Police and Crime Commissioner and Chief Constable for Nottinghamshire Police

Year ended 31 March 2021

Outline Audit Planning Report

19 April 2022

EY

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20th April 2022

Police and Crime Commissioner and Chief Constable
Nottinghamshire Police
Nottingham
NG5 6LU

Outline 2020-2021 Audit planning report

We are pleased to present our outline 2020-2021 audit planning report which sets out how we intend to carry out our responsibilities as auditor. Its purpose is to provide the Corporate Soles and the Joint Audit and Scrutiny Panel (JASP) with a basis to review our summary audit approach and scope for the 2020/21 audit. We are undertaking our work in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the Panel's service expectations.

This plan summarises our initial assessment of the key risks driving the development of an effective audit for the Police and Crime Commissioner (PCC) and Chief Constable (CC), and outlines our planned audit strategy in response to those risks. Our planning work remains in progress and we will update Corporate Soles and JASP should there be any changes to our audit risk assessment and approach when this work is concluded. We expect to receive the unaudited financial statements from the PCC and CC by the middle of May 2022. We are currently finalising our project plan for the audit of the PCC and CC 2020-2021 accounts which will take account of the agreed timetable for receipt of supporting working papers from officers and the preparatory work required thereafter for us to obtain the required data from financial systems, complete our analytical procedures and select samples for our substantive audit testing. We anticipate that our audit testing will take place from w/c 20th June 2022 with a target to issue our audit opinion by the end of August 2022.

This report is intended solely for the information and use of PCC and CC, Joint Audit and Scrutiny panel (JASP) and is not intended to be and should not be used by anyone other than these specified parties.

We welcome the opportunity to discuss this report with you at the upcoming committee meeting as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Neil Harris

For and on behalf of Ernst & Young LLP

Contents

01 Overview of our 2020/21 audit strategy

Overview of our 2020/21 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Audit Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

Audit risks and areas of focus

Risk/area of focus	Risk identified	Change from PY	Details
Misstatements arising due to fraud or error (PCC& CC)	Fraud risk	No change in risk or focus	As identified in ISA 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that would otherwise appear to be operating effectively.
Risk of fraud in revenue of expenditure recognition: Incorrect capitalization of revenue expenditure (PCC)	Fraud risk	No change in risk or focus	Linking to our fraud risk above we have considered the capitalisation of revenue expenditure on property, plant and equipment as a separate risk, given the extent of the PCC's capital programme. A risk exists that expenditure is inappropriately capitalised in order to inappropriately inflate reported outturn.
Valuation of Property, Plant and Equipment (PCC)	Significant risk	No change in risk or focus	The fair value of Property, Plant and Equipment (PPE) represent significant balances in the Group's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet. There is a risk that fixed assets may be materially over/under stated.
Private Finance Initiative (PFI) accounting (PCC)	Significant risk	Increase in risk	The PCC has two PFI Schemes, being the provision and maintenance of the Riverside building and the vehicle fleet. Correctly accounting for PFI schemes involves transactions which are derived from operating models for which assumptions and changes need to be updated accurately and reflected in the financial statements. There is a risk that disclosures in the financial statements are not consistent with the assumptions within the PFI operating model. We have increased this to significant risk due to the vehicle fleet PFI scheme now being brought back in-house in 20/21 which will have an impact on balance sheet.
Valuation of the Police Pension Scheme liability (CC)	Inherent Risk	No change in risk or focus	The estimation of the defined benefit obligations is sensitive to a range of assumptions such as rates of pay and pension inflation, mortality and discount rates. The pension fund valuations separately involve external specialists, to provide these actuarial assumptions. A small movement in these assumptions could have a material impact on the value in the balance sheet.
Valuation of Pension Liabilities – LGPS (PCC & CC)	Inherent Risk	No change in risk or focus	The estimation of the defined benefit obligations is sensitive to a range of assumptions such as rates of pay and pension inflation, mortality and discount rates. The pension fund valuations separately involve external specialists, to provide these actuarial assumptions. A small movement in these assumptions could have a material impact on the value in the balance sheet.

Overview of our 2020/21 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Police and Crime Commissioner (PCC) and Chief Constable (CC) with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Collaborative Arrangements (CC)	Inherent risk	No change in risk or focus	Joint arrangements operate with partners across the East Midlands. There is a risk that the allocation of activity is not correctly recorded in their financial statements.
Disclosure on Going Concern	Inherent risk	New area of focus	The PCC and CC medium term financial plans will need revision for the impact from Covid-19 and economic disruptions and uncertainties, such as inflationary pressures. We consider that the unpredictability of the current environment gave rise to a risk that the PCC and CC would not appropriately assess and disclose the key factors relating to going concern and the continuity of service provision.
General preparation of 20/21 accounts	Inherent risk	New area of focus	We identified a general area of focus on preparation for 20/21 accounts and quality of working papers in light of a) the number of prior period restatements in the 2019/2020 financial statements and number of other material audit adjustments; b) turnover in staff in finance team and additional recruitment underway to strengthen capacity; c) capacity in PCC finance team and recent turnover in senior personnel; d) quality of working papers and delays in obtaining adequate explanations and supporting evidence; e) control environment recommendations we made in prior year ISA260 (See details in section 2).

Overview of our 2020/21 audit strategy (cont.)

Audit risks and areas of focus

Auditing accounting estimates

In addition to the above risks and areas of focus, a revised auditing standard has been issued in respect of the audit of accounting estimates. The revised standard requires auditors to consider inherent risks associated with the production of accounting estimates. These could relate, for example, to the complexity of the method applied, subjectivity in the choice of data or assumptions or a high degree of estimation uncertainty. As part of this, auditors now consider risk on a spectrum (from low to high inherent risk) rather than a simplified classification of whether there is a significant risk or not. At the same time, we may see the number of significant risks we report in respect of accounting estimates to increase as a result of the revised guidance in this area. The changes to the standard may affect the nature and extent of information that we may request and will likely increase the level of audit work required. Further details are set out on page 22.

Materiality

Planning materiality

Materiality has been set at 2% of the relevant materiality basis as set out in the table below.

Performance materiality

In accordance with ISA320 we have considered a number of factors to determine the performance materiality and taking account of the volume of errors and that misstatements exceeded 25% of performance materiality in the prior year audit, we have set the threshold at 50%.

Audit differences

We will report all uncorrected misstatements relating to the primary statements (comprehensive income and expenditure statement, balance sheet, movement in reserves statement, cash flow statement, and pension fund financial statements) greater than a defined level. Other misstatements identified will be communicated to the extent that they merit the attention of the JASP.

Entity	Basis of materiality	Planning materiality	Performance materiality	Audit difference
Group	Gross revenue expenditure (excluding non-distributed costs)	£6.42m	£3.21m	£321k
PCC	Gross assets	£2.38m	£1.19m	£119k
CC	Gross revenue expenditure (excluding non-distributed costs)	£6.23m	£3.11m	£311k
Pension Fund	No requirement to determine separate materiality levels for police and firefighter police funds.			

Overview of our 2020/21 audit strategy (continued)

Audit scope

This Audit Plan covers the work that we plan to perform to provide you with:

- Our audit opinion on whether the financial statements of the PCC and CC for Nottinghamshire give a true and fair view of the financial position as at 31 March 2021 and of the income and expenditure for the year then ended; and

- Our conclusion on the PCC and CC's arrangements to secure economy, efficiency and effectiveness.

We will also review and report to the National Audit Office (NAO), to the extent and in the form required by them, on the PCC's and CC's Whole of Government Accounts return.

Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

When planning the audit we take into account several key inputs:

- Strategic, operational and financial risks relevant to the financial statements;
- Developments in financial reporting and auditing standards;
- The quality of systems and processes;
- Changes in the business and regulatory environment; and,
- Management's views on all of the above.

By considering these inputs, our audit is focused on the areas that matter and our feedback is more likely to be relevant to the PCC and CC.

Overview of our 2020/21 audit strategy (continued)

Value for money conclusion (VFM)

One of the main changes in the NAO's 2020 Code of Audit Practice is in relation to the value of money conclusion. We include full details in section 3 but in summary

- We are still required to consider whether the PCC and CC has put in place 'proper arrangements' to secure the economy, efficiency and effectiveness on its use of resources
- Planning on VFM and the associated risk assessment is now focused on gathering sufficient evidence to enable us to document our evaluation of the PCC and CC arrangements, to enable us to draft commentary under the three reporting criteria detailed below. This includes identifying and reporting on any significant weaknesses in those arrangements and making appropriate recommendations.
- We will be required to provide a commentary on the arrangements of both the PCC and CC against the following reporting criteria;
    - Financial sustainability – how the PCC and CC plans to manage its resources to ensure it can continue to deliver its services;
    - Governance – how the PCC and CC ensures that it makes informed decisions and properly manages its strategic risks; and
    - Improving economy, efficiency and effectiveness – how the PCC and CC uses information about its costs and performance to improve the management and delivery of services to the public.
- Within the audit opinions we still only report by exception where we are not satisfied that the PCC and CC has proper arrangements in place for securing the economy, efficiency and effectiveness in its use of resources.
- The commentary on arrangements will be included in a new Auditor's Annual Report which can be issued after the audit opinions for the financial statements are reported.

Overview of our 2020/2021 audit strategy

Audit scope

This Audit Plan covers the work that we plan to perform to provide you with:

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- Strategic, operational and financial risks relevant to the financial statements;
- Developments in financial reporting and auditing standards;
- The quality of systems and processes;
- Changes in the business and regulatory environment; and,
- Management's views on all of the above.

By considering these inputs, our audit is focused on the areas that matter and our feedback is more likely to be relevant to the PCC and CC.

Taking the above into account, and as articulated in this audit plan, our professional responsibilities require us to independently assess the risks associated with providing an audit opinion and undertake appropriate procedures in response to that. Our Terms of Appointment with PSAA allow them to vary the fee dependent on "the auditors assessment of risk and the work needed to meet their professional responsibilities". PSAA are aware that the setting of scale fees has not kept pace with the changing requirements of external audit with increased focus on, for example, the valuations of land and buildings, the auditing of groups, the valuation of pension obligations, the introduction of new accounting standards such as IFRS 9 and 15 in recent years as well as the expansion of factors impacting the value for money conclusion. Therefore to the extent any of these or any other risks are relevant in the context of the PCC and CC for Nottinghamshire audit, we will discuss these with management as to the impact on the scale fee.

Audit team changes

Key changes to our team.

Engagement Partner – Neil Harris
Neil has over 20 years of public sector audit experience, 12 years of which as a Key Audit Partner for local audits of Local Authorities, PCC, CC and Fire and Rescue Authorities. Neil was the Key Audit Partner for the PCC and CC external audit of the 2018/2019 and 2019/2020 financial statements.

Engagement Manager – Cheng Sha
Cheng Sha has over seven years of audit experience in public sector audit, including over five years in police authority audit. Cheng is taking over managing the audit from Gary Morris.

02 Audit risks

Our response to significant risks

Misstatements due to fraud or error (PCC & CC)	What is the risk?	What will we do?

	The financial statements as a whole are not free of material misstatements whether caused by fraud or error.
	
	As identified in ISA (UK) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.
	
	In undertaking our fraud risk assessment we have not identified any specific risks for inclusion in our audit plan at this stage. We will continue to monitor this and provide you with an update as required.
		We will;
		• Identify fraud risks during the planning stages.
		• Inquire of management about risks of fraud and the controls put in place to address those risks.
		• Understand the oversight given by those charged with governance of management's processes over fraud.
		• Consider the effectiveness of management's controls designed to address the risk of fraud.
		• Determine an appropriate strategy to address those identified risks of fraud.
		• Performing mandatory procedures regardless of specifically identified fraud risks, including:
		    • testing of journal entries and other adjustments in the preparation of the financial statements;
		    • assessing accounting estimates for evidence of management bias; and
		    • evaluating the business rationale for significant unusual transactions.

Our response to significant risks (continued)

Risk of fraud in revenue and expenditure recognition

- Incorrect capitalisation of Revenue Expenditure (PCC)

What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

As identified in ISA (UK) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.

Misstatements that occur in relation to this risk may impact the following significant accounts:

Valuation of PPE (specifically in relation to PPE additions) and completeness of expenditure since incorrectly capitalised expenditure will mean that the expenditure figure in the CIES is not complete.

What will we do?

As part of our walkthrough procedures we will evaluate the controls in relation to processes around the capitalisation of PPE.

We will also obtain an understanding of management's criteria for capitalisation of expenditure and of review whether these are appropriate.

For capital expenditure incurred in 2019/20, we will undertake additional procedures to address the specific risk we have identified, which will focus around Increased sample testing additions to property, plant and equipment.

We will ensure that all additions that we randomly select for testing have been correctly classified as capital and included at the correct value in order to ensure that fixed assets are not materially overstated as a result of inappropriate capitalisation of revenue expenditure.

Our response to significant risks (continued)

Valuation of Property, Plant and Equipment (PCC)

What is the risk?

The fair value of Property, Plant and Equipment including assets held for sale, represent significant balances in the Group and PCC sole accounts and are subject to valuation changes, impairment reviews and depreciation charges.

Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.

This has been assessed as a significant risk in this financial year due to errors noted in the previous year coupled with the impact of Covid-19 on the valuation of assets on 31-03-2021.

Misstatements that occur in relation to this risk may impact the following significant accounts: Property, Plant and Equipment, and Assets held for Sale since changes in asset values will affect the balances of these accounts at year end. We do not believe that this significant risk of material misstatement impacts investment property valuation as the level of investment property held is so low.

What will we do?

We will:

- Consider the work performed by the PCC's valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- Sample test key asset information used by the valuers in performing their valuation (e.g. floor plans to support valuations based on price per square metre);
- Consider the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code for PPE. We also consider if there are any specific changes to assets that have occurred and that these have been communicated to the valuer;
- Review assets not subject to valuation in 2020/21 to confirm that the remaining asset base is not materially misstated;
- Where appropriate, use EY valuation specialists to review a sample of asset valuations and the underlying assumptions and valuation basis used;
- Consider changes to useful economic lives as a result of the most recent valuation; and
- Test accounting entries have been correctly processed in the financial statements.

Our response to significant risks (continued)

Private Finance Initiative (PFI) accounting (PCC)

What is the risk?

The PCC in the prior periods had two PFI Schemes, being the provision and maintenance of the Riverside building and of the vehicle fleet. Correctly accounting for PFI schemes involves transactions which are derived from operating models for which assumptions and changes need to be updated accurately and reflected in the financial statements. There is an existing risk that disclosures in the financial statements are not consistent with the assumptions within the PFI operating model.

In 20/21, one of the PFI schemes (for vehicle fleet) was brought back in-house, which means the vehicles will be recognised on the balance sheet. Due to this change there is increased risk in the accounting treatments, as well as reflecting the rights and obligations in disclosures.

What will we do?

In order to address the risk we will:

- Discuss and inquire with management to fully understand the exit of the vehicle fleet PFI scheme
- Involve EY PFI specialist to evaluate accuracy of accounting treatment of the exit of the PFI model
- Review the consistency of the accounting transactions and disclosures with the remaining PFI model
- Review the remaining PFI model for consistency with the model applied in the prior period.

Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

What is the risk/area of focus?	Our audit approach (Local Government Scheme)	Our audit approach (Police Pension Scheme)
Pension Liability Valuation The Local Authority Accounting Code of Practice and IAS19 require extensive disclosures within the financial statements regarding membership of the Local Government Pension Scheme administered by Nottinghamshire County Council and membership of the Police Pension Scheme administered and underwritten by HM Government. The pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the balance sheet. Accounting for the schemes involve significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates. The impact of Covid-19 on the financial markets and values of securities could have a material impact on the pension fund which holds most value in securities and other investments. The new auditing standard (ISA 540 – Revised) requires auditors to test the method of measurement of accounting estimates to determine whether the actuarial model is appropriately designed, consistently applied and mathematically accurate, and that the integrity of the assumptions and the data has been maintained in applying the model. Neither we, nor PWC as consulting actuaries commissioned by the NAO for all local government sector audits, are able to access the detailed models of the actuaries in order to evidence these requirements. Therefore, we have been required to modify our planned approach and undertake alternate procedures to create an auditor's estimate, to provide a different method of gaining assurance.	We will: • Update our documentation of management's processes and controls over pension expenditure and deduction of employer and employee contributions; • Liaise with the auditors of Nottinghamshire Pension Fund, to obtain assurances over the information supplied to the actuary in relation to Nottinghamshire Police; • Review the work of the Local Government actuary (Barnett Waddingham) and the Police Pension actuary including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by Public Sector Auditor Appointments for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team to ensure they are in our expected range; • Review and test the accounting entries and disclosures made within the PCC and CC's financial statements to ensure consistency with the IAS 19 entries in both actuarial reports; and • Review the process of quantifying the effect of equalisation by the pension fund, including from detailed and 'granular' calculations of the actuaries. • To address the requirements of revised ISA 540, we will perform additional procedures by engaging EY Pensions to review the reasonableness of the year-end liabilities recognised on the Authority's balance sheet as at 31 March 2021.	We will: • Understand how the CC is considering the impact of McCloud and Sargeant on the financial statements arising from the employment tribunals, any resulting consultations and other pronouncements from government on restitution. • Assess the work of the actuaries (GAD) including the assumptions they have used by relying on the work of PwC - Consulting Actuaries commissioned by the National Audit Office for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team; • Understand and consider the PwC report for how your actuary has treated the impact of McCloud and Sargeant in calculating the IAS 19 liability and for any impact on the triennial revaluation; • Review and test the accounting entries and disclosures made within the financial statements in relation to IAS19; • To address the requirements of revised ISA 540, we will perform additional procedures by engaging EY Pensions to review the reasonableness of the year-end liabilities recognised on the Authority's balance sheet as at 31 March 2021. • Gain assurance over data that has been provided to the actuaries; • Test a sample of lump sums and pension payments for new police pensioners; • Complete a predictive analytical review for both the pensions payroll and employees and employers pension contributions; and • Assess management's arrangements to reconcile the active and pensioner membership numbers.

Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

What is the risk/area of focus?	What will we do?
Collaborative Arrangements (CC) Joint arrangements operate with partners across the East Midlands. Given the volume of transactions being accounted for across the various forces that participate in the joint arrangements and their value, we consider there to be a risk associated with the accuracy of the information being reported and accounted for (i.e. the measurement/valuation, completeness and presentation and disclosure of balances included in the financial statements	In order to address the risk we will: • Review the underlying allocation of expenditure in the Authority's own accounts against agreements in place; and • Seek further assurance from external auditors at the other PCC, CC where required over any significant stream of expenditure not controlled by Nottinghamshire.

Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

What is the risk/area of focus?	What will we do?
Going Concern Compliance with ISA 570 This auditing standard has been revised in response to enforcement cases and well-publicised corporate failures where the auditor's report failed to highlight concerns about the prospects of entities which collapsed shortly after. The revised standard is effective for audits of financial statements for periods commencing on or after 15 December 2019, which will be the audit of the 2020/21 financial statements. The revised standard increases the work we are required to perform when assessing whether the entity is a going concern. It means UK auditors will follow significantly stronger requirements than those required by current international standards; and we have therefore judged it appropriate to bring this to the attention of the Audit Committee. The CIPFA Guidance Notes for Practitioners 2020/21 accounts states 'The concept of a going concern assumes that an authority's functions and services will continue in operational existence for the foreseeable future. The provisions in the Code in respect of going concern reporting requirements reflect the economic and statutory environment in which local authorities operate. These provisions confirm that, as authorities cannot be created or dissolved without statutory prescription, they must prepare their financial statements on a going concern basis of accounting.' 'If an authority were in financial difficulty, the prospects are thus that alternative arrangements might be made by central government either for the continuation of the services it provides or for assistance with the recovery of a deficit over more than one financial year. As a result of this, it would not therefore be appropriate for local authority financial statements to be provided on anything other than a going concern basis.'	The revised standard requires: • auditor's challenge of management's identification of events or conditions impacting going concern, more specific requirements to test management's resulting assessment of going concern, an evaluation of the supporting evidence obtained which includes consideration of the risk of management bias; • greater work for us to challenge management's assessment of going concern, thoroughly test the adequacy of the supporting evidence we obtained and evaluate the risk of management bias. Our challenge will be made based on our knowledge of the Authority obtained through our audit, which will include additional specific risk assessment considerations which go beyond the current requirements; • improved transparency with a new reporting requirement for public interest entities, listed and large private companies to provide a clear, positive conclusion on whether management's assessment is appropriate, and to set out the work we have done in this respect. While the PCC and CC are not one of the three entity types listed, we will ensure compliance with any updated reporting requirements; • a stand back requirement to consider all of the evidence obtained, whether corroborative or contradictory, when we draw our conclusions on going concern; and • necessary consideration regarding the appropriateness of financial statement disclosures around going concern. The revised standard extends requirements to report to regulators where we have concerns about going concern.

Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

What is the risk/area of focus?	What will we do?
General preparation of 20/21 accounts We identified a general area of focus on preparation for 20/21 accounts and quality of working papers in light of a) Prior Year Adjustments in prior period and number of other material adjustments to the 2019-2020 financial statements; b) Turnover in staff in finance team and ongoing recruitment; c) Capacity and turnover in senior personnel in PCC finance team; d) Quality of working papers and delays in obtaining adequate explanations and supporting evidence; e) Control environment recommendations we made in prior year ISA260: - Review of draft financial statements: In our view, a significant number of the proposed adjustments would have been detected by management had a thorough review of the draft financial statements been undertaken prior to publication and presentation for audit. We therefore recommend that sufficient time for a detailed review of the draft financial statements including completion/review of the CIPFA disclosure checklist be built into the timetable for the preparation of the 2020/21 financial statements. - Multiple versions of accounts: We reported on the issue of production of multiple versions of the accounts and the impact on working papers not agreeing to the final version of accounts.	In order to address the risk we will: a) To review PCC, CC project plan for 20/21 accounts and quality of working papers; b) 50% performance materiality across all account balances, using lower testing thresholds for areas of accounts where we experienced audit difficulties; c) Delaying the completion of the audit if we encounter difficulties to safeguard audit quality; d) Follow-up on control environment recommendations we made in the prior period.

Other areas of audit focus (continued)

Impact of Covid-19

The ongoing disruption to daily life and the economy as a result of the Covid-19 virus will have a pervasive impact upon the financial statements. Understandably, the priority for the PCC and CC to date has been to ensure the safety of staff and the delivery of business critical activities. However, the financial statements will need to reflect the impact of Covid-19 on the PCC and CC's financial position and performance. Due to the significant uncertainty about the duration and extent of disruption, at this stage we have not identified specific risks related to Covid-19, but wish to highlight the wide range of ways in which it could impact the financial statements. These may include, but not be limited to:

- Going concern – management's assessment of whether the PCC and CC is a going concern will need to consider the impact of the current conditions on the PCC and CC future performance. Additional narrative disclosure will be required, including on the future principal risks and uncertainties, including the impact on operations for 2020/21 and beyond.
- Revenue recognition – there may be an impact on income collection if businesses and residents are unable to work and earn income due to the lockdown and restriction of movement due to COVID-19.
- Tangible assets – there may be impairment of tangible assets if future service potential is reduced by the economic impact of the virus. The PCC and CC may also have already incurred capital costs on projects where the economic case has fundamentally changed.
- Pensions – volatility in the financial markets is likely to have a significant impact on pension assets, and therefore net liabilities.
- Receivables – there may be an increase in amounts written off as irrecoverable and impairment of year-end balances due to the increased number of businesses and residents unable to meet their financial obligations.
- Holiday and sickness pay – the change in working patterns may result in year-end staff pay accruals which are noticeably different to prior years.
- Government support – any Covid-19 specific government support is likely to be a new transaction stream and may require development of new accounting policies and treatments.
- Annual Governance Statement– the widespread use of home working is likely to change the way internal controls operate. The Annual Governance Statement will need to capture how the control environment has changed during the period and what steps were taken to maintain a robust control environment during the disruption. This will also need to be considered in the context of internal audit's ability to issue their Head of Internal Audit opinion for the year, depending on the ability to complete the remainder of the internal audit programme.

In addition to the impact on the financial statements themselves, the disruption caused by Covid-19 may impact on management's ability to service the external audit requirements in a timely manner. For example, it may be more difficult than usual to access the supporting documentation necessary to support our audit procedures. There will be additional audit procedures we have to perform to respond to the additional risks caused by the factors noted above.

Other areas of audit focus (continued)

Auditing accounting estimates

ISA 540 (Revised) - Auditing Accounting Estimates and Related Disclosures applies to audits of all accounting estimates in financial statements for periods beginning on or after December 15, 2019.

This revised ISA responds to changes in financial reporting standards and a more complex business environment which together have increased the importance of accounting estimates to the users of financial statements and introduced new challenges for preparers and auditors.

The revised ISA requires auditors to consider inherent risks associated with the production of accounting estimates. These could relate, for example, to the complexity of the method applied, subjectivity in the choice of data or assumptions or a high degree of estimation uncertainty. As part of this, auditors consider risk on a spectrum (from low to high inherent risk) rather than a simplified classification of whether there is a significant risk or not. At the same time, we expect the number of significant risks we report in respect of accounting estimates to increase as a result of the revised guidance in this area.

The changes to the standard may affect the nature and extent of information that we may request and will likely increase the level of audit work required, particularly in cases where an accounting estimate and related disclosures are higher on the spectrum of inherent risk. For example:

- We may place more emphasis on obtaining an understanding of the nature and extent of your estimation processes and key aspects of related policies and procedures. We will need to review whether controls over these processes have been adequately designed and implemented in a greater number of cases.
- We may provide increased challenge of aspects of how you derive your accounting estimates. For example, as well as undertaking procedures to determine whether there is evidence which supports the judgments made by management, we may also consider whether there is evidence which could contradicts them.
- We may make more focussed requests for evidence or carry out more targeted procedures relating to components of accounting estimates. This might include the methods or models used, assumptions and data chosen or how disclosures (for instance on the level of uncertainty in an estimate) have been made, depending on our assessment of where the inherent risk lies.
- You may wish to consider retaining experts to assist with related work. You may also consider documenting key judgements and decisions in anticipation of auditor requests, to facilitate more efficient and effective discussions with the audit team.
- We may ask for new or changed management representations compared to prior years.

03 Value for Money Risks

Value for money

PCC and CC responsibilities for value for money

The PCC and CC is required to maintain an effective system of internal control that supports the achievement of its policies, aims and objectives while safeguarding and securing value for money from the public funds and other resources at its disposal.

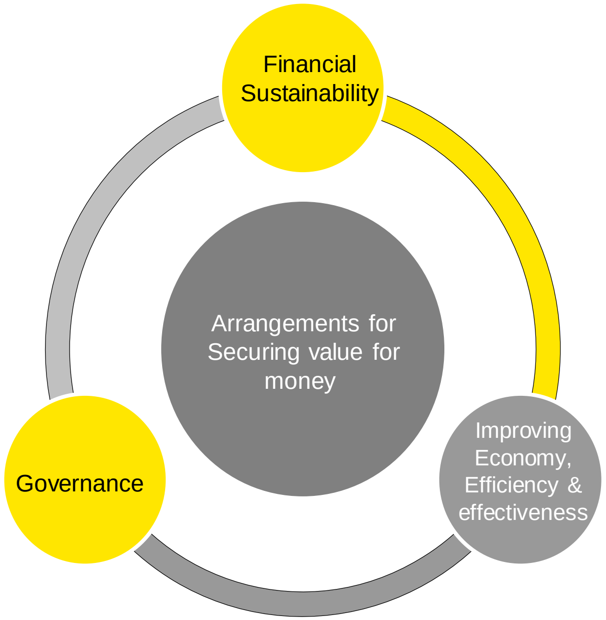
As part of the material published with its financial statements, the PCC and CC is required to bring together commentary on its governance framework and how this has operated during the period in a governance statement. In preparing its governance statement, the PCC and CC tailor's the content to reflect its own individual circumstances, consistent with the requirements of the relevant accounting and reporting framework and having regard to any guidance issued in support of that framework. This includes a requirement to provide commentary on its arrangements for securing value for money from their use of resources.

Auditor responsibilities under the new Code

Under the 2020 Code we are still required to consider whether the PCC and CC has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. However, there is no longer overall evaluation criterion which we need to conclude on. Instead the 2020 Code requires the auditor to design their work to provide them with sufficient assurance to enable them to report to the PCC and CC a commentary against specified reporting criteria (see below) on the arrangements the PCC and CC has in place to secure value for money through economic, efficient and effective use of its resources for the relevant period.

The specified reporting criteria are:

- Financial sustainability
  How the PCC and CC plans and manages its resources to ensure it can continue to deliver its services;
- Governance
  How the PCC and CC ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness:
  How the PCC and CC uses information about its costs and performance to improve the way it manages and delivers its services.



Value for Money

Planning and identifying VFM risks

The NAO's guidance notes require us to carry out a risk assessment which gathers sufficient evidence to enable us to document our evaluation of the Authority's arrangements, in order to enable us to draft a commentary under the three reporting criteria. This includes identifying and reporting on any significant weaknesses in those arrangements and making appropriate recommendations. This is a change to 2015 Code guidance notes where the NAO required auditors as part of planning, to consider the risk of reaching an incorrect conclusion in relation to the overall criterion.

In considering the Authority's arrangements, we are required to consider:

- The Authority's governance statement
- Evidence that the Authority's arrangements were in place during the reporting period;
- Evidence obtained from our work on the accounts;
- The work of inspectorates and other bodies and
- Any other evidence source that we regard as necessary to facilitate the performance of our statutory duties.

We then consider whether there is evidence to suggest that there are significant weaknesses in arrangements. The NAO's guidance is clear that the assessment of what constitutes a significant weakness and the amount of additional audit work required to adequately respond to the risk of a significant weakness in arrangements is a matter of professional judgement. However, the NAO states that a weakness may be said to be significant if it:

- Exposes – or could reasonably be expected to expose – the Authority to significant financial loss or risk;
- Leads to – or could reasonably be expected to lead to – significant impact on the quality or effectiveness of service or on the Authority's reputation;
- Leads to – or could reasonably be expected to lead to – unlawful actions; or
- Identifies a failure to take action to address a previously identified significant weakness, such as failure to implement or achieve planned progress on action/improvement plans.

We should also be informed by a consideration of:

- The magnitude of the issue in relation to the size of the Authority;
- Financial consequences in comparison to, for example, levels of income or expenditure, levels of reserves (where applicable), or impact on budgets or cashflow forecasts;
- The impact of the weakness on the Authority's reported performance;
- Whether the issue has been identified by the Authority's own internal arrangements and what corrective action has been taken or planned;
- Whether any legal judgements have been made including judicial review;
- Whether there has been any intervention by a regulator or Secretary of State;
- Whether the weakness could be considered significant when assessed against the nature, visibility or sensitivity of the issue;
- The impact on delivery of services to local taxpayers; and
- The length of time the Authority has had to respond to the issue.

Value for Money

Responding to identified risks

Where our planning work has identified a risk of significant weakness, the NAO's guidance requires us to consider what additional evidence is needed to determine whether there is a significant weakness in arrangements and undertake additional procedures as necessary, including where appropriate, challenge of management's assumptions. We are required to report our planned procedures to the Joint Audit and Scrutiny Panel.

Reporting on VFM

In addition to the commentary on arrangements, where we are not satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources the 2020 Code has the same requirement as the 2015 Code in that we should refer to this by exception in the audit report on the financial statements.

However, a new requirement under the 2020 Code is for us to include the commentary on arrangements in a new Auditor's Annual Report. The 2020 Code states that the commentary should be clear, readily understandable and highlight any issues we wish to draw to the Authority's attention or the wider public. This should include details of any recommendations arising from the audit and follow-up of recommendations issued previously, along with our view as to whether they have been implemented satisfactorily.

Status of our 2020/21 VFM planning

We have not yet started our procedures on value for money planning. In drafting this plan however, we have taken into consideration the 2019/20 value for money work, our audit procedures on the appropriateness of the PCC and CC going concern disclosures as set out in the 19/20 financial statements, our discussions with the finance team and our knowledge of sector-wide issues that may affect the Group.

We will be following up the prior year qualification on weaknesses in financial reporting arrangements. We are aware that steps have been taken by the PCC and CC to strengthen financial reporting arrangements since the autumn of 2021. However as this is outside of the 2020-2021 financial year, we are likely to conclude that significant weaknesses in financial reporting arrangements existed in the period up to 31st March 2021.

We will also be updating our understanding on the arrangements the PCC has entered into in collaboration with PCC & CC of Northamptonshire. Our understanding is that the PFCC & CC for Northamptonshire and Nottinghamshire set up an LLP (Mint Commercial) in 20/21. Mint Commercial LLP delivered contractual services relating to procurement and contract management. We understand from our discussion with management and observations on relevant agenda items at the recent meetings of the Committee that there have been significant service and performance concerns and as a result both Northamptonshire PFCC and Nottinghamshire PCC gave notice to withdraw from these contractual requirements. The circumstances leading to this are subject to an ongoing PCC internal review to identify the lessons learnt and future options for procurement and contract management services. We will need to review the outcome of the PCC internal review and options appraisal to determine, for the purposes of the 2020-2021 value for money work, whether there were significant weaknesses in arrangements for decision making, procurement and contract management during the 2020-2021 financial year and if so, how significant and pervasive this was. In addition, we have asked the PCC as part of its internal review whether the concerns on service and performance have led to any breaches and/or non-compliance with contract and procurement regulations. Subject to the audit team's review of the PCCs processes, we may determine it is appropriate to involve specialists in our forensics and integrity services team to determine the nature, timing and extent of any additional audit procedures and associated reporting. In the event where there any identified or suspected non-compliance with laws and regulations which are more than inconsequential in nature, we also need to consult on our audit procedures and reporting with our professional practice team. Even if we establish that the service and performance concerns were more present in the 2021-2022 financial year, we will still undertake our work in parallel with the audit of the PCC and CC 2020-2021 financial statements to determine if we have any findings and recommendations to report to the Committee ahead of our 2021-2022 audit.

We will continue to update the Joint Audit and Scrutiny Panel on the outcome of our VFM planning, any changes to our risk assessment, and our planned response to any identified risks of significant weaknesses in arrangements.

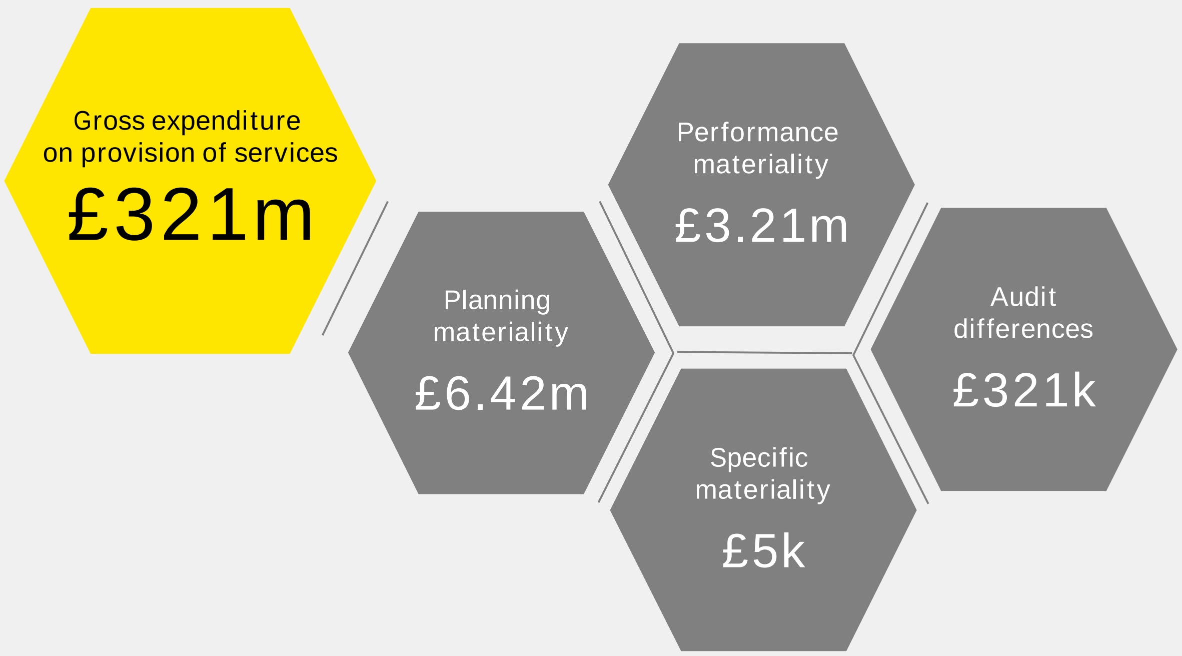
04 Audit materiality

Materiality

Group materiality

For planning purposes, materiality for the Group, PCC and CC Single Entity for 2020/21 has been set at £6.42m, £2.38m & £6.23m respectively. This represents 2% of the Group and CC Single Entity's 2019/20 audited gross expenditure on provision of services (excluding non-distributed costs). Materiality for the PCC Single Entity has been set at 2% of the PCC Single Entity's prior year audited gross assets. These materiality levels will be reassessed throughout the audit process.

We have provided supplemental information about audit materiality in Appendix D.



We request that the Audit Committee confirm its understanding of, and agreement to, these materiality and reporting levels.

Key definitions

Planning materiality – the amount over which we anticipate misstatements would influence the economic decisions of a user of the financial statements.

Performance materiality – the amount we use to determine the extent of our audit procedures. We have set performance materiality for the Group, PCC and CC Single Entity Accounts at £3.21m, £1.19m, £3.11m which represents 50% of planning materiality.

Audit difference threshold – we propose that misstatements identified below this threshold are deemed clearly trivial. The same threshold for misstatements is used for component reporting. We will report to you all uncorrected misstatements over this amount relating to the comprehensive income and expenditure statement, balance sheet and the police pension fund financial statements that have an effect on income or that relate to other comprehensive income.

Other uncorrected misstatements, such as reclassifications and misstatements in the cashflow statement and movement in reserves statement or disclosures, and corrected misstatements will be communicated to the extent that they merit the attention of the JASP, or are important from a qualitative perspective.

Specific materiality – We set specific level of materiality for related party transactions and members' allowances. For officers remuneration including exit packages we will apply materiality of £5,000 in line with bandings. This reflects our understanding that an amount less than our materiality would influence the economic decisions of users of the financial statements in relation to these disclosures.

05 Scope of our audit

Our Audit Process and Strategy

Objective and Scope of our Audit scoping

Under the 2020 Code of Audit Practice our principal objectives are to review and report on the PCC and CC's financial statements and arrangements for securing economy, efficiency and effectiveness in their use of resources to the extent required by the relevant legislation and the requirements of the Code.

We issue an audit report that covers:

1. Financial statement audit

Our objective is to form an opinion on the financial statements under International Standards on Auditing (UK and Ireland).

We also perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline below the procedures we will undertake during the course of our audit.

Procedures required by standards
- Addressing the risk of fraud and error;
- Significant disclosures included in the financial statements;
- Entity-wide controls;
- Reading other information contained in the financial statements and reporting whether it is inconsistent with our understanding and the financial statements; and
- Auditor independence.

Procedures required by the Code
- Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Annual Governance; and
- Reviewing and reporting on the Whole of Government Accounts return, in line with the instructions issued by the NAO

2. Arrangements for securing economy, efficiency and effectiveness (value for money)

We are required to consider whether the PCC and CC has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on their use of resources.

Our Audit Process and Strategy (continued)

Audit Process Overview

Our audit involves:

- Identifying and understanding the key processes and internal controls; and
- Substantive tests of detail of transactions and amounts.

For 2020/21 we plan to follow a substantive approach to the audit as we have concluded this is the most efficient way to obtain the level of audit assurance required to conclude that the financial statements are not materially misstated.

Analytics:
We will use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular journal entries. These tools:

- Help identify specific exceptions and anomalies which can then be subject to more traditional substantive audit tests; and
- Give greater likelihood of identifying errors than random sampling techniques.

We will report the findings from our process and analytics work, including any significant weaknesses or inefficiencies identified and recommendations for improvement, to management and the JASP.

Internal audit:
We will review internal audit plan and the results of their work reported to JASP. We will reflect the findings from these reports, together with reports from any other work completed in the year, in our detailed audit plan, where they raise issues that could have an impact on the financial statements.

Information produced by the entity

Information Produced by the Entity (IPE): We identified an increased risk around the completeness, accuracy, and appropriateness of information produced by the entity due to the inability of the audit team to verify original documents or re-run reports on-site from the Authority's systems. We will undertake the following to address this risk:

- Used the screen sharing function of Microsoft Teams to evidence re-running of reports used to generate the IPE we audited; and
- Agree IPE to scanned documents or other system screenshots.

Scoping the group audit

Group scoping

Our audit strategy for performing an audit of an entity with multiple locations is risk based. We identify components as:

1. Significant components: A component is significant when it is likely to include risks of material misstatement of the group financial statements, either because of its relative financial size to the group (quantitative criteria), or because of its specific nature or circumstances (qualitative criteria). We generally assign significant components a full or specific scope given their importance to the financial statements.
2. Not significant components: The number of additional components and extent of procedures performed depended primarily on: evidence from significant components, the effectiveness of group wide controls and the results of analytical procedures.

Our preliminary audit scoping has identified 2 significant components and 0 non-significant components. We considered whether any changes to this scoping was required and concluded that it remained appropriate.

Scoping by entity and scope definitions

2	Full scope: locations where a full audit is performed to the materiality levels assigned by the Group audit team for purposes of the consolidated audit. Procedures performed at full scope locations support an interoffice conclusion on the reporting package. These may not be sufficient to issue a stand-alone audit opinion on the local statutory financial statements because of the materiality used and any additional procedures required to comply with local laws and regulations. This scope is relevant to the PCC and CC as single entities.

Group audit team involvement in component audits

Auditing standards require us to be involved in the work of our component teams.

The same EY audit team will audit both the Group, PCC and CC financials statements.

06 Audit team

Audit team

Audit team structure:

Audit team

Neil Harris
Engagement Partner

Cheng Sha
Engagement Manager

Motshidisi Mashiane
Lead Senior

Specialist

EY Actuaries

EY Valuer
(where required)

* Key Audit Partner

Use of specialists

When auditing key judgements, we are often required to rely on the input and advice provided by specialists who have qualifications and expertise not possessed by the core audit team. The areas where either EY or third party specialists provide input for the current year audit are:

Area	Specialists
Valuation of Land and Buildings	Management's valuation experts and EY estates specialists (where appropriate)
PFI model	EY PFI specialist
Pensions disclosure	Actuaries of the Police Pensions Fund, Nottinghamshire Pension Fund, the Public Sector Audit Appointments (PSAA) consulting actuary and our EY actuarial service

In accordance with Auditing Standards, we will evaluate each specialist's professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work.

We also consider the work performed by the specialist in light of our knowledge of the PCC and CC's business and processes and our assessment of audit risk in the particular area. For example, we would typically perform the following procedures:

- Analyse source data and make inquiries as to the procedures used by the specialist to establish whether the source data is relevant and reliable;
- Assess the reasonableness of the assumptions and methods used;
- Consider the appropriateness of the timing of when the specialist carried out the work; and
- Assess whether the substance of the specialist's findings are properly reflected in the financial statements.

07 Audit timeline

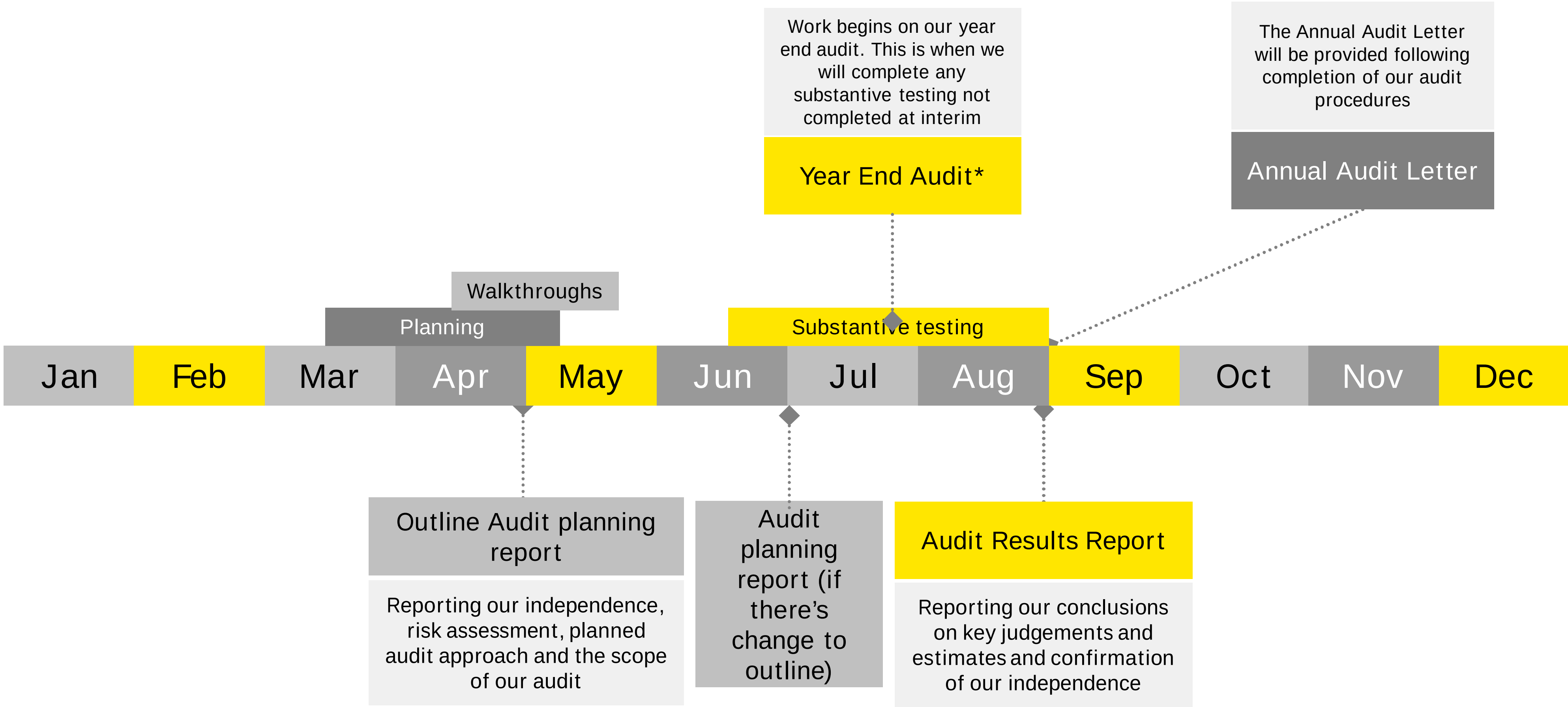
Audit timeline

Timetable of communication and deliverables

Timeline

Below is a timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 2022.

From time to time matters may arise that require immediate communication with the PCC, CC and JASP and we will discuss them with the PCC, CC and JASP Chair as appropriate. We will also provide updates on corporate governance and regulatory matters as necessary.



08 Independence

Introduction

The FRC Ethical Standard and ISA (UK) 260 “Communication of audit matters with those charged with governance”, requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our integrity, objectivity and independence. The Ethical Standard, as revised in June 2016, requires that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

Required communications	
Planning stage	Final stage
► The principal threats, if any, to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between the you, your affiliates and directors and us; ► The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review; ► The overall assessment of threats and safeguards; ► Information about the general policies and process within EY to maintain objectivity and independence. ► Where EY has determined it is appropriate to apply more restrictive independence rules than permitted under the Ethical Standard [note: additional wording should be included in the communication reflecting the client specific situation]	► In order for you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed; ► Details of non-audit services provided and the fees charged in relation thereto; ► Written confirmation that the firm and each covered person is independent and, if applicable, that any non-EY firms used in the group audit or external experts used have confirmed their independence to us; ► Written confirmation that all covered persons are independent; ► Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy; ► Details of any contingent fee arrangements for non-audit services provided by us or our network firms; and ► An opportunity to discuss auditor independence issues.

In addition, during the course of the audit, we are required to communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place, for example, when accepting an engagement to provide non-audit services.

We also provide information on any contingent fee arrangements , the amounts of any future services that have been contracted, and details of any written proposal to provide non-audit services that has been submitted;

We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period, analysed in appropriate categories, are disclosed.

Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including the principal threats, if any. We have adopted the safeguards noted below to mitigate these threats along with the reasons why they are considered to be effective. However we will only perform non –audit services if the service has been pre-approved in accordance with your policy.

Overall Assessment

Overall, we consider that the safeguards that have been adopted appropriately mitigate the principal threats identified and we therefore confirm that EY is independent and the objectivity and independence of Neil Harris, your audit engagement partner and the audit engagement team have not been compromised.

Self interest threats

A self interest threat arises when EY has financial or other interests in the PCC and/or CC. Examples include where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with you. At the time of writing, there are no long outstanding fees.

We believe that it is appropriate for us to undertake permissible non-audit services and we will comply with the policies that you have approved.

At the time of writing, there are no non-audit services to be provided.

A self interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to you. We confirm that no member of our audit engagement team, including those from other service lines, has objectives or is rewarded in relation to sales to you, in compliance with Ethical Standard part 4.

There are no other self interest threats at the date of this report.

Self review threats

Self review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements.

There are no self review threats at the date of this report.

Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of the PCC and/or CC. Management threats may also arise during the provision of a non-audit service in relation to which management is required to make judgements or decision based on that work.

There are no management threats at the date of this report.

Relationships, services and related threats and safeguards

Other threats

Other threats, such as advocacy, familiarity or intimidation, may arise.

There are no other threats at the date of this report.

Other communications

EY Transparency Report 2021

Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year ended 30 June 2021 and can be found here:

https://www.ey.com/en_uk/who-we-are/transparency-report-2021

UK Independence Standards

The Financial Reporting Council (FRC) published the Revised Ethical Standard 2019 in December and it applied after 15 March 2020. The Ethical Standard has a general prohibition on the provision of non-audit services by the auditor (and its network) which applies to UK Public Interest Entities (PIEs). A narrow list of permitted services continues to be allowed. Note that currently the Authority does not currently fall under the definition of a PIE.

Summary of key points

- Extraterritorial application of the FRC Ethical Standard to UK PIE and its worldwide affiliates
- A general prohibition on the provision of non-audit services by the auditor (or its network) to a UK PIE, its UK parent and worldwide subsidiaries
- A narrow list of permitted services where closely related to the audit and/or required by law or regulation
- Absolute prohibition on the following relationships applicable to UK PIE and its affiliates including material significant investees/investors:
    - Tax advocacy services
    - Remuneration advisory services
    - Internal audit services
    - Secondment/loan staff arrangements
- An absolute prohibition on contingent fees.
- Requirement to meet the higher standard for business relationships i.e. business relationships between the audit firm and the audit client will only be permitted if it is inconsequential.
- Permitted services required by law or regulation will not be subject to the 70% fee cap.
- Grandfathering was applied for otherwise prohibited non-audit services that were open at 15 March 2020 such that the engagement may continue until completed in accordance with the original engagement terms.
- A requirement for the auditor to notify the Joint Independent Audit Committee where the audit fee might compromise perceived independence and the appropriate safeguards.
- A requirement to report to the Joint Independent Audit Committee details of any breaches of the Ethical Standard and any actions taken by the firm to address any threats to independence. A requirement for non-network component firm whose work is used in the group audit engagement to comply with the same independence standard as the group auditor.

Next Steps

We will continue to monitor and assess all ongoing and proposed non-audit services and relationships to ensure they are permitted under FRC Revised Ethical Standard 2019.

We do not currently provide any non-audit services which would be prohibited under the new standard.

09 Appendices

Appendix A

Fees

Public Sector Audit Appointments Ltd (PSAA) has published the fee scale for the audit of the 2020/21 accounts of opted-in principal local government and police bodies.

This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the requirements of the Code of Audit Practice and supporting guidance published by the National Audit Office, the financial reporting requirements set out in the Code of Practice on Local Authority Accounting published by CIPFA/LASAAC, and the professional standards applicable to auditors' work.

Our professional responsibilities require us to independently assess the risks associated with providing an audit opinion and undertake appropriate procedures in response to that. Our Terms of Appointment with PSAA allow them to vary the fee dependent on "the auditors assessment of risk and the work needed to meet their professional responsibilities". PSAA are aware that the setting of scale fees has not kept pace with the changing requirements of external audit with increased focus on, for example, the valuations of land and buildings, the auditing of groups, the valuation of pension obligations. Therefore, to the extent any of these are relevant in the context of the audit of the PCC and CC for Nottinghamshire, we will continue discuss these with management as to the impact on the scale fee.

	Planned Fee 2020/21	Final fee 2019/20
	£	£
Total PCC Fee – Code work	27,119	27,119
Total CC Fee – Code work	11,550	11,550
Scale fee variation	TBC (Note 2)	TBC (Note 1)
Total audit	TBC	TBC
Other non-audit services not covered above	0	0
Total fees	TBC	TBC

Note 1

The 2019/20 work includes a scale variation fee which is split between the PCC and CC, requiring additional work in the following areas:

- Going concern;
- agreed amendments to the financial statements;
- VFM qualification;
- Covid-19;
- Control environment recommendations, quality of working papers
- Prior period adjustments; and
- PPE valuations.

The Scale Fee Variation for 2019/20 is yet to be finalised and discussed with management. We anticipate sharing our proposed fee variation with the PCC and CC CFO by the end of April 2022 and will update PCC, CC and JASP at this stage. We will then submit our proposed fee variation to PSAA to determine.

Note 2 – Please refer to page 42.

The scale fees set by PSAA are based on the following assumptions:

- ► Officers meeting the agreed timetable of deliverables;
- ► Appropriate quality of documentation is provided;
- ► Our accounts opinion and value for money conclusion being unqualified;
- ► The PCC and CC have an effective control environment.

If any of the above assumptions prove to be unfounded, we will seek a variation to the agreed fee. This will be discussed with management in advance.
Fees for the auditor's consideration of correspondence from the public and formal objections will be charged in addition to the scale fee.

Fees

Note 2- 2020-2021 Audit Fees.

We have had discussion with PSAA nationally about an increase to the scale fees for local audits which would be recurring for 2020-21 to reflect the regulatory and professional standards context that is driving our work to safeguard high-quality audits. We will share our proposed fee variation with PCC and CC CFO. As a result, this is yet to be determined by PSAA and has not been agreed by management.

For 2020 /21, the scale fee represents the base fee, i.e. not including any additional audit work. However, this will be impacted by a range of factors, as detailed in this Indicative Audit Plan, including additional work required to be performed as per ISA540 requirements, which have resulted in additional work. We are not able to quantify the additional work or fee at this stage as our audit has not yet started, but we will discuss this with management once our audit will conclude and the scope and scale of any additional work can be clarified.

In addition to the above, PSAA published additional information for 2020/21 audit fees in August 2021, whereby PSAA provided guidance about the range of minimum additional fee in certain areas of audit, e.g. minimum additional fees for a Police audit (PCC & CC combined) for new VFM arrangements requirements £6,000 - £11,000, ISA540 (accounting estimates) requirements £2,500. PSAA also revised its hourly rates for calculating the additional fee variations.

Appendix B

Required communications with the PCC and CC

We have detailed the communications that we must provide to the PCC and CC.

Required communications	What is reported?	Our Reporting to you When and where
Terms of engagement	Confirmation by the PCC and CC of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified. When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team	Outline Audit planning report (29 April 2022 JASP)
Significant findings from the audit	• Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures • Significant difficulties, if any, encountered during the audit • Significant matters, if any, arising from the audit that were discussed with management • Written representations that we are seeking • Expected modifications to the audit report • Other matters if any, significant to the oversight of the financial reporting process	Audit results report, date TBC but target is before the end of August 2022.

Appendix B

Required communications with the PCC and CC (continued)

		Our Reporting to you
Required communications	What is reported?	When and where
Going concern	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: • Whether the events or conditions constitute a material uncertainty • Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements • The adequacy of related disclosures in the financial statements	Audit results report, date TBC but target is by the end of August 2022.
Misstatements	• Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation • The effect of uncorrected misstatements related to prior periods • A request that any uncorrected misstatement be corrected • Corrected misstatements that are significant • Material misstatements corrected by management	Audit results report, date TBC but target is by the end of August 2022.
Fraud	• Enquiries of the PCC and CC to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity • Any fraud that we have identified or information we have obtained that indicates that a fraud may exist • A discussion of any other matters related to fraud	Audit results report, date TBC but target is by the end of August 2022.
Related parties	• Significant matters arising during the audit in connection with the entity's related parties including, when applicable: • Non-disclosure by management • Inappropriate authorisation and approval of transactions • Disagreement over disclosures • Non-compliance with laws and regulations • Difficulty in identifying the party that ultimately controls the entity	Audit results report, date TBC but target is by the end of August 2022.

Appendix B

Required communications with the PCC and CC (continued)

		Our Reporting to you
Required communications	What is reported?	When and where
Independence	Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: • The principal threats • Safeguards adopted and their effectiveness • An overall assessment of threats and safeguards • Information about the general policies and process within the firm to maintain objectivity and independence	Audit planning report (29 April 2022) and Audit results report, date TBC but target is by the end of August 2022.
External confirmations	• Management's refusal for us to request confirmations • Inability to obtain relevant and reliable audit evidence from other procedures	Audit results report, date TBC but target is by the end of August 2022.
Consideration of laws and regulations	• Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off • Enquiry of the PCC and CC into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the PCC and CC may be aware of	Audit results report, date TBC but target is by the end of August 2022.
Internal controls	• Significant deficiencies in internal controls identified during the audit	Audit results report, date TBC but target is by the end of August 2022.
Representations	Written representations we are requesting from management and/or those charged with governance	Audit results report, date TBC but target is by the end of August 2022.
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit results report, date TBC but target is by the end of August 2022.
Auditors report	• Key audit matters that we will include in our auditor's report • Any circumstances identified that affect the form and content of our auditor's report	Audit results report, date TBC but target is by the end of August 2022.
Fee Reporting	• Breakdown of fee information when the audit plan is agreed • Breakdown of fee information at the completion of the audit • Any non-audit work	Audit planning report (29 April 2022) and Audit results report, but target is by the end of August 2022.

Appendix C

Additional audit information

Other required procedures during the course of the audit	
In addition to the key areas of audit focus outlined in section 2, we have to perform other procedures as required by auditing, ethical and independence standards and other regulations. We outline the procedures below that we will undertake during the course of our audit.	
Our responsibilities required by auditing standards	• Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. • Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group’s internal control. • Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management. • Concluding on the appropriateness of management’s use of the going concern basis of accounting. • Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation. • Obtaining sufficient appropriate audit evidence regarding the financial information of the entities or activities within the Group to express an opinion on the consolidated financial statements. Reading other information contained in the financial statements, the ETAP reporting appropriately addresses matters communicated by us to the ETAP and reporting whether it is materially inconsistent with our understanding and the financial statements; and • Maintaining auditor independence.

Additional audit information (continued)

Other required procedures during the course of the audit (continued)	
Procedures required by the Audit Code	• Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Annual Governance Statement and the Remuneration Report
Other procedures	• We are required to discharge our statutory duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice 2020
We have included in Appendix C a list of matters that we are required to communicate to you under professional standards.	

Purpose and evaluation of materiality

For the purposes of determining whether the accounts are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements. Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We would be happy to discuss with you your expectations regarding our detection of misstatements in the financial statements.

Materiality determines:

- The locations at which we conduct audit procedures to support the opinion given on the Group, PCC and CC financial statements; and
- The level of work performed on individual account balances and financial statement disclosures.

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all of the circumstances that may ultimately influence our judgement about materiality. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the accounts, including the total effect of the audit misstatements we identify, and our evaluation of materiality at that date.

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