KPMG

External Audit ISA260 Report 2017/18

Police and Crime Commissioner for Nottinghamshire & Chief Constable for Nottinghamshire

Draft

July 2018

Summary for Joint Audit and Scrutiny Panel

This document summarises the key findings in relation to our 2017/18 external audit at the Police and Crime Commissioner for Nottinghamshire ('the PCC') and the Chief Constable for Nottinghamshire ('the CC').

This report covers both our on-site work which was completed in February and July 2018 on the PCC and CC's significant risk areas, as well as other areas of your financial statements, and the control environment in place to support the production of timely and accurate financial statements.

Organisational control environment	We consider that your organisational control environments are effective overall.
Controls over key financial systems	Based on our work we have determined that the controls over all of the key financial systems are sound.
Accounts production	We consider that the overall process for the preparation of your financial statements is adequate although it is noted that due to issues encountered the CIPFA Big Red Button had to be abandoned at a late stage this year in favour of producing the accounts manually. This led to the accounts being received after the end May 2018 statutory deadline. Other than these issues we consider the PCC and CC's accounting practices appropriate.
Financial statements	**Subject to all outstanding queries being resolved to our satisfaction, receipt of the WGA, and for the necessary assurances being received from the auditors of the Nottinghamshire County Council Pension Scheme we anticipate issuing an unqualified audit opinion on the PCC and CC's financial statements before the deadline of 31 July 2018.** Based upon our initial assessment of risks to the financial statements (as reporting to you in our *External Audit Plan 2017/18* and updated during our audit) we identified the following significant risks (excluding those mandated by International Standards on Auditing – see Page 10): — **Pensions Liabilities** - The valuation of the Police & Crime Commissioner and Chief Constable's pension liabilities, as calculated by the Actuary, are dependent upon both the accuracy and completeness of the data provided and the assumptions adopted. We will review the processes in place to ensure accuracy of data provided to the Actuary and consider the assumptions used in determining the valuation. No issues were identified during the course of our work although the audit visit had to be brought forward by a week due to the member of staff who deals with pensions being on holiday during the audit period. — **Valuation of PPE** - Whilst the Police & Crime Commissioner and Chief Constable operates a cyclical revaluation approach, the Code requires that all land and buildings be held at fair value. We will consider the way in which the PCC and CC ensures that assets not subject to in-year revaluation are not materially misstated. Our work on this area has identified that land re-valuations have has not been updated correctly for some assets this year. This has led to a £1.19m error which Officer have decided not to amend within the accounts as it is below materiality. See further details on pages 11 and 12.

Summary for Joint Audit and Scrutiny Panel (Cont.)

— **Faster Close** - As set out above, the timetable for the production of the financial statements has been significantly advanced with draft accounts having to be prepared by 31 May (2017: 30 June) and the final accounts signed by 31 July (2017: 30 September). We worked with the Police & Crime Commissioner and Chief Constable in advance of our audit to understand the steps being taken to meet these deadlines and the impact on our work. The Statement of Accounts were provided after the statutory deadline due to the CIPFA Big Red Button (BRB) having to be abandoned at a late stage and the accounts having to then be produced manually.

Financial statements (cont.)

Other areas of audit focus

Those risks with less likelihood of giving rise to a material error but which are nevertheless worthy of additional audit focus have been identified as:

— **Management review of Accounts** – The 2017/18 draft set of accounts provided for audit are required to be fully compliant with the code and have undergone management review and necessary amendment for any known errors prior to the deadline dates and submission to the auditor. The draft accounts should match the BRB with amendments made in the BRB system. We worked with the Police & Crime Commissioner and Chief Constable in advance of our audit to understand the steps being taken to meet these deadlines and the impact on our work.

Due a number of issues encountered the 2017/18 accounts could not be produced using the BRB and as a result they had to be produced manually. This led to delays in the accounts production process and meant working papers had to be taken from the BRB and produced manually. This also meant the accounts had not gone through a total and thorough review by management prior to submission for audit.

Whist we have not identified any material audit adjustments impacting the primary statements, we did identify one significant adjustment in relation to PPE whereby land values were not updated correctly in the Fixed Asset Register resulting in land being undervalued by £1.19m, which Officers have decided not to amend in the final statement of accounts. We also found some further errors in disclosure and a number of presentational issues. See Page 12 for details. These adjustments result in no movement on the bottom line figures within the statements of accounts.

In addition to the audit findings above the draft statements include a Prior Period Adjustment (PPA) of £17.0m in relation to the split of the pension liability between the PCC and CC. This does not affect the group balance sheet total but does impact the PCC and CC PY balance sheet totals. The PPA was audited and found to be accurate. The finance team have also processed an error which they identified in relation to Council tax income. The maximum affect this is expected to have on any area of the accounts is approx. £120k. This adjustment resulted in a large number of changes to the final statements which we have not yet fully audited.

Based on our work, we have raised three recommendations. Details of our recommendations can be found in Appendix 1. Post our final checks and audit work we should be in the completion stage of the audit and anticipate issuing our completion certificate and Annual Audit Letter by end August 2018.

Summary for Joint Audit and Scrutiny Panel (cont.)

Value for money arrangements	We have completed our risk-based work to consider whether in all significant respects the PCC and CC have proper arrangements to ensure they have taken properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. We have concluded that the PCC and CC have made proper arrangements to secure economy, efficiency and effectiveness in its use of resources except for in relation to MFSS governance. **We therefore anticipate issuing an "except for" value for money opinion.** We set out our assessment of those areas requiring additional risk based work in our *External Audit Plan 2017/18* and have updated this assessment during our interim visit. As a result of this we have identified the following significant VFM audit risks: — **Medium Term Financial Planning** - The Police & Crime Commissioner and Chief Constable continue to face significant financial pressures and uncertainties in relation to its future funding levels with grant allocations for future years not yet being published. The Police & Crime Commissioner and Chief Constable need to have effective arrangements in place for managing their annual budgets, generating income and identifying and implementing any savings required to balance its medium term financial plan. We have considered the way in which the Police & Crime Commissioner and Chief Constable identify, approve, and monitor both savings plans and how budgets are monitored throughout the year. — **MFSS Governance and VFM** - MFSS currently provides transactional back office services to Nottinghamshire Police and other PCCs. PCCs have expressed concerns around governance of MFSS and the services provided to clients. We have reviewed the governance arrangements to ensure proper arrangements in MFSS Financial Governance. We have identified significant issues with the governance arrangements at the Multi-Force Shared Service, particularly in relation to Project Fusion. We have raised a significant recommendation relating to this, however, we do not that the PCC and Chief Constable have already taken significant steps in year to remedy the situation. See further details on Page 24.
Exercising of audit powers	We have a duty to consider whether to issue a report in the public interest about something we believe the PCC or CC should consider, or if the public should know about. We have not identified any matters that would require us to issue a public interest report. In addition, we have not had to exercise any other audit powers under the Local Audit & Accountability Act 2014.
Acknowledgements	We would like to take this opportunity to thank officers and Members for their continuing help and co-operation during our audit work.

Section one

Control Environment

Organisational and IT control environment

We have identified no significant issues with the PCC and CC's organisational and IT control environments and consider that the overall arrangements that have been put in place are reasonable.

Work completed

Controls operated at an organisational level often have an impact on controls at an operational level and if there were weaknesses this would have implications for our audit. We obtain an understanding of the PCC and CC's overall control environment and determine if appropriate controls have been implemented. We do not complete detailed testing of these controls.

Key findings

We consider that your organisational control environments are effective overall. Note that this assessment is in respect of organisational controls that we review in respect of giving an external audit opinion on the financial statements. It does not constitute a full review, nor are we providing assurance over any of the broad areas described below.

Aspect of controls	Assessment
Organisational controls:	
Management's philosophy and operating style	3
Culture of honesty and ethical behaviour	3
Oversight by those charged with governance	3
Risk assessment process	3
Communications	3
Monitoring of controls	3

Key	
1	Significant gaps in the control environment.
2	Deficiencies in respect of individual controls
3	Generally sound control environment.

Controls over key financial systems

The controls over all of the key financial systems are sound.

Work completed

We review the outcome of internal audit's work on the financial systems to influence our assessment of the overall control environment, which is a key factor when determining the external audit strategy.

Where we have determined that this is the most efficient audit approach to take, we evaluate the design and implementation of the control and then test selected controls that address key risks within these systems. The strength of the control framework informs the substantive testing we complete during our final accounts visit.

Our assessment of a system will not always be in line with your internal auditors' opinion on that system. This is because we are solely interested in whether our audit risks are mitigated through effective controls, i.e. whether the system is likely to produce materially reliable figures for inclusion in the financial statements.

Key findings

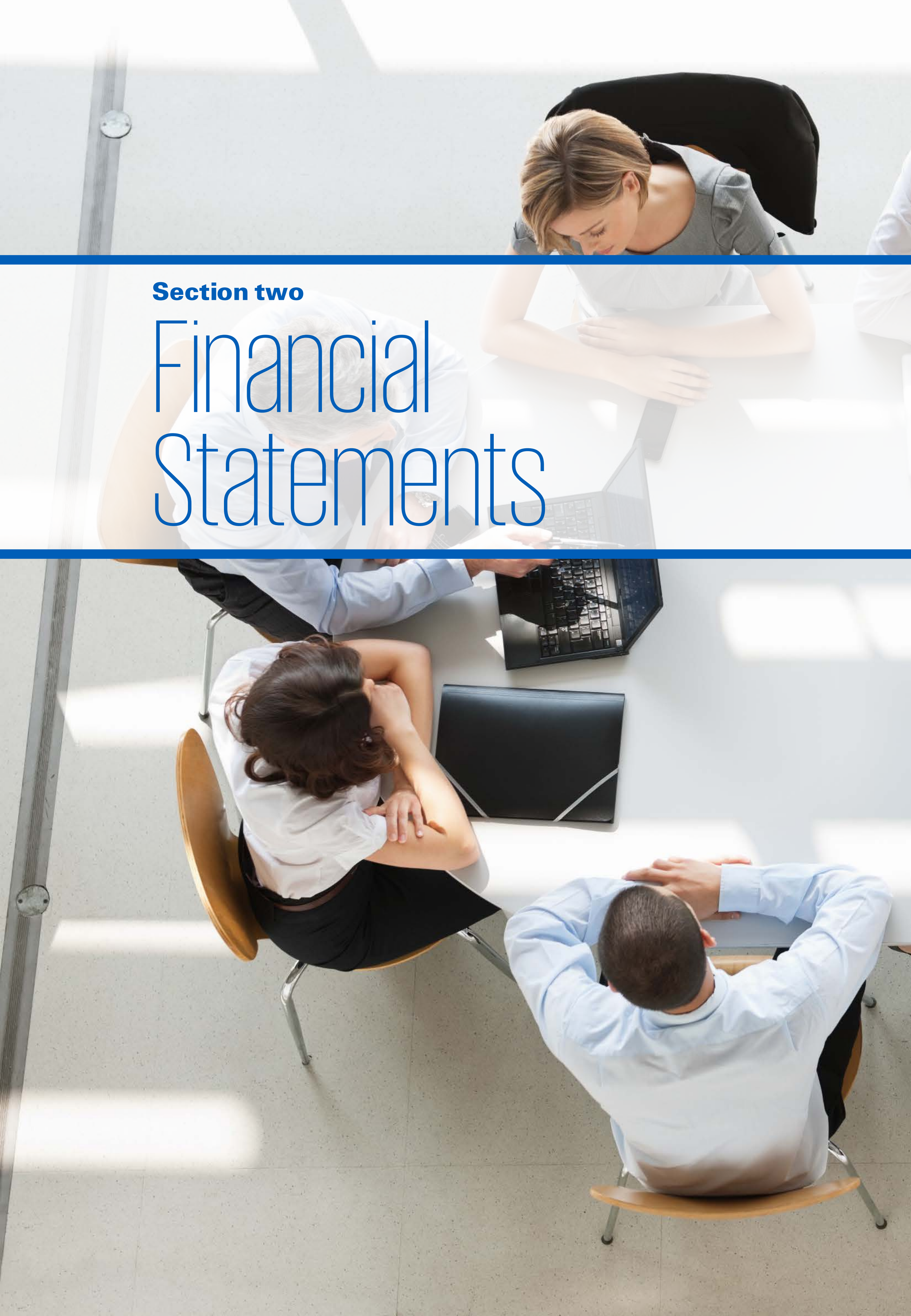
Based on our work, we have determined that the controls over all of the key financial systems are sound, however we have raised a recommendation in relation to controls around the update of the fixed asset register.

Aspect of controls	Assessment
Property, Plant and Equipment	2
Cash and Cash Equivalents	3
Pensions	3
Payroll	3
Regional Collaboration	3

Key	
1	Significant gaps in the control environment
2	Deficiencies in respect of individual controls
3	Generally sound control environment

Section two

Financial Statements



Accounts production and audit process

Audit standards (ISA 260) require us to communicate our views on the significant qualitative aspects of the PCC and CC's accounting practices and financial reporting.

We also assessed the PCC and CC's process for preparing the accounts and its support for an efficient audit. The efficient production of the financial statements and good-quality working papers are critical to meeting the tighter deadlines.

The PCC and CC's overall process for the preparation of the financial statements is adequate however it is noted that the accounts had to be produced manually this year rather than use the CIPFA Big Red Button. This led to Accounts being received after the statutory deadline.

Improvements has been noted in the quality of the working papers used to support the financial statements although there is scope to further improve the workings and the accounts review process.

The Authority has partially implemented all of the recommendations in our ISA 260 Report 2016/17.

Accounts practices and production process

The PCC and CC introduced the CIPFA accounting model – the BRB – in 2016/17. As a pilot site the introduction and timing of this meant they could not achieve an earlier deadline. This year a series of incremental changes to their closedown planning processes was implemented with the aim of ensuring that the earlier accounts production date could be achieved for the current year. Issues with the CIPFA model were identified when trying to produce the draft accounts and the model had to be abandoned in favour of producing manual accounts. This resulted in the accounts being produced after the deadline. The issues and delay was notified to the JASP on the 30th May although at that stage it was hoped to still use the BRB for the accounts production process.

Other than the above issue we consider the PCC and CC's accounting practices appropriate.

Going concern

The financial statements of both the PCC and CC have been prepared on a going concern basis. We confirm that we have identified no significant matters which would, in our view, affect the ability of the PCC or CC to continue as a going concern.

Implementation of recommendations

We raised five recommendations in our ISA 260 Report 2016/17. The PCC and CC has partially implemented all of the recommendations relating to the financial statements in line with the timescales of the action plan. Further details are included in Appendix 2.

Completeness of draft accounts

We received the Chief Constable's statement of accounts on the 5 June 2018 and the Group/PCC Statement of Accounts on the 7 June 2018. These were received after the statutory deadline of the 31 May 2018.

Due to the ongoing issues with the BRB system the final drafts were manually produced outside of the BRB although the audit team were not notified of this fact until they were on site.

Accounts production and audit process (cont.)

Quality of supporting working papers

We issued our Accounts Audit Protocol to Finance Officers on 19 February for the Interim Audit and 28 March 2018 for the Final Accounts audit. This important document sets out our audit approach and timetable. It also summarises the working papers and other evidence we require the PCC and CC to provide to support our audit work. This helps the PCC and CC to provide audit evidence in line with our expectations. We worked with management to ensure that working paper requirements are understood and aligned to our expectations.

Although working papers had improved from the prior year we found some quality issues in relation to the working papers. This included:

- Some casting/inclusion errors within the TB accounts checking tool which was found to have incorrect sub totals and some missing information which meant we had to check the accuracy of the whole document;
- Some working paper folders that did not include any working papers as requested in the PBC;
- Inclusion of prior year workings in a small number of instances; and
- workings that were not easily reconciled back to the accounts.

Whilst this has not caused any significant delays in the audit process it has increased the audit time required to audit some areas within the financial statements. There is an opportunity for improvements to be made to working papers. We have raised a recommendation in respect of this, see recommendation 2 in Appendix 1.

Response to audit queries

We are pleased to report that our agreed turnaround time of two days for dealing with audit queries was achieved by officers in the majority of cases, although in some instances queries could not be raised when identified due to staff availability. When evidence was required from staff who are not part of the Finance team, delays were noted, particularly in relation to payroll information and PPE information. As a result of this, the majority of our audit work was completed within the timescales expected with outstanding queries on fixed assets and officer remuneration at the end of the audit visit. This achievement puts the PCC and CC in a relatively good position to take on the 2018/19 closedown however staff availability and whether to produce the accounts using the CIPFA Big Red Button to produce the 2018/19 financial statements remain a concern given the issues with the system over the last two financial years.

Specific audit areas

We anticipate issuing an unqualified audit opinion on the PCC and CC's 2017/18 financial statements by 31 July 2018.

Auditing standards require us to consider two standard risks for all organisations. We consider these as a matter of course in our audit and will have set out the findings arising from our work in our ISA 260 Report below.

01

Management override of controls

Professional standards require us to communicate the fraud risk from management override of controls as significant because management is typically in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

Our audit methodology incorporates the risk of management override as a default significant risk. We have not identified any specific additional risks of management override relating to this audit.

In line with our methodology, we carried out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual.

There are no matters arising from this work that we need to bring to your attention.

02

Fraudulent revenue recognition

Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk.

In our *External Audit Plan 2017/18* we reported that we do not consider this to be a significant risk for Local Authorities as there is unlikely to be an incentive to fraudulently recognise revenue.

This is still the case. Since we have rebutted this presumed risk, there has been no impact on our audit work.

Over the following pages we have set out our assessment of the specific significant risk and area of audit focus we identified in relation to the audit of the PCC and CC's financial statements.

Specific audit areas

Significant Audit Risks

Risk:	**Pension Liabilities** The net pension liability represents a material element of the Police and Crime Commissioner and Chief Constable's balance sheets. The valuation of the pension liabilities rely on a number of assumptions, most notably around the actuarial assumptions, and actuarial methodology which results in the overall valuations. There are financial assumptions and demographic assumptions used in the calculations of the valuations, such as the discount rate, inflation rates, mortality rates etc. The assumptions should also reflect the profile of the Police and Crime Commissioner and Chief Constable's employees, and should be based on appropriate data. The basis of the assumptions is derived on a consistent basis year to year, or updated to reflect any changes. There is a risk that the assumptions and methodologies used in the valuations of the Police and Crime Commissioner and Chief Constable's pension obligations are not reasonable. This could have a material impact to net pension liabilities accounted for in the financial statements.
Our assessment and work undertaken:	As part of our work we reviewed the controls that the PCC and CC has in place over the information sent directly to the Scheme Actuary. We also liaised with the auditors of the Pension Fund in order to gain an understanding of the effectiveness of those controls operated by the Pension Fund. This included consideration of the process and controls with respect to the assumptions used in the valuation. We also evaluated the competency, objectivity and independence of Barnett Waddingham, the Scheme Actuary. We reviewed the appropriateness of the key assumptions included within the valuation, compared them to expected ranges and involved a KPMG Actuary to provide a specialist assessment of those assumptions. We also reviewed the methodology applied in the valuation by Barnett Waddingham. In addition, we reviewed the overall actuarial valuation and considered the disclosure implications in the financial statements. In order to determine whether the net pension liability has been appropriately accounted for we also considered the valuation of pension assets. We obtained assurance from the Pension Fund auditors (KPMG LLP) over the overall value of fund assets. We then liaised with the actuary to understand how these assets are allocated across participating bodies and re-performed this allocation. As a result of this work we determined that the PCC and CC's processes for obtaining an actuarial valuation were adequate and that the disclosures in the financial statements were reasonable. Although we have performed the majority of procedures outlined in out External Audit Plan 2017-18, the work is still being finalised and is subject to Director review. We have set out our view of the assumptions used in valuing pension assets and liabilities at Page 16.

Specific audit areas

Significant Audit Risks

Risk:	**Valuation of PPE** The Code requires that where assets are subject to revaluation, their year end carrying value should reflect the appropriate fair value at that date. The Police and Crime Commissioner and Chief Constable have adopted a rolling revaluation model which sees all land and buildings revalued over a five year cycle. As a result of this, however, individual assets may not be revalued for four years. This creates a risk that the carrying value of those assets not revalued in year differs materially from the year end fair value. In addition, as the valuation is undertaken as at the end of December there is a risk that the fair value is different at the year end.
Our assessment and work undertaken:	As part of our work we reviewed the approach that the PCC and CC have adopted to assess the risk that assets not subject to valuation are materially misstated and consider the robustness of that approach. We also assessed the risk of the valuation changing materially during the year. In relation to those assets which have been revalued during the year we reviewed the accounting entries made to record the results of the revaluation in order to ensure that they were appropriate. We also assessed the valuer's qualifications, objectivity and independence to carry out such valuations and reviewed the methodology used (including testing the underlying data and assumptions). As a result of this work we determined that the asset register had not been updated correctly for all revaluations in 2017/18. For five assets the residual value in relation to land had not been updated correctly. This has led to an extrapolated error within the accounts of £1.19m. The depreciable/residual value of Mapperley hospital mast had also been updated incorrectly in the FAR leading to the depreciable amount being understated by £10k although this is below our triviality level. We also completed work to ensure all assets had been included on the rolling programme and had been subject to a valuation over the 5 year period. Although we asked for this to be completed by the client this had to be completed by the audit team and we still have some outstanding work to complete on this . A recommendation has been raised. See recommendation 3 in Appendix 1.

Specific audit areas

Significant Audit Risks

Risk:	**Faster Close** In prior years, the Police and Crime Commissioner and Chief Constable have been required to prepare draft financial statements by 30 June and then final signed accounts by 30 September. For years ending on and after 31 March 2018 however, revised deadlines apply which require draft accounts by 31 May and final signed accounts by 31 July. These changes represent a significant change to the timetables that the Police and Crime Commissioner and Chief Constable have previously worked to. The time available to produce draft accounts has been reduced by one month and the overall time available for completion of both accounts production and audit is two months shorter than in prior years. In order to meet the revised deadlines, the Police and Crime Commissioner and Chief Constable may need to make greater use of accounting estimates. In doing so, consideration will need to be given to ensuring that these estimates remain valid at the point of finalising the financial statements. In addition, there are a number of logistical challenges that will need to be managed. These include: — Ensuring that any third parties involved in the production of the accounts (including valuers, and actuaries) are aware of the revised deadlines and have made arrangements to provide the output of their work in accordance with this; — Revising the closedown and accounts production timetables in order to ensure that all working papers and other supporting documentation are available at the start of the audit process; — Ensuring that the JASP meeting schedules have been updated to permit signing in July; and — Applying a shorter paper deadline to the July meeting of the JASP in order to accommodate the production of the final versions of the accounts and our ISA 260 report. In the event that the above areas are not effectively managed there is a significant risk that the audits will not be completed by the 31 July deadline.
Our assessment and work undertaken:	During the year we have liaised with officers and undertaken a review of your closedown timetable in order to understand the steps that the Police and Crime Commissioner and Chief Constable was taking in order to ensure they meet the revised deadlines. We also advanced all possible audit work into the interim visit in order to streamline the year end audit work. We have rigorously reviewed all those accounting estimates that are material to the financial statements and we have set out our views on these at Page 15. Due to the problems with the CIPFA model the accounts year end production process was delayed and the accounts had to be produced manually rather than using the Big Red Button. The deadline of the 31st May was not met. A recommendation has been raised. See recommendation 2 in Appendix 1.

Specific audit areas (cont.)

Other areas of audit focus

Those risks with less likelihood of giving rise to a material error but which are nevertheless worthy of audit understanding.

Issue:	**Management Review of Accounts** In 2016/17 Nottinghamshire PCC and CC were a pilot site for the new CIPFA financial system known as the Big Red Button. Our ISA 260 report for 2016/17 highlighted a number of challenges with the statement of accounts provided for audit last year. The initial draft statement of accounts provided for audit was not code compliant and we identified a number of issues with version control and timely management review of the accounts. We understand that recommendations made in the ISA 260 report will be actioned. In order to meet the earlier deadlines this year the S151 officers of the PCC and CC will need to ensure the Big Red Button has been updated correctly with all prior year adjustments and supports the figures presented for audit. The draft statement will need to be code compliant and a full and detailed management review will be required prior to the audit. All working papers will need to be in line with the statement of accounts and updated as necessary when changes are made in the Big Red Button. In the event that the above areas are not effectively managed there is a significant risk that the audits will not be completed by the 31 July deadline. This year errors within the CIPFA model during the accounts production process led to the financial statements having to be drafted manually outside of the model. This led to a delay in producing the accounts and the statutory deadline was not met. The JASP were fore-warned of this at the meeting on the 30 May 2018.
Our assessment and work undertaken:	The accounts were produced over a period of 6 days and figures had to be populated within the templates manually rather than being TB led through the CIPFA model. As a result of the process changing the accounts were not subject to the same level of review as they would have been had they been completed under BRB and not on such a timely basis. Our work identified that the CC accounts were reviewed by the CC S151 officer on the 30th and 31st May and issued to us on the 5th June. Further amendments were made to the narrative and a revised set were issued on the 15th June. The Group accounts were reviewed by the S151 officer on the 6th June and provided for audit on the 8th June. They were reviewed later again by the S151 officer – approx. 25th June. These reviews identified some further minor amendments which were required in the Group as well as other additional presentational and casting amendments identified by audit. The draft accounts template on the whole followed the post audit template from last year. We did identify that the audit fee note was excluded from the accounts in error this year and the CC senior officer remuneration was not shown in detail within the Group accounts. All required amendments have been provided to the finance team and processed but we have yet to check all the amendments in detail for accuracy and completeness.

Judgements

We have considered the level of prudence within key judgements in your 2017/18 financial statements and accounting estimates. We have set out our view below across the following range of judgements.

Level of prudence

0	1	2	3	4	5	6
Audit Difference	Cautious		Balanced		Optimistic	**Audit Difference**
	Acceptable Range					

Subjective area	2017/18	Commentary
Accruals de-minimis level.	3	There have been no changes in the accruals processes or de minimislevels used by the PCC and CC in the construction of its financial statements over the previous year.
Property, plant & equipment	TBC	Since 1st April 2017, property markets have remained relatively stable, with conditions across all commercial property markets remaining challenging. In view of this a cautious approach has been reflected in the valuer's year end valuation with little movement being recognised. A sufficient level of repairs and maintenance expenditure is being incurred by the PCC and there have been no indications of asset impairments during the year. We therefore consider the asset lives to be proportionate. We have identified that some assets have not been updated correctly in the fixed asset register This does not lead to a material error in this financial year although it is over our triviality level. We still have some outstanding work to complete on whether all assets have been included within the rolling revaluation program over the last 5 years and will then update our assessment.

Judgements

We have considered the level of prudence within key judgements in your 2017/18 financial statements and accounting estimates. We have set out our view below across the following range of judgements.

Subjective area	2017/18	Commentary
Valuation of Pension assets and liabilities	3	The PCC and CC continue to use Barnett Waddingham to provide actuarial valuations in relation to the assets and liabilities recognised as a result of participation in the Local Government Pension Schemes and the Government Actuary's Department (GAD) for the Police Pension Scheme. Due to the overall value of the pension assets and liabilities, small movements in the assumptions can have a significant impact on the overall valuation. For example, a 0.1% increase in the discount rate of the LGPS would decrease the net liabilities by £8m while a 0.5% increase in the discount rate in the police scheme would increase the liability by £257m. We have no issues to report as a result of our work at this stage. The actual assumptions adopted by the Actuary fell within our expected as set our below.

LGPS Assumption	Actuary Value	KPMG	Assessment
Discount rate	2.60%	2.52%	3
Pension increase	2.30%	2.14%	2
Salary Growth	3.80%	2.40-4.40%	3
Life expectancy Current male/female Future male/female	 22.6 / 25.6 24.8 / 27.9	 22.1/23.9 23.5/25.4	2

Police Pension Scheme Assumption	Actuary Value	KPMG	Assessment
Discount rate	2.55%	2.51%	3
CPI inflation	2.30%	2.35%	3
Pension Increase	2.40%	2.35%	3
Salary Growth	4.30%	2.30-4.30%	3
Life expectancy Current male/female Future male/female	 22.6 / 24.2 24.5 / 26.1	 21.9/23.8 23.3/25.4	2

Proposed opinion and audit differences

Subject to all outstanding queries being resolved to our satisfaction, receipt of the WGA, and for the necessary assurances being received from the auditors of the LGPS pension scheme we anticipate issuing an unqualified audit opinion on the PCC and CC's 2017/18 financial statements by 31 July 2018.

Audit differences

In accordance with ISA 260 we are required to report uncorrected audit differences to you. We also report any material misstatements which have been corrected and which we believe should be communicated to you to help you meet your governance responsibilities.

The final materiality (see Appendix 4) for this year's audit was set at £3.3 million. Audit differences below £0.160 million are not considered significant.

Whilst we did not identify any material misstatements as a result of our audit work, we did however, identify one significant misstatement in relation to PPE whereby land revaluations were understated. An extrapolation of the error results in a difference of £1.19m which is below materiality and has not been adjusted.

A prior period adjustment of £17.4m was identified in relation to the split of the pension liability between the CC and PCC accounts (CC liability increased and PCC liability decreased by this amount). This had been amended correctly in the draft statements and does not affect the overall totals within the Group financial statement balance sheet.

An audit difference of £0.120m in relation to precept income has been identified by the Finance team. Although not requiring amendment from an audit perspective the finance team have adjusted for this error in the final statements and it is our understanding that this has resulted in a number of amendments to the main statements and overall balances. These are not thought to be material although we have not yet checked the amendments processed in the final draft.

In addition, we identified a number of presentational adjustments required to ensure that the accounts are compliant with the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 ('the Code'). We have set out details of significant presentational adjustments in Appendix 3. We understand that the PCC and CC will be addressing these although we have not yet checked the final version of the financial statements in detail.

Overall there is no impact on the General Fund as a result of our audit adjustments.

[1] See referenced adjustments in Appendix 3.

Proposed opinion and audit differences (cont.)

Annual Governance Statement

We have reviewed the PCC and CC's 2017/18 Annual Governance Statements and confirmed that:

— They are not misleading and are consistent with other information we are aware of from our audit of the financial statements.

Narrative Report

We have reviewed the PCC and CC's 2017/18 Narrative Reports and have confirmed that they are consistent with the financial statements and our understanding of both the PCC and CC.

Completion

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the PCC and CC's 2017/18 financial statements.

Before we can issue our opinions we require signed management representation letters.

We are also awaiting the WGA pack.

Once we have finalised our opinions and conclusions we will prepare our Annual Audit Letter and close our audit.

Declaration of independence and objectivity

As part of the finalisation process we are required to provide you with representations concerning our independence.

In relation to the audit of the financial statements of the Police and Crime Commissioner for Nottinghamshire and the Chief Constable for Nottinghamshire for the year ending 31 March 2018, we confirm that there were no relationships between KPMG LLP and the Police and Crime Commissioner for Nottinghamshire and the Chief Constable for Nottinghamshire, their directors and senior management and their affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

We have provided a detailed declaration in Appendix 6 in accordance with ISA 260.

Management representations

You are required to provide us with representations on specific matters such as your financial standing and whether the transactions within the accounts are legal and unaffected by fraud. We have provided a template to the Deputy Chief Finance Officer for presentation to the PCC and CC. We require a signed copy of your management representations before we issue our audit opinion.

As part of this process we are seeking specific management representations in respect of the assurances you have gained over the completeness and accuracy of the figures consolidated for the regional collaboration.

Other matters

ISA 260 requires us to communicate to you by exception 'audit matters of governance interest that arise from the audit of the financial statements' which include:

— Significant difficulties encountered during the audit;

— Significant matters arising from the audit that were discussed, or subject to correspondence with management;

— Other matters, if arising from the audit that, in the auditor's professional judgement, are significant to the oversight of the financial reporting process; and

— Matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. significant deficiencies in internal control; issues relating to fraud, compliance with laws and regulations, subsequent events, non disclosure, related party, public interest reporting, questions/objections, opening balances etc.).

There are no others matters which we wish to draw to your attention in addition to those highlighted in this report or our previous reports relating to the audit of the PCC and CC's 2017/18 financial statements.

Section three

Value for Money Arrangements

Specific value for money risk areas

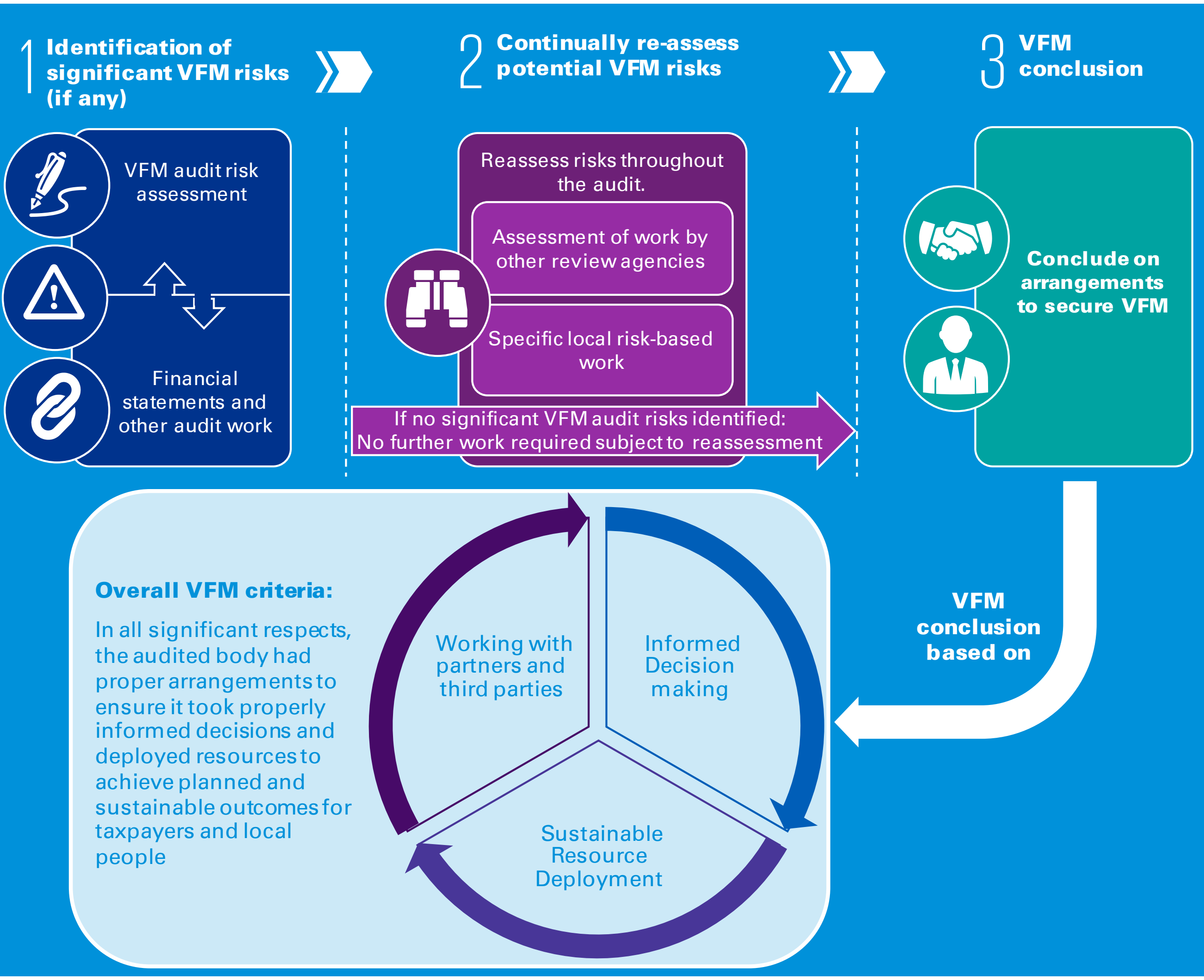
Our 2017/18 VFM conclusion considers whether the PCC and CC had proper arrangements to ensure they took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

We have concluded that the PCC and CC have made proper arrangements to ensure they took properly-informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people, except for in relation to the MFSS Governance issues.

The Local Audit and Accountability Act 2014 requires auditors of local government bodies to be satisfied that the PCC and CC ‘have made proper arrangements for securing economy, efficiency and effectiveness in their use of resources’.

This is supported by the Code of Audit Practice, published by the NAO in April 2015, which requires auditors to ‘take into account their knowledge of the relevant local sector as a whole, and the audited body specifically, to identify any risks that, in the auditor’s judgement, have the potential to cause the auditor to reach an inappropriate conclusion on the audited body’s arrangements.’

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



Specific value for money risk areas (cont.)

The table below summarises our assessment of the two VFM risks identified against the three sub-criteria. This directly feeds into the overall VFM criteria and our value for money opinion.

Applicability of VFM Risks to VFM sub-criteria

VFM Risk	Informed decision making	Sustainable resource deployment	Working with partner and third parties
Medium term financial planning			
MFSS Governance and VFM			

In consideration of the above, we have concluded that in 2017/18, the PCC and CC have made proper arrangements to ensure they took properly-informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people, except for in relation to MFSS governance. Further details on the work done and our assessment are provided on the following pages.

Specific value for money risk areas (cont.)

As communicated to you in our *External Audit Plan 2017/18* we have *identified two risks* requiring specific audit attention and procedures to address the likelihood that proper arrangements are not in place to deliver value for money.

We have provided below a summary of the risk areas identified, our work undertaken and the conclusions reached.

Risk:	**Medium Term Financial Planning** The Police and Crime Commissioner and Chief Constable identified the need to make efficiency savings of £1.3 million in 2017/18 in addition to ongoing pay savings of £4.2m. The current forecast shows that they will deliver an underspend of approximately £2.1 million for the financial year for the force and that the OPCC will deliver a balanced budget. The overall budget was approved by the Police and Crime Commissioner in February 2017 and recognised a need for £1.3million in savings. The approved budget includes individual proposals to support the delivery of the overall savings requirement. Further savings of £7 million will be required over the period 2018 to 2020 to principally address future reductions to funding levels alongside service cost and demand pressures. As a result, the need for savings will continue to have a significant impact on the Police and Crime Commissioner and Chief Constable's financial resilience. There is no plan to use reserves to support the 2017/18 expenditure and the overall aim is to return £10.1m to reserves in the medium to long term.
Our assessment and work undertaken:	Like most police forces, Nottinghamshire faces a challenging future driven by funding reductions and an increase in demand for services, although this has been partly offset by the Government's relaxation in local Council Tax precepting limits. During 2017/18 the group reported an underspend of £2.4m against its budget. The savings are likely to have been higher if MFSS costs had not increased during the year. These savings were achieved in addition to the planned efficiency savings of £1.250m and staff efficiencies of £5.5m already built into the budget. The underspend has enabled £2.174m to be transferred to the Medium Term Financial Plan reserve while £0.250m as been transferred to the IT Investment and replacement and this is going someway in building back the £10m of reserves used by the Group in 2016/17. Moving forward the force are hoping to increase the number of police officer headcount and also invest more in IT and capital investment. To achieve this the PCC and CC will need to ensure they develop and monitor all savings plans and budgets effectively to reduce the likelihood of any future budget shortfalls and to minimise the need to rely on reserves as has occurred in the past. We have assessed the arrangements put in place by the PCC and CC to maintain its record of meeting efficiency savings and achieving a balanced budget, by relying on the on our accounts audit work where relevant, underpinned by a review of the PCC and CC's budget setting process, financial management processes, and discussions with the senior management team.

Specific value for money risk areas (cont.)

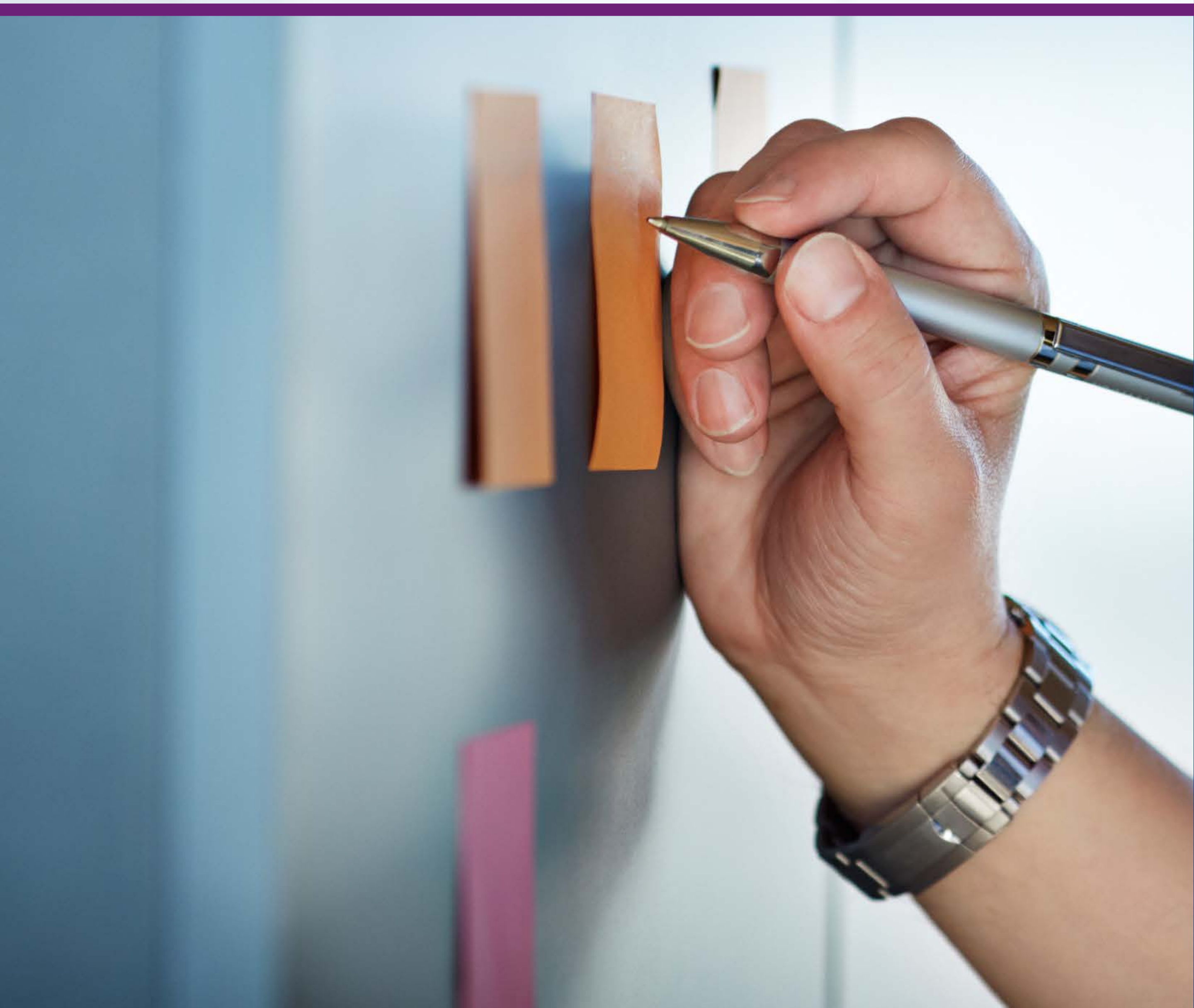
We have had to issue an "except for" VFM conclusion in relation to MFSS Governance.

We have provided below a summary of the risk areas identified, our work undertaken and the conclusions reached.

Risk:	**MFSS Governance and VFM** Multi Force Shared Services (MFSS) currently provides transactional back office services to Cheshire, Nottinghamshire and Northamptonshire Police and the Civil Nuclear Authority. PCCs in particular have expressed concerns around the governance of MFSS around the role of the Joint Oversight Committee (JOC) and the supporting Section 22 agreement. PCCs consider that an alternative legal vehicle is required to better support and govern MFSS and the services provided to clients. Potential growth in the membership of MFSS through the on-boarding of Cheshire Fire & Rescue Service, British Transport Police, and Avon & Somerset Police (at a later date), means that the existing governance arrangements are becoming unwieldy. The Nottinghamshire PCC has agreed that the Force should continue to be a member of MFSS and migrate to Oracle Fusion. This decision was based upon the outcome of the Grant Thornton tri-force evaluation report, which amongst other things, tested whether MFSS was providing value for money. Oracle Cloud Applications (FUSION) will offer expanded application functionality, real-time Business Intelligence and related modules all via Oracle Cloud Applications. By moving to a fully Oracle hosted service the annual savings for the MFSS are £2.667m over five years with additional MFSS savings taking the five year total savings to £3.54m (shared amongst the partner forces). Nottinghamshire expect savings of £200k a year. Fusion was due to be implemented in April 2018 but the project has been pushed back by MFSS to November 2018 with the potential for further delay. The project costs have increased from £6.7m to a projected £10.4m, with Nottinghamshire Police allocated £600k of this increase (total costs £1.152m payable in 17/18 and £583k in 2018/19). With the change in partners and the share of costs being based on head count the total cost to Nottinghamshire Police of this project is not yet fully known. The current budget for Fusion is £650k for 2017/18 and £2.155m in 17/18.
Our assessment and work undertaken:	We have assessed the costs allocated to Nottinghamshire from MFSS in relation to the Fusion project in both 2017/18 and 2018/19. As far as we are aware the go live date is still planned for October 2018. Nottinghamshire Polices' share of the costs have continued to increase in relation to this project. During 2017/18 Nottinghamshire Police spent £0.898m in relation to MFSS which was £0.248m over the original budget. For 2018/19 the PCC/CC budget has increased from £2.155m to £3.155m. Estimates provided by MFSS in June have shown Nottinghamshire Police's proportion is likely to increase further to £3.196m. MFSS is likely to lead to annual savings of £0.2m for Nottinghamshire Police –these have halved since the project was initially planned although costs have increased. The lack of governance arrangements raised by Nottinghamshire Police 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 working with partners and third parties although we appreciate this is somewhat out of Nottinghamshire Polices control.

As a result we will be issuing an "except for" conclusion in relation to our VFM opinion.

Appendices



Appendix 1:

Key issues and recommendations

Our audit work on the PCC and CC's 2017/18 financial statements has identified three issues. We have listed these issues in this appendix together with our recommendations which have yet to be agreed with Management.

The PCC and CC should closely monitor progress in addressing the risks, including the implementation of our recommendations.

We have given each recommendation a risk rating and agreed what action management will need to take.

Priority Rating for Recommendations

1	**Priority One:** Issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk. Recommendations Raised: 0	2	**Priority Two:** Issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system. Recommendations Raised: 2	3	**Priority Three:** Issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them. Recommendations Raised: 0

No.	Risk	Issue & Recommendation	Management Response
1	1	***MFSS Governance*** We are providing an "except for" conclusion over our VFM opinion, specifically in relation MFSS governance. During the year, you identified that there were significant issues with the delivery of MFSS's upgrade to "Cloud Oracle Computing". Investigations identified that the project would be late, over budget, not to specification, and would not deliver the expected savings. At the time it was identified, you did not have the Governance arrangements in place to effectively influence the project to remedy the situation. ***Risk*** Nottinghamshire Police could become committed to expenditure that does not represent good value for money. We recognise that Nottinghamshire Police has taken significant action in year to remedy the issues identified above.	To be provided ***Responsible Officer*** ***Implementation Deadline***

Appendix 1:

Key issues and recommendations

We have given each recommendation a risk rating and agreed what action management will need to take.

No.	Risk	Issue & Recommendation	Management Response
1	1	The Governance arrangements at MFSS have been fundamentally restructured to give Nottinghamshire Police more direct monitoring arrangements, so that if issues develop, they are able to identify them more immediately. They also now have the ability to direct changes in operations as they are required to improve projects. We are satisfied that Nottinghamshire Police are now taking appropriate action in relation to MFSS Governance, however, they should continue to monitor the Fusion project closely, and continue to take a more active role in the management and delivery of key projects. In the future, when making decision about future projects, Nottinghamshire Police should also carefully consider the exit strategies available, and the alternative solutions, should the primary project not be able to deliver.	
2	2	***Quality of working papers, staff availability and meeting the deadline*** As noted in previous year we have noted no significant change in the quality of working papers provided in support of the financial statements over the previous year, although it is noted we did receive them on a more timely basis and the cross referencing to the PBC and responsible officer had improved. The accounts were not received by the statutory deadline. ***Risk*** There is a risk of audit work being delayed or additional costs being incurred in the audit process. The Statutory deadline is not achieved. ***Recommendation*** Working papers need to be reviewed to ensure the they agree to and can be easily reconciled to the applicable note within the statements. This is not always clear.	**Management Response** To be provided ***Responsible Officer*** ***Implementation Deadline***

Key issues and recommendations

We have given each recommendation a risk rating and agreed what action management will need to take.

No.	Risk	Issue & Recommendation	Management Response
3	2	***Accuracy of the Fixed Asset Register*** The audit of the PPE note found that the Fixed Asset Register had not been updated correctly for all assets revalued in the year resulting in land being undervalued by £1.19m and a mast being undervalued by £10k. Additional work found it was not particularly easy to establish if all assets had been subject to a valuation every 5 years. A rolling programme has been in place since 2009 with full asset valuations last being undertaken in 2005 and 2009. We also established that the external valuer has been employed by the PCC/CC since 1998. ***Risk*** There is a risk of assets being reflected in the asset register at the wrong value which impacts on the values within the PPE note, and the overall asset value in the balance sheet. There is also a risk that not all assets are being revalued every 5 years. ***Recommendation*** The asset register needs to be reviewed and updated to reflect the correct valuations notified by the valuer in 2017/18. When the asset register is updated each year the data entries should be reviewed and checked to establish that the entries are correct (given the small number of valuations each year this should not be an onerous task). Given the errors and the fact that a rolling review has been in operation since 2009 consideration should be given to completing a full asset valuation for the next financial year.	To be provided ***Responsible Officer*** ***Implementation Deadline***

Follow-up of prior year recommendations

The Authority has implemented 2 and partially implanted 3 of the recommendations raised through our previous audit work.

This appendix summarises the progress made to implement the recommendations identified in our *ISA 260 Report 2016/17* and re-iterates any recommendations still outstanding.

Number of recommendations that were	
Included in the original report	5
Fully Implemented in year or superseded	2
Partially implemented at the time of our final accounts audit.	3

No.	Risk	Issue & Recommendation	Management Response	Status as at July 2018
1	1	***Code Compliance*** Our review of the accounts this year identified that the PCC/Group accounts presented for audit were not code compliant. Our testing also identified a number of notes that were missing from the accounts (shortened version of original recommendation) ***Recommendation*** The PCC and CC should ensure that the draft provided for audit in 2017/18 are fully code compliant and include all relevant statements and notes. Sufficient time and resource should be devoted to the accurate completion of CIPFA's code disclosure checklist with any uncertainties over answers being investigated more thoroughly. The CIPFA BRB model should be updated to enable the PCC costs to be fully identifiable and mapped form 2017/18.	Accepted ***Responsible Officer*** PCC CFO/CC CFO ***Implementation Deadline*** 2016/17 and 2017/18 Statement of Accounts	**Fully Implemented** – except for a couple of minor issues this recommendation has now been implemented. The format of the accounts has been updated to incorporate all code compliance corrections from the prior year. This year we found that the audit fee note was missing from within the group accounts and the Senior Officer Payments in relation to the CC had not been shown by individual within the Group accounts. The accounts have since been amended to reflect these findings although they have not yet been checked by the audit team.

Appendix 2:

Follow-up of prior year recommendations (cont.)

No.	Risk	Issue & Recommendation	Management Response	Status as at July 2018
2	1	***Management Review of the Draft Statement of Accounts*** The initial draft accounts provided for audit contained numerous errors and had not been subject to a timely or robust management review prior to audit which would have identified these problems. This recommendation was also made last year. (shortened version of original recommendation) ***Recommendation*** The PCC and CC should ensure that an appropriate, timely and robust level of review is put in place over the draft accounts next year particularly given the earlier deadline.	Accepted. ***Responsible Officer*** PCC CFO/CC CFO ***Implementation Deadline*** 2017/18 Statement of Accounts	**Partially Implemented.** Due to the problems encountered with the Big Red Button this year the accounts had to be produced manually and the statutory deadline was not met. As a result the review process built into the BRB was not able to be incorporated into the draft statements. Instead we carried out a review of the hard copy drafts to see when they were signed and dated as checked by finance staff and S151 officers. This showed that the review process was not as timely as we had hoped particularly on the group accounts which has led to some post audit amendments although these are presentational and do not affect the bottom line figures.

Follow-up of prior year recommendations (cont.)

No.	Risk	Issue & Recommendation	Management Response	Status as at July 2018
3	1	***Management Review of Working Papers and version control*** Our testing identified that working papers were once again not subject to a thorough management review. This led to delays and additional work. The impact of this included: - Not all working papers requested on our PBC being provided - The internal review function within BRB not being used this year due to timing issues. - Being provided with a version of the TB including a formula error. ***Recommendation*** All working papers should be subject to a full and timely review independent review. The review function for the BRB should be utilised next year. Working papers provided outside of the model should also be reviewed for accuracy and to ensure that the figures agree to the draft provided for audit and have not been superceded by another version. All working papers on the PBC should be supplied.	Accepted. ***Responsible Officer*** PCC CFO/CC CFO ***Implementation Deadline*** 2017/18 Statement of Accounts	**Partially implemented.** The Big Red Button was not used to produce the accounts this year and so the recommendation to use the BRB review function is not applicable. Working papers were provided on the first day of the audit along with a completed PBC which provided cross references to the working papers and showed the officer responsible for preparation and the reviewing officer. Some gaps were identified in the working papers and we had to request additional workings to support some of our work. We also feel working papers could be improved upon so there is a clear link from the figures within the relevant note through to the working paper although we acknowledge the system had improved from the prior year.

Follow-up of prior year recommendations (cont.)

No.	Risk	Issue & Recommendation	Management Response	Status as at July 2018
4	1	***Staff Availability*** This year the audit was heavily reliant on one member of staff. During the two week period the staff member was often on leave or working from home which led to delays in progressing audit queries. ***Recommendation*** Given the much earlier close down next year and the time pressures this will bring it is essential that all key finance staff are available during the 2 week audit period which will be in June and that leave/working from home is not allowed in this two week window.	Accepted. ***Responsible Officer*** PCC CFO/CC CFO ***Implementation Deadline*** 2017/18 Statement of Accounts	**Partially implemented.** This year we were provided with a schedule of staff availability on the first day of the audit. This showed the key members of the team were absent for fairly substantial periods in the audit. Although we worked around this it meant we had to put queries on hold in some instances. We also came on site in advance of the audit to complete the pensions work in advance of the pensions lead accountant going on leave. This delayed work on the VFM which was due to occur during that time.
5	2	***Audit Advert and Publication of Accounts*** This year we identified that the accounts were advertised for 29 working days instead of the required 30. In addition we were provided with the Chief Constables statements by the required deadline of the 30th June but not the PCC/Group statements. ***Recommendation*** The PCC and CC should ensure that the audit advert follows the recommendations provided to you in our audit letter and is provided to us to check prior to publication on the website. Both statements of accounts need to be published by the required earlier deadline next year and audit evidence provided to us to enable us to prove this.	Accepted. ***Responsible Officer*** PCC CFO ***Implementation Deadline*** 2017/18 Statement of Accounts	**Partially implemented.** The audit advert met all statutory requirements in 2017/18 and was provided to us to check as requested. Both the CC and the Group accounts were provided after the statutory deadline this year. The CC accounts were provided on the 5 June and the Group on the 7 June 2018.

Audit differences

We are required by ISA 260 to report all uncorrected misstatements, other than those that we believe are clearly trivial, to those charged with governance (which in your case is the PCC and CC).

We are also required to report all material misstatements that have been corrected but that we believe should be communicated to you to assist you in fulfilling your governance responsibilities.

A number of minor amendments focused on presentational improvements have also been made to the 2017/18 draft financial statements. The Finance team is committed to continuous improvement in the quality of the financial statements submitted for audit in future years.

Adjusted audit differences impacting the primary statements

No significant audit differences impacting on the primary statements were identified as a result of our audit of the Police and Crime Commissioner for Nottinghamshire and the Chief Constable for Nottinghamshire's financial statements for the year ended 31 March 2018, at a group level or individual entity level.

One Prior Period adjustment of £17.4m has occurred. This relates to the split of pension costs between the PCC and CC accounts and does not affect the total or figures reported within the Group. The working papers provided for the split in 2016/17 were accurate but an error was made on the actual statements and has since been rectified.

Finance staff have identified an error of £0.120m relating to precept income due to a precepting authority entering a bracket incorrectly. Although not material, the finance team have chosen to amend this balance on the final draft. This has impacted on a number of balances within the main statements although these have n yet to be checked by the audit team. As this amendment was not identified by the audit team and has not been checked it is not represented as an adjustment to balances by ourselves.

Audit differences (cont.)

Adjusted numerical audit differences impacting disclosure notes

The following table sets out the significant numerical/sensitive audit differences impacting on the disclosure notes identified by our audit of the Police and Crime Commissioner for Nottinghamshire and the Chief Constable for Nottinghamshire's financial statements for the year ended 31 March 2018, at a group level. Similar adjustments are also required in respect of the individual entities accounts. The final draft has not yet been fully checked by the audit team for accuracy.

Table 2: Adjusted numerical audit differences impacting disclosure notes – Group

No.	Disclosure note	£,000	Basis of audit difference
1	Note 6.3 Senior Officer remuneration		Incorrect extraction of payroll and expenses in relation to audit checks to source documents. This led to a £3k increase on total Commissioner remuneration and a £6,539 decrease on the Chief Constable remuneration.
		(6.5)	**Total value of adjustments**

Presentational adjustments - Group

We identified a number of presentational adjustments required to ensure that the PCC and CC's financial statements for the year ending 31 March 2018 are fully compliant with the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 ('the Code'). Whilst the majority of these adjustments were not significant details of these are provided in the following table.

It is our understanding that these will be adjusted. Although we have received a revised set of financial statements these have not been checked in full to confirm this.

Table 3: Presentational adjustments – Group

No.	Basis of audit difference
2	Note 1 Accounting policies: Since last year a number of accounting policies have been included within the main body of the notes. This is allowed and just brought to your attention.
3	Note 2.1 EFA: Changes were made to the split of costs between the policing and commissioner payments to correct the policing figures and make them consistent with those in the CC accounts. Changes were made to the adjustments column within the note to ensure the figures were consistent with note 2.2 as they originally did not agree.
4	Note 6.2 Officers Remuneration over £50,000: One member of staff was not included within the banding £70,000 to £75,000. The table has been updated to reflect this addition.
5	Note 6.3 Senior Officer Payments: Originally only a subtotal was included for the CC senior officer remuneration rather than showing the remuneration per individual officer. This has since been amended.
6	Note 6.5 Audit Fee: This note was originally ommitted from the draft provided for audit. It has now been included within the final draft.
7	Note 7.6 Joint Operations MIRS: A sub total figure for Total Usable Reserves did not cast correctly.
	Presentational adjustments – Chief Constable
8	Narrative report: a small number of changes were made to the officer statistics to ensure they agreed with the supporting working papers.

Unadjusted audit differences

We confirm that there are no uncorrected misstatements, other than the PPE undervaluation of land which at £1.19m is below materiality and does not have to be adjusted for.

Materiality and reporting of audit differences

The assessment of what is material is a matter of professional judgement and includes consideration of three aspects: materiality by value, nature and context.

Material errors by value are those which are simply of significant numerical size to distort the reader's perception of the financial statements. Our assessment of the threshold for this depends upon the size of key figures in the financial statements, as well as other factors such as the level of public interest in the financial statements.

Errors which are material by nature may not be large in value, but may concern accounting disclosures of key importance and sensitivity, for example the salaries of senior staff.

Errors that are material by context are those that would alter key figures in the financial statements from one result to another – for example, errors that change successful performance against a target to failure.

We used the same planning materiality reported in our External Audit Plan 2017/18, presented to you in April 2018.

Materiality for the PCC and CC's accounts was set at £3.3 million which equates to around 1.4 percent of gross expenditure. We design our procedures to detect errors in specific accounts at a lower level of precision.

Reporting to the Joint Audit and Scrutiny Panel

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Joint Audit and Scrutiny Panel any misstatements of lesser amounts to the extent that these are identified by our audit work.

Under ISA 260, we are obliged to report omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

ISA 450 requires us to request that uncorrected misstatements are corrected.

In the context of the PCC and CC, an individual difference is considered to be clearly trivial if it is less than £0.160 million.

Where management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Joint Audit and Scrutiny Panel to assist it in fulfilling its governance responsibilities.

Required communications with the Joint Independent Audit Committee

We have provided below at-a-glance summary of the information we are required to report to you in writing by International Accounting Standards.

Required Communication	Commentary
Our draft management representation letter	We have requested a single specific representation in relation to Regional Collaboration assurances in addition to those areas normally covered by our standard representation letter for the year ended 31 March 2018.
Adjusted audit differences	We have identified no material audit adjustments impacting the primary statements, one significant audit error totalling £1.19m which has not been amended, some minor errors in disclosure notes and a number of presentation issues. See Page 12 for details. These adjustments result in no movement in the figures within the main statements. See Page 33 and 34 for further details.
Unadjusted audit differences	We have identified no unadjusted differences as a result of our audit of the PCC and CC's financial statements
Related parties	There were no significant matters that arose during the audit in connection with the entity's related parties.
Other matters warranting attention by the Joint Independent Audit Committee	There were no matters to report arising from the audit that, in our professional judgement, are significant to the oversight of the financial reporting process.
Control deficiencies	We have set out our assessment of the PCC and CC's internal control environment, including confirmation that there were no significant deficiencies identified, in Section one of this report (see Page 5).
Actual or suspected fraud, noncompliance with laws or regulations or illegal acts	We identified no actual or suspected fraud involving the PCC or CC's officers with significant roles in internal control, or where the fraud resulted in a material misstatement in the financial statements.
Significant difficulties	No significant difficulties were encountered during the audit.
Modifications to auditor's report	There are no modifications to our audit report.
Disagreements with management or scope limitations	The engagement team had no disagreements with management and no scope limitations were imposed by management during the audit.

Appendix 5:

Required communications with the Joint Independent Audit Committee (cont.)

Required Communication	Commentary
Other information	No material inconsistencies were identified related to other information in the Narrative Report or Annual Governance Statement. These reports were found to be fair, balanced and comprehensive, and compliant with applicable requirements.
Our declaration of independence and any breaches of independence	No matters to report. The engagement team have complied with relevant ethical requirements regarding independence. See Appendix 6 for further details.
Accounting practices	Over the course of our audit, we have evaluated the appropriateness of the PCC and CC's accounting policies, accounting estimates and financial statement disclosures. In general, we believe these are appropriate. We have set out our view of the assumptions used in valuing pension assets and liabilities at Page 15.
Significant matters discussed or subject to correspondence with management	There were no significant matters arising from the audit which were discussed, or subject to correspondence, with management.

Appendix 6:

Declaration of independence

ASSESSMENT OF OUR OBJECTIVITY AND INDEPENDENCE AS AUDITOR OF THE POLICE AND CRIME COMMISSIONER FOR NOTTINGHAMSHIRE AND THE CHIEF CONSTABLE FOR NOTTIINGHAMSHIRE

Professional ethical standards require us to provide to you at the conclusion of the audit a written disclosure of relationships (including the provision of non-audit services) that bear on KPMG LLP's objectivity and independence, the threats to KPMG LLP's independence that these create, any safeguards that have been put in place and why they address such threats, together with any other information necessary to enable KPMG LLP's objectivity and independence to be assessed.

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code of Audit Practice, the provisions of Public Sector Audit Appointments Limited's ('PSAA's') Terms of Appointment relating to independence, the requirements of the FRC Ethical Standard and the requirements of Auditor Guidance Note 1 - General Guidance Supporting Local Audit (AGN01) issued by the National Audit Office ('NAO') on behalf of the Comptroller and Auditor General.

This Statement is intended to comply with this requirement and facilitate a subsequent discussion with you on audit independence and addresses:

— General procedures to safeguard independence and objectivity;

— Independence and objectivity considerations relating to the provision of non-audit services; and

— Independence and objectivity considerations relating to other matters.

General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP partners, Audit Directors and staff annually confirm their compliance with our ethics and independence policies and procedures. Our ethics and independence policies and procedures are fully consistent with the requirements of the FRC Ethical Standard. As a result we have underlying safeguards in place to maintain independence through:

— Instilling professional values

— Communications

— Internal accountability

— Risk management

— Independent reviews.

We are satisfied that our general procedures support our independence and objectivity.

Declaration of independence (cont.)

Independence and objectivity considerations relating to the provision of non-audit services

Summary of fees

We have considered the fees charged by us to the PCC and CC and its controlled entities for professional services provided by us during the reporting period. We have detailed the fees charged by us to the PCC and CC and its controlled entities for significant professional services provided by us during the reporting period in Appendix 7, as well as the amounts of any future services which have been contracted or where a written proposal has been submitted. Total fees charged by us for the period ended 31 March 2018 can be analysed as follows:

	2017/18 £	2016/17 £
Audit of the Police and Crime Commissioner	35,220	35,220
Audit of the Chief Constable	15,000	15,000
Overrun Fee		5,000
Total audit services	**50,220**	**55,220**
Allowable non-audit services	0	0
Audit related assurance services	0	0
Mandatory assurance services	0	0
Total Non Audit Services	**0**	**0**

We are required by AGN 01 to limit the proportion of fees charged for non-audit services (excluding mandatory assurance services) to 70% of the total fee for all audit work carried out in respect of the PCC and CC under the Code of Audit Practice for the year. The ratio of non-audit fees to audit fees for the year was 0:1. We do not consider that the total of non-audit fees creates a self-interest threat since the absolute level of fees is not significant to our firm as a whole.

Independence and objectivity considerations relating to other matters

There are no other matters that, in our professional judgement, bear on our independence which need to be disclosed to the Joint Audit and Scrutiny Panel.

Confirmation of audit independence

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

This report is intended solely for the information of the Joint Audit and Scrutiny Panel of the PCC and CC and should not be used for any other purposes.

We would be very happy to discuss the matters identified above (or any other matters relating to our objectivity and independence) should you wish to do so.

KPMG LLP

KPMG LLP

Appendix 7:

Audit fees

As communicated to you in our *External Audit Plan 2017/18*, our scale fee for the audits are detailed below:

Component of the audit	2017/18 Planned Fee £	2016/17 Actual Fee £
Accounts opinion and value for money work		
PSAA Scale fee (Police and Crime Commissioner)	35,220	35,220
PSAA Scale fee (Chief Constable)	15,000	15,000
PSAA agreed overrun fee		5,000
Total audit services	**50,220**	**55,220**
Total non-audit services	**0**	**0**
Grand total fees for the PCC and CC	**50,220**	**55,220**

All fees quoted are exclusive of VAT.

The key contacts in relation to our audit are:

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This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. We draw your attention to the Statement of Responsibilities of auditors and audited bodies, which is available on Public Sector Audit Appointment's website (www.psaa.co.uk).

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Andrew Cardoza, the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers, by email to Andrew.Sayers@kpmg.co.uk. After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing generalenquiries@psaa.co.uk by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3HZ.

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