeline and fees	There has been no change to the audit team from last year. Our main year end audit is currently planned to commence in July. Upon conclusion of our work we will again present our findings to you in our *Report to Those Charged with Governance (ISA 260 Report)*. The planned fees for the 2013/14 audit are £46,960 (PCC) and £20,000 (CC) respectively. This is unchanged from the position set out in our *Audit Fee Letters 2013/14*.

Our audit approach

We undertake our work on your financial statements in four key stages during 2014:

- **Planning (January to February).**
- **Control Evaluation (February to April).**
- **Substantive Procedures (July to August).**
- **Completion (September).**

We have summarised the four key stages of our financial statements audit process for you below:

	Stage	Activity	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
1	Planning	Update our business understanding and risk assessment.	○								
		Assess the organisational control environment.		○							
		Determine our audit strategy and plan the audit approach.		○							
		Issue our *Accounts Audit Protocol*.		○							
2	Control evaluation	Evaluate and test selected controls over key financial systems.		○							
		Review the internal audit function.		○	○						
		Review the accounts production process.			○	○					
		Review progress on critical accounting matters.				○					
3	Substantive procedures	Plan and perform substantive audit procedures.						○	○	○	
		Conclude on critical accounting matters.							○	○	
		Identify audit adjustments.							○	○	
		Review the Annual Governance Statement.							○	○	
4	Completion	Declare our independence and objectivity.									○
		Obtain management representations.									○
		Report matters of governance interest.					○				○
		Form our audit opinion.									○

Our audit approach – planning

During January and February 2014 we completed our planning work.

We agreed that we would not issue our detailed Audit Plan until Audit Commission guidance on the form and content of the financial statements had been published.

We assess the key risks affecting the PCC and CC's financial statements and discuss these with officers.

We assess if there are any weaknesses in respect of central processes that would impact on our audit.

We determine our audit strategy and approach, and agree a protocol for the accounts audit, specifying what evidence we expect from the PCC and CC to support the financial statements.

Our planning work took place in January and February 2014. This involved the following aspects:

Planning

- Update our business understanding and risk assessment.
- Assess the organisational control environment.
- Determine our audit strategy and plan the audit approach.
- Issue our *Accounts Audit Protocol*.

Business understanding and risk assessment

We updated our understanding of the PCC and CC's operations to identify any areas that will require particular attention during our audit of the PCC and CC's financial statements.

We identified the key risks affecting the PCC and CC's financial statements. These are based on our knowledge of the PCC and CC, our sector experience and our ongoing dialogue with PCC and CC staff. The risks identified to date are set out in this document. Our audit strategy and plan will, however, remain flexible as the risks and issues change throughout the year. It is the PCC and CC's responsibility to adequately address these issues. We encourage the PCC and CC to raise any technical issues with us as early as possible so that we can agree the accounting treatment in advance of the audit visit.

We meet with finance officers on a regular basis to consider issues and how they are addressed during the financial year end closedown and accounts preparation.

Delay in issuing the Audit Plan

We completed our planning work in February 2014 as scheduled, except that we were awaiting guidance from the Audit Commission on the form and content of the financial statements. We agreed that we would not issue our detailed Audit Plan until this guidance had been published. We will present our detailed Audit Plan for 2013/14 to the Joint Audit and Scrutiny Panel at its meeting in June 2014.

Organisational control environment

Controls operated at an organisational level often have an impact on controls at an operational level and if there were weaknesses this would impact on our audit.

In particular risk management, internal control and ethics and conduct have implications for our financial statements audit. The scope of the work of your internal auditors also informs our risk assessment.

Audit strategy and approach to materiality

Our audit is performed in accordance with International Standards on Auditing (ISAs) (UK and Ireland). The Engagement Lead sets the overall direction of the audits and decides the nature and extent of audit activities. We design audit procedures in response to the risk that the financial statements are materially misstated. The materiality level is a matter of judgement and is set by the Engagement Lead.

In accordance with ISA 320 '*Audit materiality*', we plan and perform our audits to provide reasonable assurance that the financial statements are free of material misstatement and give a true and fair view. Information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements.

Our audit approach – planning (continued)

We issued our *Accounts Audit Protocol* following completion of our planning work.

Accounts Audit Protocol

At the end of our planning work we issued our *Accounts Audit Protocol*. This important document sets out our audit approach and timetable. It also summarises the working papers and other evidence we require the PCC and CC to provide during our interim and final accounts visits.

In March 2014 we met with key members of the PCC and CC finance teams to discuss mutual learning points from the 2012/13 audit. These have been incorporated into our work plan for 2013/14. We will revisit progress against areas identified for development as the audit progresses.

Our audit approach – control evaluation

During April 2014 we completed our interim audit work.

We assess if controls over key financial systems were effective during 2013/14. We work with your internal audit team to avoid duplication.

We work with your finance team to enhance the efficiency of the accounts audit.

We will report any significant findings arising from our work promptly to the Joint Audit and Scrutiny Panel.

Our interim visit on site was completed during April 2014. During this time we completed work in the following areas:

Control Evaluation

- Evaluate and test controls over key financial systems identified as part of our risk assessments.
- Review the work undertaken by the internal audit function on controls relevant to our risk assessment.
- Review the accounts production process.
- Review progress on critical accounting matters.

Controls over key financial systems

We updated our understanding of the PCC and CC's key financial processes where our risk assessment identified that these are relevant to our final accounts audit and where we have determined that this is the most efficient audit approach to take. We confirmed our understanding by completing walkthroughs for these systems. We then tested 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.

Accounts production process

We will assess the PCC and CC's arrangements in preparing for the closedown and accounts preparation.

Last year there were different accounting approaches and practices across a number of police bodies. The Audit Commission's guidance is intended to harmonise the accounting approach adopted this year. We have maintained ongoing dialogue with your finance staff regarding any changes or key decisions that are being considered.

Critical accounting matters

We will discuss the work completed to address the specific risks we identified at the planning stage. Wherever possible, we seek to review relevant workings and evidence and agree the accounting treatment as part of our interim work.

At the interim stage we identified that bank reconciliations had not been prepared for months 1 to 4, due to staff absences. We note however that reconciliations have been kept up to date subsequently. We will report this matter to the Joint Audit and Scrutiny Panel through presentation of this Audit Plan.

Our audit approach – substantive procedures

During July 2014 we will be on site for our substantive work.

We complete detailed testing of accounts and disclosures and conclude on critical accounting matters, such as specific risk areas. We then agree any audit adjustments required to the financial statements.

We also review the Annual Governance Statements for consistency with our understanding.

We will present our Joint *ISA 260 Report* to the Joint Audit and Scrutiny Panel in September 2014.

Our final accounts visit on site has been scheduled for July 2014. During this time, we will complete the following work:

Substantive Procedures

- Plan and perform substantive audit procedures.
- Conclude on critical accounting matters.
- Identify and assess any audit adjustments.
- Review the Annual Governance Statements.

Financial Statements

We will audit the following financial statements:

- The Chief Constable's single entity accounts;
- The Police and Crime Commissioner's single entity accounts; and
- The Police and Crime Commissioner's Group accounts (which consolidate the PCC and CC single entity accounts).

Substantive audit procedures

We complete detailed testing on significant balances and disclosures. The extent of our work is determined by the Engagement Lead based on various factors such as our overall assessment of the PCC and CC's control environments, the effectiveness of controls over individual systems and the management of specific risk factors.

Critical accounting matters

We conclude our testing of the key risk areas as identified at the planning stage and any additional issues that may have emerged since. We will discuss our early findings of the PCC and CC's approach to address the key risk areas with the PCC's Chief Finance Officer and the CC's Finance Staff on an ongoing basis, prior to reporting to the Joint Audit and Scrutiny Panel in September 2014.

Audit adjustments

During our on site work, we will meet with key finance staff on a weekly basis to discuss the progress of the audit, any differences found and any other issues emerging.

At the end of our on site work, we will hold a closure meeting, where we will provide a schedule of audit differences and agree a timetable for the completion stage and the accounts sign off.

To comply with auditing standards, we are required to report uncorrected audit differences to the Joint Audit and Scrutiny Panel. 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.

Annual Governance Statements

We are also required to satisfy ourselves that the PCC and CC's Annual Governance Statements comply with the applicable framework and are consistent with our understanding of your operations. Our review of the work of internal audit and consideration of your risk management and governance arrangements are key to this.

We report the findings of our final accounts work in our *ISA 260 Report*, which we will issue in September 2014.

Our audit approach – other

In addition to the financial statements, we also audit the PCC's Whole of Government Accounts pack.

We may need to undertake additional work if we receive objections to the accounts from local electors.

We will communicate with you throughout the year, both formally and informally.

Whole of government accounts (WGA)

We are required to review and issue an opinion on the PCC's WGA consolidation to confirm that this is consistent with the PCC's Group financial statements. The audit approach has been agreed with HM Treasury and the National Audit Office. Deadlines for production of the pack and issue of our opinion on the pack have not yet been confirmed.

Elector challenge

The Audit Commission Act 1998 gives electors certain rights. These are:

- the right to inspect the accounts;
- the right to ask the auditor questions about the accounts; and
- the right to object to the accounts.

As a result of these rights, in particular the right to object to the accounts, we may need to undertake additional work to form our decision on the elector's objection. The additional work could range from a small piece of work where we interview an officer and review evidence to form our decision, to a more detailed piece of work, where we have to interview a range of officers, review significant amounts of evidence and seek legal representations on the issues raised.

The costs incurred in responding to specific questions or objections raised by electors is not part of the fee. This work will be charged in accordance with the Audit Commission's fee scales.

Reporting and communication

Reporting is a key part of the audit process, not only in communicating the audit findings for the year, but also in ensuring the audit team is accountable to you in addressing the issues identified as part of the audit strategy. Throughout the year we will communicate with you through meetings with the finance team and the Joint Audit and Scrutiny Panel. Our deliverables are included on page 20.

Independence and objectivity confirmation

Professional standards require auditors to communicate to those charged with governance, at least annually, all relationships that may bear on the firm's independence and the objectivity of the audit engagement partner and audit staff. The standards also place requirements on auditors in relation to integrity, objectivity and independence.

The standards define 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case this is the Police and Crime Commissioner and the Chief Constable, supported by the Joint Audit and Scrutiny Panel.

KPMG LLP is committed to being and being seen to be independent. APB Ethical Standard 1 Integrity, Objectivity and Independence requires us to communicate to you in writing all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place which, in our professional judgement, may reasonably be thought to bear on KPMG LLP's independence and the objectivity of the Engagement Lead and the audit team.

Appendix 1 provides further detail on auditors' responsibilities regarding independence and objectivity.

Confirmation statement

We confirm that as of the date of this report in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Engagement Lead and audit team is not impaired.

Key financial statements audit risks

In this section we set out our assessment of the significant risks to the audit of the PCC and CC's financial statements for 2013/14.

For each key risk area we have outlined the impact on our audit plan.

Professional standards require us to consider two standard risks for all organisations. We are not elaborating on these standard risks in this plan but consider them as a matter of course in our audit and will include any findings arising from our work in our *ISA 260 Report*.

- Management override of controls – Management is typically in a powerful position to perpetrate fraud owing to its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Our audit methodology incorporates the risk of management override as a default significant risk. In line with our methodology, we carry out appropriate 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.
- Fraudulent revenue recognition – We do not consider this to be a significant risk for PCCs and CCs as there are limited incentives and opportunities to manipulate the way income is recognised. We therefore rebut this risk and do not incorporate specific work into our audit plan in this area over and above our standard fraud procedures.

The table below sets out the significant risks we have identified through our planning work that are specific to the audit of the PCC and CC's financial statements for 2013/14.

We will revisit our assessment throughout the year and should any additional risks present themselves we will adjust our audit strategy as necessary.

Key audit risks	Impact on audit
Form and content of accounts **Audit areas affected** - Financial statements presentation	**Risk** CIPFA has issued guidance on the form and content of the 2013/14 accounts. In particular, they expect to see policing activities accounted for in the Chief Constable's accounts in recognition of the control that the Chief Constable exercises in practice. This is a significant departure from the treatment adopted in the 2012/13 accounts, when all transactions were accounted for in the Commissioner's accounts, and will require restatement of last year's accounts to be consistent with the new approach. **Our audit work** We have held discussions with your finance team to discuss their response to the CIPFA guidance. We will need to form a view as to whether transactions and balances are reasonably split between the two bodies.

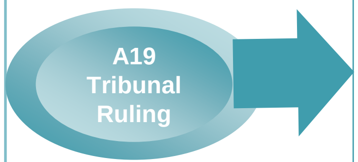
Key financial statements audit risks

In this section we set out our assessment of the significant risks to the audit of the PCC and CC's financial statements for 2013/14.

For each key risk area we have outlined the impact on our audit plan.

The table below sets out the significant risks we have identified through our planning work that are specific to the audit of the PCC and CC's financial statements for 2013/14.

We will revisit our assessment throughout the year and should any additional risks present themselves we will adjust our audit strategy as necessary.

Key audit risks	Impact on audit
 **Audit areas affected** ▪ Financial Statements Presentation ▪ Contingent Liabilities ▪ Provisions	**Risk** Nottinghamshire Police have recently lost the employment tribunal against them in relation to A19. This forced officers with over 30 years service to retire. In Nottinghamshire this affected just under 100 officers. Along with four other police forces, Nottinghamshire may now have to pay some form of compensation to these former officers. An appeal has been lodged. The ruling may have an impact on the 2013/14 financial statements and also the 2014/15 financial statements. **Our audit work** We will assess the impact of this ruling on the 2013/14 financial statements. We will review the likely accounting entries required as well as looking at how you plan to resource any future payments.

Key financial statements audit risks

In this section we set out our assessment of the significant risks to the audit of the PCC and CC's financial statements for 2013/14.

For each key risk area we have outlined the impact on our audit plan.

The table below sets out the significant risks we have identified through our planning work that are specific to the audit of the PCC and CC's financial statements for 2013/14.

We will revisit our assessment throughout the year and should any additional risks present themselves we will adjust our audit strategy as necessary.

Key audit risks	Impact on audit
LGPS Triennial Valuation **Audit areas affected** ▪ Pensions Liability ▪ Actuarial gains or losses	**Risk** During the year, the Local Government Pension Scheme for Nottinghamshire (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 PCC/CC's share of pensions assets and liabilities is determined in detail, and a large volume of data is provided to the actuary in order to carry out this triennial valuation. The IAS 19 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 to the actuary by Nottinghamshire County Council who administer the Pension Fund based on information received from Nottinghamshire PCC. **Our audit work** We will need to agree the data provided to the actuary back to the systems and reports from which it was derived, and test the accuracy of this data. We will liaise with the separate KPMG audit team for the Pension Fund, where this data was provided by the Pension Fund on the PCC/CC's behalf. The Pension Fund may seek to recharge any additional costs arising from this work. Please note that this pension scheme only relates to police staff and not police officers who are members of a separate scheme.

VFM audit approach

Our approach to VFM work follows guidance provided by the Audit Commission.

Background to approach to VFM work

In meeting their statutory responsibilities relating to economy, efficiency and effectiveness, the Commission's *Code of Audit Practice* requires auditors to:

- plan their work based on consideration of the significant risks of giving a wrong conclusion (audit risk); and
- carry out only as much work as is appropriate to enable them to give a safe VFM conclusion.

The Audit Commission has revised the VFM audit methodology for PCCs and CCs in 2013/14, recognising that the two organisations will operate as separate entities for the whole of 2013/14. The methodology for 2012/13 reflected the change in governance arrangements following the election of the PCC in November 2012.

There will be a separate VFM Conclusion for the PCC and the CC.

The approach is structured under two themes, as summarised below.

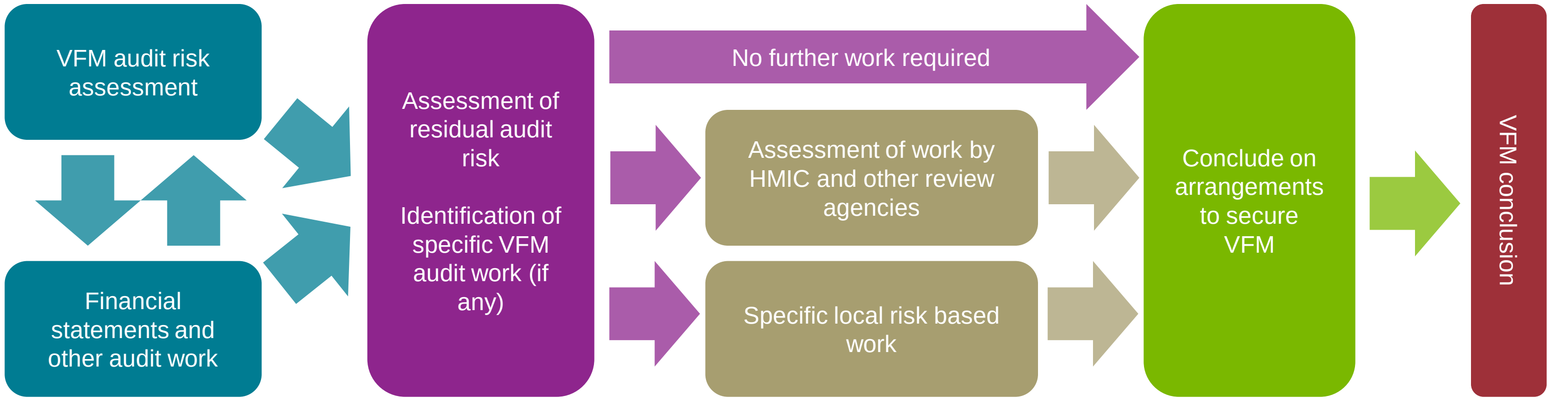
Specified criteria for VFM conclusion	Focus of the criteria	Sub-sections
The organisation has proper arrangements in place for securing **financial resilience**.	The organisation has robust systems and processes to: ■ manage effectively financial risks and opportunities; and ■ secure a stable financial position that enables it to continue to operate for the foreseeable future.	■ Financial governance ■ Financial planning ■ Financial control
The organisation has proper arrangements for challenging how it **secures economy, efficiency and effectiveness**.	The organisation is prioritising its resources within tighter budgets, for example by: ■ achieving cost reductions; and ■ improving efficiency and productivity.	■ Prioritising resources ■ Improving efficiency and productivity

VFM audit approach (continued)

We will follow a risk based approach to target audit effort on the areas of greatest audit risk.

Overview of the VFM audit approach

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



Each of these stages are summarised further below.

VFM audit stage	Audit approach
VFM audit risk assessment	We consider the relevance and significance of the potential business risks faced by all PCCs and CCs, and other risks that apply specifically to the PCC and CC. These are the significant operational and financial risks in achieving statutory functions and objectives, which are relevant to auditors' responsibilities under the *Code of Audit Practice*. In doing so we consider: ■ the PCC and CC's own assessment of the risks it faces, and their arrangements to manage and address their risks; ■ information from the Audit Commission's VFM profile tool and financial ratios tool; ■ evidence gained from previous audit work, including the response to that work; and ■ the work of HMIC and other inspectorates and review agencies.

VFM audit approach (continued)

Our VFM audit will draw heavily on other audit work which is relevant to our VFM responsibilities and the results of last year's VFM audit.

We will then form an assessment of residual audit risk to identify if there are any areas where more detailed VFM audit work is required.

VFM audit stage	Audit approach
Linkages with financial statements and other audit work	There is a degree of overlap between the work we do as part of the VFM audit and our financial statements audit. For example, our financial statements audit includes an assessment and testing of the PCC and CC's organisational control environment, including the PCC and CC's financial management and governance arrangements, many aspects of which are relevant to our VFM audit responsibilities. We have always sought to avoid duplication of audit effort by integrating our financial statements and VFM work, and this will continue. We will therefore draw upon relevant aspects of our financial statements audit work to inform the VFM audit.
Assessment of residual audit risk	It is possible that further audit work may be necessary in some areas to ensure sufficient coverage of the two VFM criteria. Such work may involve interviews with relevant officers and /or the review of documents such as policies, plans and minutes. We may also refer to any self assessment the PCC and CC may prepare against the characteristics. To inform any further work we must draw together an assessment of residual audit risk, taking account of the work undertaken already. This will identify those areas requiring further specific audit work to inform the VFM conclusion. At this stage it is not possible to indicate the number or type of residual audit risks that might require additional audit work, and therefore the overall scale of work cannot be easily predicted. If a significant amount of work is necessary then we will need to review the adequacy of our agreed audit fee.
Identification of specific VFM audit work	If we identify residual audit risks, then we will highlight the risks to the PCC and CC and consider the most appropriate audit response in each case, including: ■ considering the results of work by the PCC and CC, HMIC and other inspectorates and review agencies; and ■ carrying out local risk-based work to form a view on the adequacy of the PCC and CC's arrangements for securing economy, efficiency and effectiveness in their use of resources.

VFM audit approach (continued)

Where relevant, we may draw upon the range of audit tools and review guides developed by the Audit Commission.

We have completed our initial risk assessment and have identified one risk to our VFM conclusion at this stage. This relates to the A19 failed employment tribunal and the likely impact on the ongoing financial resilience of the PCC/CC. We will update our assessment during the audit.

We will conclude on the results of the VFM audit through our Joint ISA 260 Report.

VFM audit stage	Audit approach
Delivery of local risk based work	Depending on the nature of the residual audit risk identified, we may be able to draw on audit tools and sources of guidance when undertaking specific local risk-based audit work, such as: ■ local savings review guides based on selected previous Audit Commission national studies; and ■ update briefings for previous Audit Commission studies. The tools and guides will support our work where we have identified a local risk that is relevant to them. For any residual audit risks that relate to issues not covered by one of these tools, we will develop an appropriate audit approach drawing on the detailed VFM guidance and other sources of information.
Concluding on VFM arrangements	At the conclusion of the VFM audit we will consider the results of the work undertaken and assess the assurance obtained against each of the VFM themes regarding the adequacy of the PCC and CC's arrangements for securing economy, efficiency and effectiveness in the use of resources. If any issues are identified that may be significant to this assessment, and in particular if there are issues that indicate we may need to consider qualifying our VFM conclusion, we will discuss these with management as soon as possible. Such issues will also be considered more widely as part of KPMG's quality control processes, to help ensure the consistency of auditors' decisions.
Reporting	On the following page, we report the results of our initial risk assessment. We will report on the results of the VFM audit through our *ISA 260 Report*. This will summarise any specific matters arising, and the basis for our overall conclusion. If considered appropriate, we may produce a separate report on the VFM audit, either overall or for any specific reviews that we may undertake. The key output from the work will be the VFM conclusions (i.e. our opinion on the PCC and CC's arrangements for securing VFM), which form part of our audit reports.

Section five

VFM audit approach (continued)

We have identified one specific VFM risk.

We will carry out additional risk-based work in the following area:

- **A19 ruling and the financial consequences facing the PCC/CC.**

In line with the risk-based approach set out on the previous page, we have:

- assessed the PCC and CC's key business risks which are relevant to our VFM conclusions; and
- identified the residual audit risks for our VFM conclusions, taking account of work undertaken in previous years or as part of our financial statements audit.

Further work will include:

- considering the results of relevant work by the PCC and CC, the Audit Commission, HMIC and other inspectorates and review agencies in relation to these risk areas; and
- concluding to what extent we need to carry out additional risk-based work.

Below we set out our preliminary findings in respect of those areas where we have identified a residual audit risk for our VFM conclusions,

We will report our final conclusions in our *ISA 260 Report 2013/14*.

Key VFM risk	Risk description and link to VFM conclusion	Preliminary assessment
	Nottinghamshire have recently lost the employment tribunal brought against them and four other forces by the Police Superintendents Association of England and Wales. This challenged the legality of their decision to force nearly 100 officers with more than 30 years service to retire. An appeal has been lodged.	Although a contingent liability of £3.5m was included in the 2012/13 financial statements, the actual costs of losing this tribunal are likely to be materially higher than this. This has financial implications for the PCC/CC this year in relation to their accounting entries and provisions and will also have an ongoing impact within the 2014/15 year when payments may have to be made to former police officers. The 2014/15 budget is unlikely to have considered these potential extra costs and this may impact on our financial resilience VFM conclusion. We will review the position regarding the appeal before reaching our VFM conclusion.

Audit team

Your audit team has been drawn from our specialist public sector assurance department. Our audit team were all part of the Nottinghamshire PCC/CC audit last year.

Contact details are shown on page 1.

The audit team will be assisted by other KPMG specialists as necessary.

John Cornett

Director

"My role is to lead our team and ensure the delivery of high quality external audit opinions. I will be the main point of contact for the Joint Audit and Scrutiny Panel, the Police and Crime Commissioner and the Chief Constable."

Adrian Benselin

Manager

"I am responsible for the management, review and delivery of the audit and providing quality assurance for any technical accounting areas. I will work closely with John to ensure we add value. I will liaise with the PCC's Chief Finance Officer, the CC's Finance Staff and Head of Internal Audit.."

Anita Pipes

Assistant Manager

""I will be responsible for the on-site delivery of our work. I will liaise with the Finance staff and will supervise the work of our audit assistants."

Audit deliverables

At the end of each stage of our audit we issue certain deliverables, including reports and opinions.

Our key deliverables will be delivered to a high standard and on time.

We will discuss and agree as appropriate each report with the PCC and CC's officers prior to publication.

Deliverable	Purpose	Committee dates
Planning		
External Audit Plan (Joint for PCC and CC)	■ Outlines our audit approach. ■ Identifies areas of audit focus and planned procedures.	**February 2014**
Control evaluation (if required)		
Interim Report (Joint for PCC and CC)	■ Details any control and process issues arising ■ Identifies any improvements required prior to the issue of the draft financial statements and the year-end audit.	**June 2014**
Control evaluation and Substantive procedures		
Report to Those Charged with Governance (ISA 260 Report) (Joint for PCC and CC)	■ Details any control and process issues arising. ■ Details the resolution of key audit issues. ■ Communicates adjusted and unadjusted audit differences. ■ Highlights performance improvement recommendations identified during our audit. ■ Commentary on the PCC and CC's value for money arrangements.	**September 2014**
Completion		
Auditor's Reports (separate reports for the PCC and CC)	■ Provides opinions on your accounts (including the Annual Governance Statements). ■ Concludes on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the VFM conclusion).	**September 2014**
Whole of Government Accounts (PCC only)	■ Provide our opinion on the PCC's WGA pack submission.	**October 2014**
Annual Audit Letter (Joint for PCC and CC)	■ Summarises the outcomes and the key issues arising from our audit work for the year.	**November 2014**

Audit timeline

We will be in continuous dialogue with you throughout the audit.

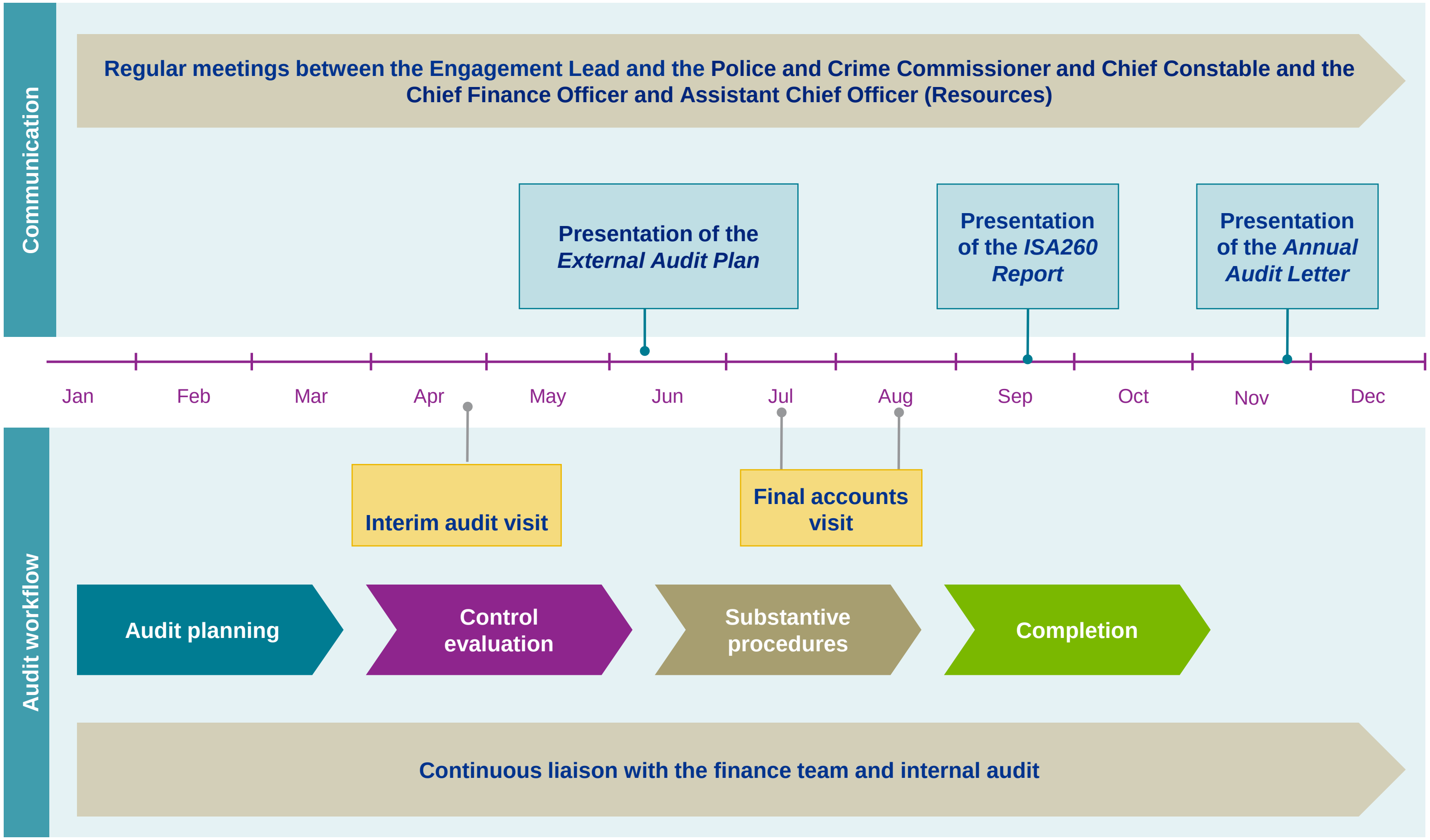
Key formal interactions with the Joint Audit and Scrutiny Panel:

- June – External Audit Plan;
- June – Interim Report (if required)
- September – ISA 260 Report;
- November – Annual Audit Letter.

We work with the finance team throughout the year.

Our main work on site will be our:

- Interim audit visit during April.
- Final accounts audits during July.



Key: ● Joint Audit and Scrutiny Panel meetings

The total fee for 2013/14 audits of the PCC and CC is £66,960. The fee has not changed from that set out in our Audit Fee Letter 2013/14 issued in April 2013.

Our audit fees remain indicative and based on you meeting our expectations of your support.

Meeting these expectations will help the delivery of our audits within the proposed audit fee.

Audit fee

Our *Audit Fee Letters 2013/14* issued to you in April 2013 first set out our fees for the 2013/14 audit. We have not considered it necessary to make any changes to the agreed fees at this stage.

Element of the audit	2013/14 (planned)	2012/13 (actual)
Police and Crime Commissioner	£46,960	£52,000
Chief Constable	£20,000	£20,000
Total	£66,960	£72,000

Our audit fee includes our work on the VFM conclusion and our audit of the PCC and CC's financial statements. The total fee for 2013/14 is £66,960. This is a reduction of 7 percent compared to the 2012/13 fee.

Audit fee assumptions

The fees are based on a number of assumptions, including that you will provide us with complete and materially accurate financial statements, with good quality supporting working papers, within agreed timeframes. It is imperative that you achieve this. If this is not the case and we have to complete more work than was envisaged, we will need to charge additional fees for this work. In setting each fee, we have assumed:

- the level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2012/13;
- you will inform us of any significant developments impacting on our audit;
- you will identify and implement any changes required under the *CIPFA Code of Practice on Local Authority Accounting in the UK 2013/14* within your 2013/14 financial statements;
- you will comply with the expectations set out in our *Accounts Audit Protocol*, including:
  - the financial statements are made available for audit in line with the agreed timescales;
  - good quality working papers and records will be provided at the start of the final accounts audit;
  - requested information will be provided within the agreed timescales;
  - prompt responses will be provided to queries and draft reports;
- internal audit meets appropriate professional standards;
- additional work will not be required to address questions or objections raised by local government electors or for special investigations such as those arising from disclosures under the Public Interest Disclosure Act 1998.

Meeting these expectations will help ensure the delivery of our audit within the agreed audit fee.

The Audit Commission requires us to inform you of specific actions you could take to keep the audit fee low. Future audit fees can be kept to a minimum if the PCC and CC achieve an efficient and well-controlled financial closedown and accounts production processes which complies with good practice and appropriately addresses new accounting developments and risk areas.

Changes to the audit plan

Changes to this plan and the audit fee may be necessary if:

- new significant audit risks emerge;
- additional work is required of us by the Audit Commission or other regulators; or
- additional work is required as a result of changes in legislation, professional standards or financial reporting requirements.

If changes to this plan and the audit fees are required, we will discuss and agree these initially with the Treasurer and Director of Finance

Appendix 1: Independence and objectivity requirements

This appendix summarises auditors' responsibilities regarding independence and objectivity.

Independence and objectivity

Auditors are required by the Code to:

- carry out their work with independence and objectivity;
- exercise their professional judgement and act independently of both the Commission and the audited body;
- maintain an objective attitude at all times and not act in any way that might give rise to, or be perceived to give rise to, a conflict of interest; and
- resist any improper attempt to influence their judgement in the conduct of the audit.

In addition, the Code specifies that auditors should not carry out work for an audited body that does not relate directly to the discharge of the auditors' functions under the Code. If the PCC and CC invite us to carry out risk-based work in a particular area, which cannot otherwise be justified to support our audit conclusions, it will be clearly differentiated as work carried out under section 35 of the Audit Commission Act 1998.

The Code also states that the Commission issues guidance under its powers to appoint auditors and to determine their terms of appointment. The Standing Guidance for Auditors includes several references to arrangements designed to support and reinforce the requirements relating to independence, which auditors must comply with. These are as follows:

- Auditors and senior members of their staff who are directly involved in the management, supervision or delivery of Commission-related work, and senior members of their audit teams should not take part in political activity.
- No member or employee of the firm should accept or hold an appointment as a member of an audited body whose auditor is, or is proposed to be, from the same firm. In addition, no member or employee of the firm should accept or hold such appointments at related bodies, such as those linked to the audited body through a strategic partnership.
- Auditors and their staff should not be employed in any capacity (whether paid or unpaid) by an audited body or other organisation providing services to an audited body whilst being employed by the firm.
- Firms are expected to comply with the requirements of the Commission's protocols on provision of personal financial or tax advice to certain senior individuals at audited bodies, independence considerations in relation to procurement of services at audited bodies, and area wide internal audit work.
- Auditors appointed by the Commission should not accept engagements which involve commenting on the performance of other Commission auditors on Commission work without first consulting the Commission.
- Auditors are expected to comply with the Commission's policy for the Engagement Lead to be changed on a periodic basis.
- Audit suppliers are required to obtain the Commission's written approval prior to changing any Engagement Lead in respect of each audited body.
- Certain other staff changes or appointments require positive action to be taken by Firms as set out in the Standing Guidance.

Appendix 2: KPMG Audit Quality Framework

We continually focus on delivering a high quality audit.

This means building robust quality control procedures into the core audit process rather than bolting them on at the end, and embedding the right attitude and approaches into management and staff.

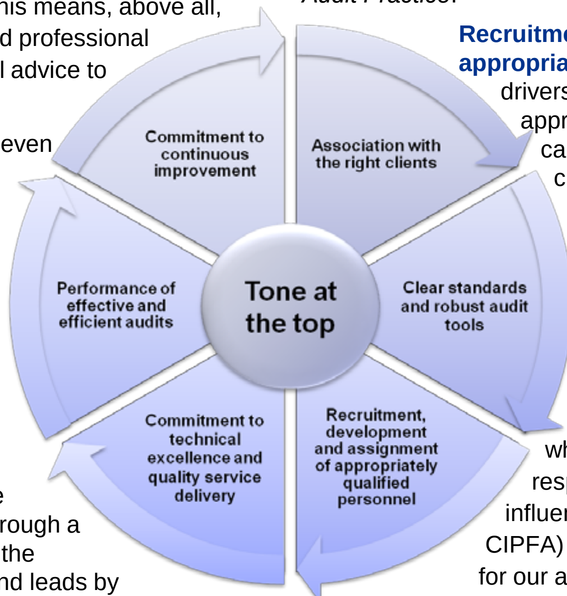
KPMG's Audit Quality Framework consists of seven key drivers combined with the commitment of each individual in KPMG.

The diagram summarises our approach and each level is expanded upon.

At KPMG we consider audit quality is not just about reaching the right opinion, but how we reach that opinion. KPMG views the outcome of a quality audit as the delivery of an appropriate and independent opinion in compliance with the auditing standards. It is about the processes, thought and integrity behind the audit report. This means, above all, being independent, compliant with our legal and professional requirements, and offering insight and impartial advice to you, our client.

KPMG's Audit Quality Framework consists of seven key drivers combined with the commitment of each individual in KPMG. We use our seven drivers of audit quality to articulate what audit quality means to KPMG.

We believe it is important to be transparent about the processes that sit behind a KPMG audit report, so you can have absolute confidence in us and in the quality of our audit.



Tone at the top: We make it clear that audit quality is part of our culture and values and therefore non-negotiable. Tone at the top is the umbrella that covers all the drivers of quality through a focused and consistent voice. John Cornett as the Engagement Lead sets the tone on the audit and leads by example with a clearly articulated audit strategy and commits a significant proportion of his time throughout the audit directing and supporting the team.

Association with right clients: We undertake rigorous client and engagement acceptance and continuance procedures which are vital to the ability of KPMG to provide high-quality professional services to our clients.

Clear standards and robust audit tools: We expect our audit professionals to adhere to the clear standards we set and we provide a range of tools to support them in meeting these expectations. The global rollout of KPMG's eAudIT application has significantly enhanced existing audit functionality. eAudIT enables KPMG to deliver a highly technically enabled audit. All of our staff have a searchable data base, Accounting Research Online, that includes all published accounting standards, the KPMG Audit Manual Guidance as well as other relevant sector specific publications, such as the Audit Commission's *Code of Audit Practice*.

Recruitment, development and assignment of appropriately qualified personnel: One of the key drivers of audit quality is assigning professionals appropriate to the Authority's risks. We take great care to assign the right people to the right clients based on a number of factors including their skill set, capacity and relevant experience.

We have a well developed technical infrastructure across the firm that puts us in a strong position to deal with any emerging issues. This includes:

- A national public sector technical director who has responsibility for co-ordinating our response to emerging accounting issues, influencing accounting bodies (such as CIPFA) as well as acting as a sounding board for our auditors.

- A national technical network of public sector audit professionals is established that meets on a monthly basis and is chaired by our national technical director.

-A dedicated Department of Professional Practice comprised of over 100 staff that provide support to our audit teams and deliver our web-based quarterly technical training.

Appendix 2: KPMG Audit Quality Framework

We continually focus on delivering a high quality audit.

This means building robust quality control procedures into the core audit process rather than bolting them on at the end, and embedding the right attitude and approaches into management and staff.

Quality must build on the foundations of well trained staff and a robust methodology.

Commitment to technical excellence and quality service delivery: Our professionals bring you up-to-the-minute and accurate technical solutions and together with our specialists are capable of solving complex audit issues and delivering valued insights.

Our audit team draws upon specialist resources including Forensic, Corporate Finance, Transaction Services, Advisory, Taxation, Actuarial and IT. We promote technical excellence and quality service delivery through training and accreditation, developing business understanding and sector knowledge, investment in technical support, development of specialist networks and effective consultation processes.

Performance of effective and efficient audits: We understand that how an audit is conducted is as important as the final result. Our drivers of audit quality maximise the performance of the engagement team during the conduct of every audit. We expect our people to demonstrate certain key behaviours in the performance of effective and efficient audits. The key behaviours that our auditors apply throughout the audit process to deliver effective and efficient audits are outlined below:

- timely Engagement Lead and manager involvement;
- critical assessment of audit evidence;
- exercise of professional judgment and professional scepticism;
- ongoing mentoring and on the job coaching, supervision and review;
- appropriately supported and documented conclusions;
- if relevant, appropriate involvement of the Engagement Quality Control reviewer (EQC review);
- clear reporting of significant findings;
- insightful, open and honest two-way communication with those charged with governance; and
- client confidentiality, information security and data privacy.

Commitment to continuous improvement: We employ a broad range of mechanisms to monitor our performance, respond to feedback and understand our opportunities for improvement.

Our quality review results

We are able to evidence the quality of our audits through the results of National Audit Office and Audit Commission reviews. The Audit Commission publishes information on the quality of work provided by KPMG (and all other firms) for audits undertaken on behalf of them (http://www.audit-commission.gov.uk/audit-regime/audit-quality-review-programme/principal-audits/kpmg-audit-quality).

The latest Annual Regulatory Compliance and Quality Report (issued June 2013) showed that we performed highly against the Audit Commission's criteria. We were one of only two firms to receive a combined audit quality and regulatory compliance rating of green for 2012/13.

KPMG

cutting through complexity™