For Information / Consideration	
Public/Non Public*	**Public**
Report to:	**Joint Audit and Scrutiny Panel**
Date of Meeting:	**24 February 2021**
Report of:	**Chief Finance Officer**
Report Author:	**Charlotte Radford**
Other Contacts:	
Agenda Item:	**07**

ANNUAL AUDIT LETTER 2018-19

1. Purpose of the Report

1.1 To provide members with the Annual Audit Letter relating to the accounts for 2018-19.

2. Recommendations

2.1 Members are recommended to consider and accept this letter.

3. Reasons for Recommendations

3.1 This complies with good governance.

4. Summary of Key Points

4.1 Each year the Commissioner is required to publish the Statement of Accounts for the Group. The External Auditor on completion of the audit issues his Governance Report (ISA260).

4.2 Following receipt of the letter of Representation and conclusion of the full process the External Auditor will issue his Annual Audit Letter. His is attached at **Appendix A**.

5. Financial Implications and Budget Provision

5.1 None as a direct result of this report.

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.

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

9.1 This report complies with good governance and financial regulations.

10. Changes in Legislation or other Legal Considerations

10.1 None

11. Details of outcome of consultation

11.1 Not applicable

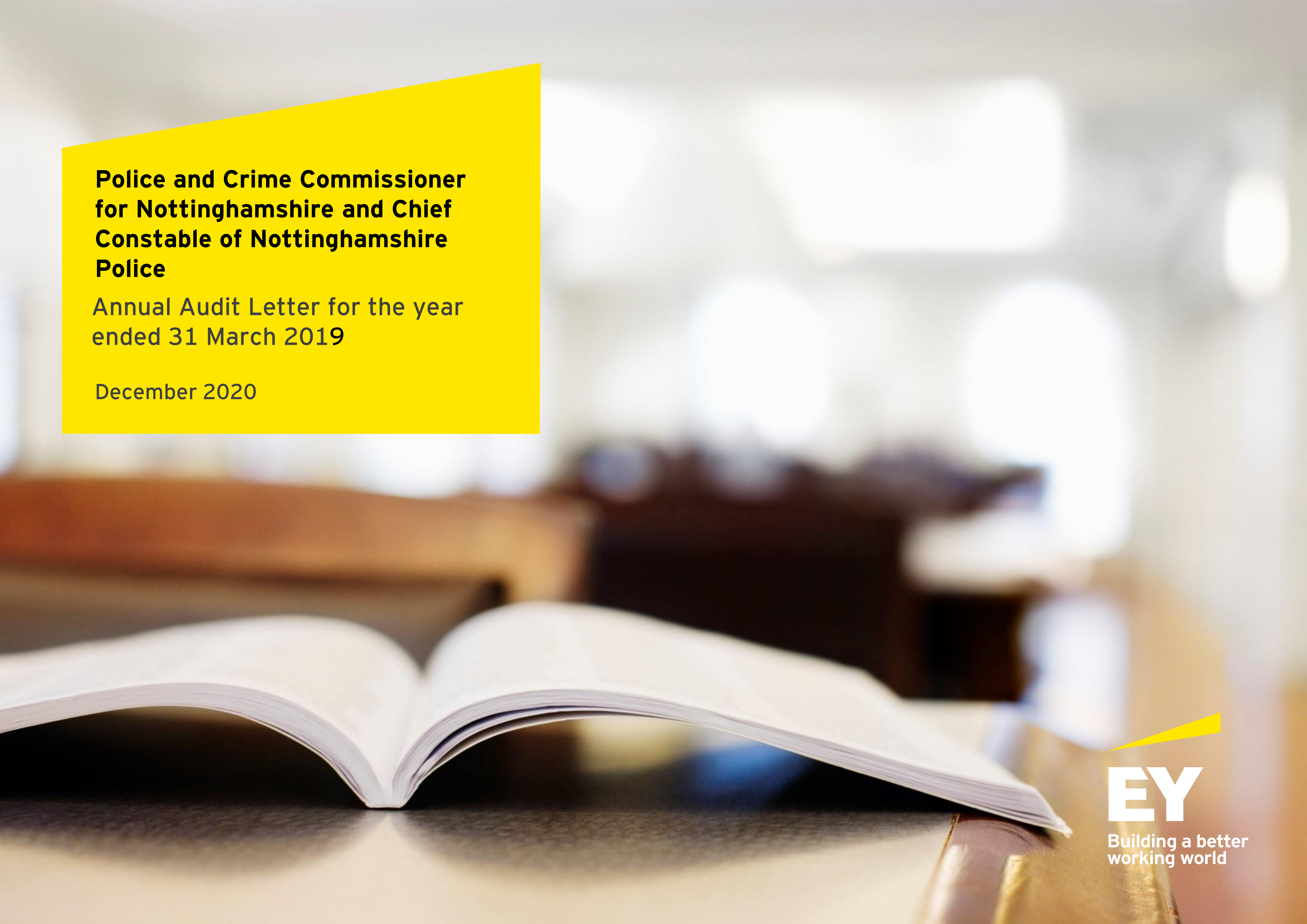
12. Appendices

12.1 Appendix A – Annual Audit Letter 2018-19

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

Annual Audit Letter for the year ended 31 March 2019

December 2020



Building a better working world

Contents

Public Sector Audit Appointments Ltd (PSAA) have issued a 'Statement of responsibilities of auditors and audited bodies'. It is available from the Chief Executive of each audited body and via the PSAA website (www.psaa.co.uk).

This Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The 'Terms of Appointment (updated April 2018)' issued by PSAA set out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Annual Audit Letter is prepared in the context of the Statement of responsibilities and Terms of Appointment. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Hywel Ball, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

01 Executive Summary

Executive Summary

We are required to issue an annual audit letter to the Police and Crime Commissioner for Nottinghamshire and Chief Constable for Nottinghamshire Police (the Group, PCC and CC) following completion of our audit procedures for the year ended 31 March 2019.

Below are the results and conclusions on the significant areas of the audit process.

Area of Work	Conclusion
Opinion on the Group, PCC and CC's: ► Financial statements	Unqualified – the financial statements give a true and fair view of the financial position of the Group, PCC and CC as at 31 March 2019 and of its expenditure and income for the year then ended
► Consistency of other information published with the financial statements	Other information published with the financial statements was consistent with the Annual Accounts
Concluding on the PCC/CC's arrangements for securing economy, efficiency and effectiveness	We concluded that you have put in place proper arrangements to secure value for money in your use of resources

Area of Work	Conclusion
Reports by exception: ► Consistency of Governance Statement	The Governance Statement was consistent with our understanding of the Group, PCC and CC.
► Public interest report	We had no matters to report in the public interest.
► Written recommendations to the PCC and/or CC, which should be copied to the Secretary of State	We had no matters to report.
► Other actions taken in relation to our responsibilities under the Local Audit and Accountability Act 2014	We had no matters to report.

Area of Work	Conclusion
Reporting to the National Audit Office (NAO) on our review of the PCC/CC's Whole of Government Accounts return (WGA).	We had no matters to report.

As a result of the above we have also:

Area of Work	Conclusion
Issued a report to those charged with governance of the PCC/CC communicating significant findings resulting from our audit.	Our Audit Results Report was issued on 27 November 2020
Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2015 Code of Audit Practice.	Our certificate was issued on 30 November 2020

We would like to take this opportunity to thank the PCC and CC's staff for their assistance during the course of our work.

Neil Harris

Associate Partner

For and on behalf of Ernst & Young LLP

02 Purpose and Responsibilities

Purpose and Responsibilities

The Purpose of this Letter

The purpose of this annual audit letter is to communicate to Members and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to the attention of the Group, PCC and CC.

We have already reported the detailed findings from our audit work in our 2018/19 Audit Results Report to the 10 June 2020 Joint Audit and Scrutiny Panel (JIAC), representing those charged with governance. We do not repeat those detailed findings in this letter. The matters reported here are the most significant for the Group, PCC and CC.

Responsibilities of the Appointed Auditor

Our 2018/19 audit work has been undertaken in accordance with the Audit Plan that we issued in May 2019 and is conducted in accordance with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK), and other guidance issued by the National Audit Office.

As auditors we are responsible for:

- Expressing an opinion:
  - On the 2018/19 financial statements; and
  - On the consistency of other information published with the financial statements.
- Forming a conclusion on the arrangements the PCC and CC have to secure economy, efficiency and effectiveness in its use of resources.
- Reporting by exception:
  - If the annual governance statement is misleading or not consistent with our understanding of the Group, PCC or CC;
  - Any significant matters that are in the public interest;
  - Any written recommendations to the Group, PCC or CC, which should be copied to the Secretary of State; and
  - If we have discharged our duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

Alongside our work on the financial statements, we also review and report to the National Audit Office (NAO) on your Whole of Government Accounts return. The Group is below the specified audit threshold of £500mn. Therefore, we did not perform any audit procedures on the return.

Responsibilities of the PCC and CC

The PCC and CC are responsible for preparing and publishing its statement of accounts accompanied by an Annual Governance Statement (AGS). In the AGS, the PCC and CC reports publicly each year on how far it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in year, and any changes planned in the coming period.

The PCC and CC are also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

03 Financial Statement Audit

Financial Statement Audit

Key Issues

The Statement of Accounts is an important tool for the Group, PCC and CC to show how it has used public money and how it can demonstrate its financial management and financial health.

We audited the Statement of Accounts in line with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK), and other guidance issued by the National Audit Office and issued an unqualified audit report on 30 November 2020.

Our detailed findings were reported to the 10 June 2020 Joint Audit and Scrutiny Panel.

The key issues identified as part of our audit were as follows:

Significant Risk	Conclusion
Misstatements due to fraud or error 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.	We undertook the following procedures to address fraud risk: ▶ We identified fraud risks during the planning stages; ▶ We inquired of management about risks of fraud and the controls put in place to address those risks; ▶ We gained an understanding the oversight given by those charged with governance of management's processes over fraud; ▶ We considered the effectiveness of management's controls designed to address the risk of fraud; ▶ We determined an appropriate strategy to address those identified risks of fraud; ▶ We performed mandatory procedures regardless of specifically identified fraud risks, including testing of journal entries and other adjustments in the preparation of the financial statements; ▶ We are testing PPE additions to ensure that expenditure has been capitalised appropriately with a sample size reflective of the risk; and ▶ We are specifically considering how the PCC and CC have made judgements on whether to accrue or provide against known litigations, claims and costs. An example which we are discussing with management is the PCCs share of any costs associated with delays or changes to the MFSS project. Overall our audit work did not identify any material weaknesses in controls or evidence of material management override. We have not identified any instances of inappropriate judgements being applied. Our testing of PPE additions found no instances of expenditure being inappropriately capitalised. We have challenged management on the treatment of potential liabilities for MFSS costs arising from Avon & Somerset leaving the partnership. Currently there is no provision recognised or contingent liability disclosed in the Nottinghamshire financial statements. We are conscious of the need for consistency and are benchmarking this against the Northamptonshire police position (where a contingent liability is disclosed in relation to this matter). It was our understanding that management intended to disclose a contingent liability in the final financial statements but this has not been done. This has therefore been included on our summary of audit differences.

Financial Statement Audit (cont'd)

The key issues identified as part of our audit were as follows: (cont'd)

Significant Risk	Conclusion
Inappropriate capitalisation of revenue expenditure 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. This could materialize as a result of capitalizing expenditure on revenue items. For the Group and PCC Single Entity, we have identified the potential for the incorrect classification of revenue spend as capital as a particular area where there is a risk of fraud or error.	Capital expenditure is material to the financial statements in 2018/19. We have undertaken additional procedures to address the specific risk we have identified, which consisted of: ▸ Sample testing additions to property, plant and equipment to ensure that they have been correctly classified as capital and included at the correct value in order to identify any revenue items that have been inappropriately capitalised. Our testing of PPE additions found no instances of expenditure being inappropriately capitalised.
Private Finance Initiatives The PCC has 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 a risk that disclosures in the financial statements are not consistent with the assumptions within the PFI operating model.	We: ▸ Engaged an EY Specialist to test the completeness and accuracy of the inputs to the financial model and the subsequent correct application of the outputs to the financial statements; and ▸ Reviewed the consistency of the accounting transactions and disclosures with the PFI model. Our conclusions were as follows: **Riverside:** • We are satisfied that the arrangement is accounted for in accordance with the Code and the amounts included in the financial statements are free from material misstatement. **Vensons:** • We disagreed with managements approach to accounting for this scheme in the draft 2018-19 financial statements and prior year accounts. In our view the garage and vehicles should be recorded on balance sheet. • Management has subsequently brought the garage onto the PCC balance sheet (at a value of £1.2m) as a prior period adjustment. We are satisfied that this is free from material misstatement, but note that the depreciation has been understated and an uncorrected misstatement has been recorded. • Management has determined that the vehicles, being used in operational policing matters, would be more appropriately considered assets of the Chief Constable and therefore should be considered as assets in the Chief Constable (and Group) accounts. This has resulted in the vehicles (individually valued at over £10k) being removed from the PCC (and Group) balance sheet as a prior period adjustment. Management has assessed the value of the vehicles as £3.6m and consider this immaterial to the Chief Constable and to the Group and therefore have not recorded this asset/liability in the financial statements. An uncorrected misstatement has been recorded.

Financial Statement Audit (cont'd)

Inherent risk	Our conclusion
Valuation of land and buildings The fair value of property, plant and equipment (PPE) and investment properties (IP) 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.	The quality of management's maintenance of the fixed asset register, including the posting of revaluation adjustments has been poor. This has resulted in a number of adjustments being required to the current year and prior year balances as follows: • Incorrect valuation figures used • Incorrect figures used when categorising assets as 'assets held for sale' • Assets being incorrectly classified between tangible and intangible • Revisions to accounting for assets held under lease arrangements and PFI schemes (refer previous page). Several of these differences were noted by management themselves subsequent to the publication of the draft accounts. The financial impact of these adjustments on the CIES is a reduction of £747k in the prior year. We also noted that the valuation report used to inform the 31 March 2019 balances was dated 4 months prior to year-end and management performs no assessment to ensure no material movements in that period of time. We performed our own audit procedures to review likely movements over this period and concluded that there was no material misstatement, but it is management's responsibility to also perform this assessment in drawing up the financial statements. We note that for the 2019/20 year end, such a review has been performed in response to our observations. Other issues noted when accounting for long term assets: **Depreciation of property, plant and equipment** When testing depreciation charged on property, plant and equipment, we noted that depreciation was not being charged on a small number of assets. This led to an understatement of depreciation. The adjustment of £820k for the 18-19 financial year has been corrected as a prior period adjustment. **Assets held for sale** We identified an issue where the entity had not correctly valued their assets held for sale. The total net book value that was in the draft financial statements was £2,202k however having assessed each individual asset held for sale as the lower of fair value less costs to sell and the carrying amount at the time it was classified as held for sale (as is the requirement of the Code), the total value of Assets Held For Sale should be £2,586k. This error has been corrected by management. **Intangible assets** **In** our testing of the existence of property, plant and equipment (PPE) we identified a large number of assets which had been inappropriately classified as PPE which were in actual fact intangible assets (software licences primarily). Management has corrected this £2m net book value error as a prior period adjustment

Financial Statement Audit (cont'd)

Other Key Areas of focus	Our conclusion
Pension liability valuation The Local Authority Accounting Code of Practice and IAS19 require the PCC and CC to make extensive disclosures within their financial statements regarding its membership of the Local Government Pension Scheme and the Police Pension Fund. The PCC and CC's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the respective balance sheets of the PCC and CC. The information disclosed is based on the IAS 19 report issued to the PCC and CC by the actuary to the administering body and also the Police Pension Fund. Accounting for these schemes involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.	We have no concerns to raise with respect to the accounting entries and disclosures made in respect of the local government pension scheme. In respect of the Police Pension Scheme, our pension specialist has reviewed the McCloud impact and we consider that the impact lies within an acceptable range.
Collaboration disclosures Joint arrangements operate with partners across the East Midlands. There is a risk that the allocation of activity in the financial statements is not correctly recorded in their financial statements.	We have noted no issues as a result of our work.
Multi-force Shared Service Centre The Chief Constable of Cheshire Constabulary hosts a collaborative shared service covering Human Resources, Accounts, Purchasing and Payroll for the PCC and CC. Our interim audit work highlighted few PCC and CC controls surrounding the transactions to and from the MFSS. The PCC and CC do not commission an ISAE3402 assurance report covering controls and risk management from the CC of Cheshire Constabulary. Without an ISAE3402 report basis, there is a risk that we do not have a basis for identifying and assessing the risks of material misstatement	From the work that we undertook at both the PCC, CC and MFSS, for each significant financial system we were able to: • Identify the initiation of a transaction, • Determine how the transaction had been recorded in the relevant account; • Follow how transaction had been processed; and • Check MFSS staff had reconciled the general ledger and subledger data. During 2018/19, Internal Audit assessed as satisfactory the adequacy and effectiveness of internal controls for core financial systems for General Ledger, Treasury Management, Income and Debtors but assessed as limited for Payroll and Payments for Creditors with priority 2 recommendations for updating procedures, payroll processing times and payment authorisation limits. As such we have no matters to report from our work.

Other Areas of Audit Focus

IFRS 9 and IFRS 15

What is the risk/area of focus?	What did we do?	Results
IFRS 9 financial instruments This new accounting standard is applicable for local authority and police accounts from the 2018/19 financial year and will change: ▸ How financial assets are classified and measured; ▸ How the impairment of financial assets are calculated; and ▸ The disclosure requirements for financial assets. There are transitional arrangements within the standard; and the 2018/19 Cipfa Code of practice on local authority accounting provides guidance on the application of IFRS 9.	We: ▸ Assessed the Group and PCC's implementation arrangements that should include an impact assessment paper setting out the application of the new standard, transitional adjustments and planned accounting for 2018/19; ▸ Considered the classification and valuation of financial instrument assets; ▸ Reviewed new expected credit loss model impairment calculations for assets; and ▸ Checked additional disclosure requirements.	No issues were noted as a result of our work.
IFRS 15 Revenue from contracts with customers This new accounting standard is applicable for local authority and police accounts from the 2018/19 financial year. The key requirements of the standard cover the identification of performance obligations under customer contracts and the linking of income to the meeting of those performance obligations. The 2018/19 Cipfa Code of practice on local authority accounting provides guidance on the application of IFRS 15 and includes a useful flow diagram and commentary on the main sources of LG revenue and how they should be recognised. The impact on Police accounting is likely to be limited as large revenue streams like council tax and government grants will be outside the scope of IFRS 15. However where that standard is relevant, the recognition of revenue will change and new disclosure requirements introduced.	We: ▸ Assessed the Group, PCC and CC implementation arrangements that should include an impact assessment paper setting out the application of the new standard, transitional adjustments and planned accounting for 2018/19; ▸ Considered application to the Group, PCC and CC revenue streams, and where the standard is relevant test to ensure revenue is recognised when (or as) it satisfies a performance obligation; and ▸ Checked additional disclosure requirements.	No issues were noted as a result of our work.

Other Areas of Audit Focus

Inhouse preparation of accounts

What was the area of focus?

The closedown and preparation of the financial statements have been undertaken by the finance team. This brings back in-house the preparation of accounts when in the prior year the PCC and CC used the CIPFA Big Red Button and encountered difficulties. We understand that a manual process will be completed to ensure the accounts comply with the CIPFA Code of Practice. We identified risks that:

- There is not sufficient capacity and resilience to meet the closedown timetable;
- There is not adequate arrangements in place for management quality assurance and review of the financial statements and supporting working papers prior to audit; and
- There are delays or slippage in delivering data for analytics work or in providing good quality working papers and responses to our audit queries, which is exacerbated by the poor service performance being received from MFSS.

What have we done?

- Assess the robustness of the PCC and CC accounts closedown timetable. We noted that PCC and CC were operating and monitoring a timetable covering the expected areas. The Finance Team met the 31 May deadline for publication of the draft accounts.
- We have continually assessed the capacity and resilience of the PCC and CC teams to respond to our requests for data, information and address audit queries. The Finance Team responded promptly to our requests including our analytics data and supporting evidence for our income and expenditure testing for the start of our interim audit. At the end of the interim audit visit, the Finance Team were left working through a number of queries raised on income and expenditures testing for return once the final accounts have been prepared.
- Subsequent review of 31 May draft accounts by management identified various significant quality issues. Work then commenced to correct these issues, and a revised set of accounts was presented for audit.
- In total we have received 4 versions of the accounts (we understand there are 15 versions in existence). This has led to some degree of confusion as to which is the 'latest set' and has impacted the quality of supporting workpapers and information presented for audit.
- We have worked with management to progress the audit as quickly as possible against this backdrop, balancing the resourcing constraints within the PCC (and particularly CC) finance teams with our own constraints.

We acknowledge that the addition of a contractor into the Senior Accountant role is a positive step forward and has certainly helped to move forward the 2018-19. However, the absence of a permanent member of staff with responsibility and oversight for the accounts production and audit process places a continuing risk on the ability of the PCC and CC to deliver good quality financial reporting within acceptable timeframes.

Financial Statement Audit (cont'd)

Our application of materiality

When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole.

Item	Thresholds applied
Planning materiality and reporting thresholds	

	PCC Group	PCC single entity	CC single entity	Police pension fund
Materiality basis	2% of gross expenditure	2% of assets	2% of gross expenditure	2% of benefits payable
Planning materiality	£6.3 million	£1.8 million	£6.1 million	£1.4 million
Performance materiality	£3.2 million	£0.9 million	£3.1 million	£0.7 million
Audit differences	£315k	£88k	£306kk	£71k

04 Value for Money

Value for Money

We are required to consider whether the PCC and CC have put in place 'proper arrangements' to secure economy, efficiency and effectiveness in its use of resources. This is known as our value for money conclusion.

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- Take informed decisions;
- Deploy resources in a sustainable manner; and
- Work with partners and other third parties.

We identified three significant risks around these arrangements. The tables below present our findings in response to the risks in our Audit Planning Report and any other significant weaknesses or issues we want to bring to your attention.

We have undertaken appropriate procedures and concluded that we expect to issue an "except for" conclusion in relation to the significant overspend on Project Fusion in 2018/19.

Value for Money Risks

We are only required to determine whether there are any risks that we consider significant within the Code of Audit Practice, where risk is defined as:

"A matter is significant if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public"

Our risk assessment supports the planning of enough work to deliver a safe conclusion on your arrangements to secure value for money, and enables us to determine the nature and extent of any further work needed. If we do not identify a significant risk we do not need to carry out further work.

We present below the findings of our work in response to additional risks identified since our audit planning report.

What is the significant value for money risk?	What arrangements did the risk affect?	What are our findings?
The Multi-Force Shared Services (MFSS) provides transactional back office services to Cheshire, Nottinghamshire and Northamptonshire Police and the Civil Nuclear Authority. The PCC migrated to Oracle Cloud Applications (FUSION) in April 2019. is to offer expanded application functionality, real-time Business Intelligence and related modules all via Oracle Cloud Applications. However, the project was not implemented by the due date of April 2018 and has incurred significant budget overruns.	Sustainable resource deployment Take informed decisions Working with partners and other third parties	In respect of the governance arrangements with the MFSS, the PCC and CC are not the lead partner to the Shared Service or Project Fusion. All procurement and invoicing for services goes through Cheshire Police. This indirect method of contracting and communication reduces the control and oversight that the PCC and CC can exercise. In 2017/18, the former external auditors to the PCC and CC, issued an except for qualification on the PCC's and CC's VFM Conclusion. This was based on the lack of governance arrangements raised by Nottinghamshire Police regarding this project and the escalating costs against the diminishing return on savings in respect of the VFM criteria of working with partners and third parties, recognising that elements were somewhat out of Nottinghamshire Polices control. During 2018/19, the PCC and CC initiated actions to improve both the governance of the MFSS and Project Fusion. These actions aimed to ensure that the PCC's and CC's specific requirements were delivered as part of the overall programme. Measures included: • The PCC for Nottinghamshire's Chief Finance Officer appointment as the chair of the MFSS Management Board, • Establishing an internal project team in August 2018; • Contracting a project manager through TowersHolt Consultancy; • Changing the internal meeting structure to comprise weekly subject matter expert update meetings and monthly Project Boards, chaired and led by the Senior Responsible Officers and Deputy Chief Constable; and • Initiating a review jointly with the PCC and CC for Northamptonshire through TowersHolt Consultancy to review options for MFSS and Project Fusion. In respect of Project Fusion, the PCC and CC initiated the separate and internal Project Quantum. This project aimed to increase the preparedness for use of the new system. This included activities such as functional testing, data migration and reconciliations, Go-Live activities and remedial work for post Go-Live support. From October 2019, the PCC and CC took over Project Quantum from the previous consultants. This has been beneficial in two ways, being that the reduced costs of external consulting fees and secondly the anticipated improvement in effectiveness by having a team on site.

Value for Money Risks

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Value for Money Risks

We are only required to determine whether there are any risks that we consider significant within the Code of Audit Practice, where risk is defined as:

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Our risk assessment supports the planning of enough work to deliver a safe conclusion on your arrangements to secure value for money, and enables us to determine the nature and extent of any further work needed. If we do not identify a significant risk we do not need to carry out further work.

We present below the findings of our work in response to additional risks identified since our audit planning report.

What is the significant value for money risk?	What arrangements did the risk affect?	What are our findings?
The Multi-Force Shared Services (MFSS) provides transactional back office services to Cheshire, Nottinghamshire and Northamptonshire Police and the Civil Nuclear Authority. The PCC migrated to Oracle Cloud Applications (FUSION) in April 2019. is to offer expanded application functionality, real-time Business Intelligence and related modules all via Oracle Cloud Applications. However, the project was not implemented by the due date of April 2018 and has incurred significant budget overruns.	Sustainable resource deployment Take informed decisions Working with partners and other third parties	Review of the Contract and of meeting minutes indicates there are no penalty clauses in place relating to cost or time overruns in delivery. This had been raised as a risk in May 2018 in the MFSS Sub-Committee meeting, but there is no evidence of further discussions around rectification. Guidelines are in place setting out the process to be followed when cost or time overruns are anticipated, although these do not include a procedure for dealing with unapproved overruns, which further reduces the contractual control that can be exercised. While overruns have always been unanimously approved, the Contract still leaves the Partners open to risk. The Towersholt report as well as commenting on options for the PCC's and CC's MFSS reported the following significant issues with Project Fusion: • Poor foresight of future and incremental costs with no reliable forward budget or forecast of expense for each force; • Significant delays in the implementation of new technology (Oracle Cloud Applications) and poor management of the programme; • The plan to implement new partner, new technology and transfer payrolls at the same time was ill conceived and poorly governed. • Significant process and technology issues occurring resulting in the majority of the April 2019 payroll being incorrect, difficulties and delays in purchasing and an unmanageable backlog of open Service Requests. • Poor protocols of communication between MFSS and the forces; and • Limited training with retained force teams being unaware of the capabilities of Oracle Cloud Applications. As a result of the delayed implementation and the addition of a new partner, in 2018/19 the share of Police and Crime Commissioner and Chief Constable's MFSS budget increased from £2.2 million to £4.2 million with an extra £1.9 million costs attributable to Project Fusion, funded from the Police and Crime Commissioner's earmarked reserves. This has resulted in the payback period for the MFSS project doubling to eight years, according to the TowersHolt review paper.

Value for Money Risks

We are only required to determine whether there are any risks that we consider significant within the Code of Audit Practice, where risk is defined as:

"A matter is significant if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public"

Our risk assessment supports the planning of enough work to deliver a safe conclusion on your arrangements to secure value for money, and enables us to determine the nature and extent of any further work needed. If we do not identify a significant risk we do not need to carry out further work.

We present below the findings of our work in response to additional risks identified since our audit planning report.

What is the significant value for money risk?	What arrangements did the risk affect?	What are our findings?
The Multi-Force Shared Services (MFSS) provides transactional back office services to Cheshire, Nottinghamshire and Northamptonshire Police and the Civil Nuclear Authority. The PCC migrated to Oracle Cloud Applications (FUSION) in April 2019. is to offer expanded application functionality, real-time Business Intelligence and related modules all via Oracle Cloud Applications. However, the project was not implemented by the due date of April 2018 and has incurred significant budget overruns.	Sustainable resource deployment Take informed decisions Working with partners and other third parties	Although concerns about cost and time overruns are raised during MFSS and Project Quantum meetings, there is little evidence of effective action being taken to mitigate these or prevent them from escalating further. It is not clear from either the meeting minutes or the action logs what decisive action has been taken when overruns have been incurred The lack of effective governance arrangements regarding this project and the escalating costs against the diminishing return on savings has led us to conclude that we are not satisfied with the VFM criteria of taking informed decisions, deploying resources in a sustainable manner and working with partners and third parties although we appreciate this is somewhat out of the PCC's and CC's control. As a result, we are to issue an "except for" conclusion in relation to our VFM opinion. Management have made us aware that Force/OPCC have agreed with other partners not to renew the s22 agreement with MFSS and are now actively moving forward with the delivery of alternative arrangements.

Value for Money Risks

We are only required to determine whether there are any risks that we consider significant within the Code of Audit Practice, where risk is defined as:

"A matter is significant if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public"

Our risk assessment supports the planning of enough work to deliver a safe conclusion on your arrangements to secure value for money, and enables us to determine the nature and extent of any further work needed. If we do not identify a significant risk we do not need to carry out further work.

We present below the findings of our work in response to additional risks identified since our audit planning report.

What is the significant value for money risk?	What arrangements did the risk affect?	What are our findings?

In September 2018 and February 2019 , The PCC and CC approved the development of a business case for a joint Police and Fire Headquarters at Sherwood Lodge, Arnold through a Limited Liability Partnership (LLP).
 	
The total estimated costs for the redevelopment of Sherwood Lodge is about £18.5m, of which the Authority is to contribute £4 million to be offset by the sale of the current Fire Headquarters.
 	
In progressing significant projects there are risks around arrangement for governance and coming to an informed decision.
	Take informed decisions
	
	Working with partners and other third parties
		Our audit work has focussed on the decision-making arrangements to redevelop the site at Sherwood Lodge and progress to the delivery model through an LLP. Our review of the arrangements found that management has together with Nottinghamshire Fire Authority:
		• Sought specialist financial and legal advice to consider:
		    • The governance structures which may be appropriate for the delivery of the joint Headquarters covering a contractual joint venture, a special purpose vehicles either for a company limited by shares and/or guarantee or through an LLP; and
		    • Taxation and legal consequences of the preferred option for an LLP.
		• Considered reasons for not proceeding with the new build as advised but to progress a re-development of the site; and
		• Managed the process through the Strategic Collaboration Board supported by the Collaborative Delivery Board and working group comprising Members, Chief Officers and officers of both organisations.
		
		We concluded therefore that there was evidence of reasonable arrangements to inform the decision-making process. However, we recommend that for the future the PCC and CC address the following:
		• There was no senior representation from the Chief Finance Officers for both organisations at the Police and Fire Strategic Collaboration Board at its key decision-making meetings in September 2018 and January 2019 to provide financial commentary on the proposals; and
		• Reports to the January 2019 meeting of the Police and Fire Strategic Collaboration Board asked the PCC and CC to approve the move to the LLP. However, an LLP involves complex legal, accounting and taxation considerations of which the PCC and CC need to be aware before final decisions as to governance delivery models are taken (we note that in June 2020 an update indicated that an LLP is no longer the planned mechanism.

Value for Money Risks

We are only required to determine whether there are any risks that we consider significant within the Code of Audit Practice, where risk is defined as:

"A matter is significant if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public"

Our risk assessment supports the planning of enough work to deliver a safe conclusion on your arrangements to secure value for money, and enables us to determine the nature and extent of any further work needed. If we do not identify a significant risk we do not need to carry out further work.

The table below presents the findings of our work in response to the risks areas in our Audit Planning Report.

What is the significant value for money risk?	What arrangements did the risk affect?	What are our findings?
Achievement of Savings Needed over the Medium Term In common with other Police bodies the PCC and CC is facing significant financial pressures in the medium term. In January 2019, the PCC and CC reported within the Medium Term Financial Plan (MTFP) that to balance the budget, efficiencies would be required of £3m and £3.2m by 31 March 2021 and 31 March 2022 respectively, In balancing the budget the PCC is planning to reduce earmarked reserves by £7.257m to fund capital projects. Achieving efficiencies and the ability to use reserves depends on strong budgetary control.	Sustainable resource deployment	The current levels of reserves at 31 March 2019 means that financial resilience is not a significant risk to our VFM conclusion for 2018/19. However, we report following from our initial review of financial resilience: **The key assumptions made within the 2019/20 annual budget and Medium Term Financial Plan** The process for setting the PCC's and CC's budget is sound. We concluded that the MTFP identifies the key assumptions expected to underpin the 2019/20 budget. This includes recognising that there is a possibility that public sector expenditure will be impacted negatively by Brexit and considering a worst case scenario for police funding beyond 2019-20 and a potential requirement for future savings. We noted, however, that the MTFP could usefully scenario plan to provide guidance on how the PCC made decisions on the level of precept to set. **An assessment of the sensitivity of those assumptions underlying the 2019/20 MTFS** Using sensitivity analysis, taking into account the PCC's and CC's history of under and overspends over the past two years and planned use of reserves in 2019/20 to 2021/22, we have determined that the PCC and CC should have sufficient reserves above its minimum level of £4.126 million, being 2% of 2019/20 budgeted expenditure. **Review of Outturn Against Budget** The balanced budgets for 2019/20 to 2020/21 assume that the delivery of budgeted efficiencies would enable a reduction in earmarked reserves by £7.257m to £10.3m to fund capital projects. However, this would only be achieved if the PCC and CC achieve forecast income and expenditure budgets. Previously, the PCC and CC have reported significant outturn under or overspends from estimates. In 2015/16, the PCC had to take £9m from reserves as the CC did not deliver efficiency programmes and in-year budget omissions. In 2016/17 a revised policing model and efficiency monitoring led to the delivery of £12m efficiencies and £1m taken to reserves. In 2017/18, the net underspend of £2.4m was the net of expenditure overspends of £6.5m and unplanned income of £9m. In 2018/19, the net overspend of £0.854m resulted from overspends of £4m and unforeseen income of £3.1m. The PCC also supported the MFSS overspend of £1.4m by the use of reserves. Such significant variances from expenditure budget may not be sustainable in future, especially if not matched by unforeseen income. We also note that the MTFP identified that in its worst case scenario of government funding reductions, the PCC and CC would need to make savings of £2.8m and £5.7m. As well as identifying and addressing the causes of gross budget overspends, the PCC and CC could also plan savings programmes now to avoid the impact of adverse expenditure outturns and the use of reserves to support the budget in the future.

Value for Money

*** Minimum level of reserves relates to general fund only.**

Our Assessment

In our assessment we considered:

- The PCC's and CC's level of efficiencies to balance the General Fund budget is £3 million and £3.2 million in 2020/21 and 2021/22 respectively;
- The PCC's and CC's history of over or under spending on the General Fund budget over the past two years and the impact this trajectory would have on the use of General Fund reserves;
- The PCC's and CC's planned use of reserves in each of the next 3 years; and
- Reliance upon any income other than grant income which has not been confirmed post 2018/19, upon which the Authority is reliant.

The graph shows borrowing increasing by £19.086 million over the next three years based on the 2019/20 Treasury Management Strategy.

As a result of our assessment, we note that the PCC's calculated General Fund reserve balance at the 31 March 2022 of £7.075 million would remain just above the PCC's and CC's approved minimum level of £4.126 million (based upon 2% of budgeted expenditure), should the Authority not be able to deliver the savings to bridge the worst case budget gap scenario of £2.8 million and £5.7 million identified in the MTFP for 2020/21 and 2021/22.

05 Other Reporting Issues

Other Reporting Issues

Whole of Government Accounts

We are required to perform the procedures specified by the National Audit Office on the accuracy of the consolidation pack prepared by the PCC and CC for Whole of Government Accounts purposes.

The PCC and CC is below the specified audit threshold of £500mn. Therefore, we were not required to perform any audit procedures on the consolidation pack.

Annual Governance Statement

We are required to consider the completeness of disclosures in the Group, PCC and CC's annual governance statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it is misleading.

We completed this work and did not identify any areas of concern.

Report in the Public Interest

We have a duty under the Local Audit and Accountability Act 2014 to consider whether, in the public interest, to report on any matter that comes to our attention in the course of the audit in order for it to be considered by the PCC or CC or brought to the attention of the public.

We did not identify any issues which required us to issue a report in the public interest.

Written Recommendations

We have a duty under the Local Audit and Accountability Act 2014 to designate any audit recommendation as one that requires the PCC or CC to consider it at a public meeting and to decide what action to take in response.

We did not identify any issues which required us to issue a written recommendation.

Other Reporting Issues (cont'd)

Objections Received

We did not receive any objections to the 2018/19 financial statements from members of the public.

Other Powers and Duties

We identified no issues during our audit that required us to use our additional powers under the Local Audit and Accountability Act 2014.

Independence

We communicated our assessment of independence in our Audit Results Report to the Jonit Independent Audit Committee on 10 June 2020. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning regulatory and professional requirements.

Control Themes and Observations

As part of our work, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control, we are required to communicate to you significant deficiencies in internal control identified during our audit.

We have adopted a fully substantive audit approach and have therefore not tested the operation of controls.

06 Data Analytics

Data analytics

Analytics Driven Audit

Data analytics

We used our data analysers to enable us to capture entire populations of your financial data. These analysers:

- Help identify specific exceptions and anomalies which can then be the focus of our substantive audit tests; and
- Give greater likelihood of identifying errors than traditional, random sampling techniques.

In 2018/19, our use of these analysers in the PCC and CC audit included testing journal entries, to identify and focus our testing on those entries we deem to have the highest inherent risk to the audit.

We capture the data through our formal data requests and the data transfer takes place on a secured EY website. These are in line with our EY data protection policies which are designed to protect the confidentiality, integrity and availability of business and personal information.

Journal Entry Analysis
We obtain downloads of all financial ledger transactions posted in the year. We perform completeness analysis over the data, reconciling the sum of transactions to the movement in the trial balances and financial statements to ensure we have captured all data. Our analysers then review and sort transactions, allowing us to more effectively identify and test journals that we consider to be higher risk, as identified in our audit planning report.

07 Focused on your future

Focused on your future

The Code of Practice on Local Authority Accounting in the United Kingdom introduces the application of new accounting standards in future years. The impact on the Group is summarised in the table below.

Standard	Issue	Impact
IFRS 16 Leases	It is currently proposed that IFRS 16 will be applicable for local authority accounts from the 2021/22 financial year (postponed as a result of C-19). Whilst the definition of a lease remains similar to the current leasing standard; IAS 17, for local authorities who lease a large number of assets the new standard will have a significant impact, with nearly all current leases being included on the balance sheet. There are transitional arrangements within the standard and although the 2020/21 Accounting Code of Practice for Local Authorities has yet to be issued, CIPFA have issued some limited provisional information which begins to clarify what the impact on local authority accounting will be. Whether any accounting statutory overrides will be introduced to mitigate any impact remains an outstanding issue.	Until the 2021/22 Accounting Code is issued and any statutory overrides are confirmed there remains some uncertainty in this area. However, what is clear is that the PCC/CC will need to undertake a detailed exercise to identify all of its leases and capture the relevant information for them. The PCC/CC must therefore ensure that all lease arrangements are fully documented.
IASB Conceptual Framework	The revised IASB Conceptual Framework for Financial Reporting (Conceptual Framework) will be applicable for local authority accounts from the 2019/20 financial year. This introduces; – new definitions of assets, liabilities, income and expenses – updates for the inclusion of the recognition process and criteria and new provisions on derecognition – enhanced guidance on accounting measurement bases - enhanced objectives for financial reporting and the qualitative aspects of financial information. The conceptual frameworks is not in itself an accounting standard and as such it cannot be used to override or disapply the requirements of any applicable accounting standards. However, an understanding of concepts and principles can be helpful to preparers of local authority financial statements when considering the treatment of transactions or events where standards do not provide specific guidance, or where a choice of accounting policies is available.	It is not anticipated that this change to the Code will have a material impact on Local Authority financial statements. However, Authorities will need to undertake a review to determine whether current classifications and accounting remains valid under the revised definitions.

08 Audit Fees

Audit Fees

As communicated to the Committee in our Audit Plan, we seek to recover scale fee variations where there are increases in the scope of our work. During the 2018/19 audit, the following matters have given rise to scale fee variations which we discuss in detail with management. All scale fee variations are subject to approval by Public Sector Audit Assurance (PSAA):

	Final Fee 2018/19*	Scale Fee 2018/19	Final Fee 2017/18
	£	£	£
Total Audit Fee – PCC Code work	59,759	27,119	35,220
Total Audit Fee – CC Code work	25,451	11,550	15,000
Total Audit Services	85,210	38,669	50,220
Non-audit work	-	-	-
Total	85,210	38,669	50,220

* The final fee for 2018/109 is subject to additional fees for the work carried out in response to significant risks and change of scope, specifically the work identified in this report covering:

- Additional pensions procedures as a result of the McCloud and GMP judgements, and the engagement of EY Pensions;
- The engagement of PFI specialists;
- The VFM significant risks identified;
- Quality and version control of the financial statements presented for audit;
- Delays in audit readiness.
- Additional procedures required in respect of C-19 post balance sheet event

We have discussed these fees with management who recognise the causes of additional fee noted above, but no not agree the quantum In accordance with the terms of the PSAA contract, these amounts have therefore been referred to Public Sector Audit Appointments (PSAA) for a decision to be made.

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ED None

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