KPMG

*cutting through complexity*

# Report to those charged with governance (ISA 260) 2014/15

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

**FINAL**

September 2015

# Contents

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# Introduction

**This document summarises:**

- **the key issues identified during our audit of the financial statements for the year ended 31 March 2015 for the PCC/CC; and**
- **our assessment of the PCC's and the CC's arrangements to secure value for money.**

## Scope of this report

This report summarises the key findings arising from:

- our audit work at the Police and Crime Commissioner for Nottinghamshire ('the PCC') and the Chief Constable for Nottinghamshire ('the CC') in relation to their 2014/15 financial statements; and
- the work to support our 2014/15 conclusion on the PCC/CC's arrangements to secure economy, efficiency and effectiveness in its use of resources ('VFM conclusion').

## Financial statements

Our *External Audit Plan 2014/15*, presented to you in February 2015, set out the four stages of our financial statements audit process.


This report focuses on the third stage of the process: substantive procedures. Our on site work for this took place during July 2015.

We are now in the final phase of the audit, the completion stage. Some aspects of this stage are also discharged through this report.

## VFM conclusion

Our *External Audit Plan 2014/15* explained our risk-based approach to VFM work. We have now completed the work to support our 2014/15 VFM conclusion. This included:

- Assessing the potential VFM risks and identifying the residual audit risks for our VFM conclusion; and
- considering the results of any relevant work by the PCC/CC and other inspectorates and review agencies in relation to these risk areas.

## Structure of this report

This report is structured as follows:

- Section 2 summarises the headline messages.
- Section 3 sets out our key findings from our audit work in relation to the 2014/15 financial statements of the PCC/CC.
- Section 4 outlines our key findings from our work on the VFM conclusion.

Our recommendations are included in Appendix 1. We have also reviewed your progress in implementing prior recommendations and this is detailed in Appendix 2.

## Acknowledgements

We would like to take this opportunity to thank officers and Members for their continuing help and co-operation throughout our audit work.

# Headlines

**This table summarises the headline messages for the PCC/CC. The remainder of this report provides further details on each area.**

| | |
|---|---|
| **Proposed audit opinion** | We anticipate issuing an unqualified audit opinion on the PCC and CC's financial statements by 30 September 2015.<br>We also expect to report that your Annual Governance Statement complies with guidance issued by CIPFA/SOLACE in June 2007. |
| **Audit adjustments** | Our audit identified a number of a adjustments to the accounts. We also identified a number of presentational and disclosure adjustments all of which were amended by the PCC and CC and which had no overall effect on the reported position.<br>A number of these adjustments were as a result of a fault in the accounts template. Due to the size of the accounts a number of the links between the main statements and notes failed to work and resulted in inconsistencies which had not been picked up by management's quality review prior to us receiving version 1 on the 30 June and version 2 the 3 July 2015.<br>We have recorded the audit adjustments at Appendix 3. All of these were adjusted by the PCC / CC.<br>We have raised a recommendation in relation to the matters highlighted above, which are summarised in Appendix 1. |
| **Key financial statements audit risks** | We identified the following key financial statements audit risks in our 2014/15 External audit plan issued in February 2015.<br>▪ Management override of controls;<br>▪ Fraudulent revenue recognition;<br>▪ Stage 2 Transfer – transfer an accounting arrangements; and<br>▪ A19 Tribunal Ruling – accounting for outcome of tribunal.<br>We have worked with officers throughout the year to discuss these key risks and our detail findings are reported in Section 3 of this report.<br>There are no matters of any significance arising as a result of our audit work in these key risk areas. |

# Headlines

| | |
|---|---|
| **Accounts production and audit process** | We have noted that there continues to be scope for improvement in the availability and quality of supporting working papers. This year we found that the links within the PCC/CC accounting template encountered a fault which meant not all figures between the main statements and notes agreed. The main CIES statement did not cast correctly due to a late adjustment.<br><br>We also found some instances where there were inconsistencies between the same account balances between notes and in the case of cash between years. There were also considerable rounding differences. These issues had not been picked up by management's quality review prior to us receiving version 1 on the 30 June and version 2 on the 3 July 2015. We spent abortive audit time planning and preparing audit work based on version 1 which had been given to us, as we then had to re-perform this work on the revised version.<br><br>We reported in last year's ISA260 that the quality of working papers needed to be improved. Although we did receive most working papers electronically, the file provided was not always easy to navigate and follow, with the note references sometimes referring to the 2013/14 set of accounts. There were also some issues with links to supporting notes and the form in which they were provided e.g. PDF rather than excel for fixed asset register. In some cases we found that working papers did not agree to the figures in the accounts, for example the PCC costs. These did not impact on the overall balances within the CIES but resulted in additional audit time in resolving queries within working papers.<br><br>As a consequence of the increased audit input required, an increase from the scale fee will be necessary and we will discuss this with officers to detail the extra work involved and agree this once we have completed our audit. |
| **Completion** | At the date of this report our audit of the financial statements is substantially complete subject to completion of the following areas:<br>▪ Whole of Government Accounts (These were not submitted by the deadline and recently been received for audit);<br>▪ Cash flow and MIRS within the Final version of the accounts; and<br>▪ Completion of Capital Additions. (Receipt of working papers which are held off site).<br><br>Before we can issue our opinion we require a signed management representation letter from the PCC/CC.<br><br>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 financial statements. |
| **VFM conclusion and risk areas** | We have concluded that the PCC/CC have made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.<br><br>We therefore anticipate issuing an unqualified VFM conclusion by 30 September 2015. |

# Financial Statements
# Proposed opinion and audit differences

**We have not identified any issues in the course of the audit that are considered to be material.**

**Our audit has identified a number of presentational adjustments.**

## Proposed audit opinion

Subject to all outstanding queries being resolved to our satisfaction, we anticipate issuing an unqualified audit opinion on the PCC and CC's financial statements following approval of the Statement of Accounts by the 30 September 2015.

## Audit differences

In accordance with ISA 260 we are required to report uncorrected audit differences to those charged with governance. 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.

There were no material errors identified which required correction.

There were also no uncorrected errors.

We identified a large 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 2014/15 ('the Code')*. We understand that the PCC/CC will be addressing all these adjustments.

## Annual Governance Statement

We have reviewed the Annual Governance Statements and confirmed that:

- they comply with *Delivering Good Governance in Local Government: A Framework* published by CIPFA/SOLACE; and
- they are not misleading or inconsistent with other information we are aware of from our audit of the financial statements.

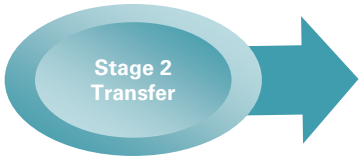
# Financial Statements (continued)
# Significant risks and key areas of audit focus

**We have worked with the PCC/CC throughout the year to discuss significant risks and key areas of audit focus**

**This section sets out our detailed findings on those risks**

In 2014/15 financial statements. We have now completed our *External Audit Plan 2014/15*, presented to you in February 2015, we identified the significant risks affecting the PCC/CC's our testing of these areas and set out our evaluation following our substantive work.

The table below sets out our detailed findings for each of the risks that are specific to the PCC/CC.

| Significant audit risk | Issue | Findings |
|---|---|---|
|  <br>**Audit areas affected**<br>▪ Property Plant and Equipment<br>▪ CIES Income/Expenditure<br>▪ Treatment of pension liability | **Risk**<br>The Police Reform and Social Responsibility Act 2011 (schedule 15 part 3) allows PCC's and Chief Constables to agree a transfer scheme for staff and assets form the PCC to the CC. As such, the Home Office required a transfer scheme to be submitted for each local police area for implementation by 1 April 2014.<br>It is likely that at least some staff or assets will be transferred to Chief Constable, but it is up to each PCC and CC to agree their own transfer scheme and these arrangements will differ between local police areas.<br>CIPFA issued LAAP Bulletin 98A regarding the Closure of the 2013/14 Accounts and considered the treatment of staff and asset transfer for Stage 1. The Bulletin also introduced the consideration of such treatments for the Stage 2 transfers. | As part of our audit, we ensured that the PCC/CC were aware of the latest guidance and reviewed the accounting treatment they had applied.<br>We found that the PCC/CC had:-<br>▪ Determined the appropriate staff and assets to transfer, including pension liabilities;<br>▪ Followed the relevant accounting standards to account for these transactions; and<br>▪ Treatment of the Stage 2 transfer was in line with the approval and consistent with treatment for Stage 1. |

# Financial Statements (continued)
# Significant risks and key areas of audit focus

**We have worked with the PCC/CC throughout the year to discuss significant risks and key areas of audit focus**

**This section sets out our detailed findings on those risks**

In 2014/15 financial statements. We have now completed our *External Audit Plan 2014/15*, presented to you in February 2015, we identified the significant risks affecting the PCC/CC's our testing of these areas and set out our evaluation following our substantive work.

The table below sets out our detailed findings for each of the risks that are specific to the PCC/CC.

| Significant audit risk | Issue | Findings |
|---|---|---|
| A19 Tribunal ruling<br><br>**Audit areas affected**<br>■ Financial Statements Presentation<br>■ Contingent Liabilities<br>■ Provisions | **Risk**<br>Nottinghamshire Police lost the employment tribunal against them in relation to A19. This forced officers with over 30 years service to retire. In Nottinghamshire this affected just under 100 officers.<br>Along with four other forces Nottinghamshire may now have to pay for some form of compensation to these former officers.<br>An appeal has been lodged. The results are not yet known and depending on the timing of any judgement there may be an impact on the 2014/15 financial statements. | The police officers affected by A19 have been appealing the decision of the employment tribunal over a number of years.<br>In July 2015 the A19 officers lost the appeal and the legal ruling was that staff with over 30 years service had been dismissed lawfully. The time allowed to submit a further appeal has now passed and the legal process can be concluded. The contingent liability note has been updated to reflect the legal finding as has the other significant events during the year note. |

# Financial Statements (continued)
# Significant risks and key areas of audit focus (continued)

In our *External Audit Plan 2014/15* we reported that we would consider two risk areas that are specifically required by professional standards and report our findings to you. These risk areas were Management override of controls and the Fraud risk of revenue recognition.

The table below sets out the outcome of our audit procedures and assessment on these risk areas.

| Areas of significant risk | Summary of findings |
|---|---|
| **Management override of controls**<br>Audit areas affected<br>■ All areas | Our audit methodology incorporates the risk of management override as a default significant risk. 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. We have not identified any specific additional risks of management override relating to this audit.<br>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.<br>There are no matters arising from this work that we need to bring to your attention. |
| **Fraud risk of revenue recognition**<br>Audit areas affected<br>■ None | Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk.<br>In our External Audit Plan 2014/15 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.<br>This is still the case. Since we have discounted this presumed risk, there has been no impact on our audit work. |

# Financial Statements (continued)
# Accounts production and audit process

**There is still scope for improvement in the quality of working papers.**

**Officers dealt with some of the audit queries in a reasonable time but in some cases we experienced delays in the audit process.**

**The PCC/CC has not effectively implemented the recommendation in our *ISA 260 Report 2013/14.***

## Accounts production and audit process

ISA 260 requires us to communicate to those charged with governance, the PCC and the CC as corporations sole, our views about the significant qualitative aspects of the PCC/CC's accounting practices and financial reporting. We also assessed the PCC/CC's process for preparing the accounts and its support for an efficient audit.

| Element | Commentary |
|---|---|
| **Accounting practices and financial reporting** | The PCC/CC accounting polices are consistent with the Code and we consider that accounting practices are appropriate. |
| **Completeness of draft accounts** | We received a complete set of draft accounts by deadline of 30 June 2015. However, on the first day of the audit visit we were presented with a second draft of the accounts. The template used to generate accounts did not work well and contained some errors. Links between the main statements and notes did not always work and resulted in inconsistencies that had not been identified through quality review by management.<br><br>We incurred additional abortive audit time in proof reading and quality checking the first version of the accounts and entries. Management need to ensure they carry out a comprehensive quality check of the financial statements before presenting them to us for audit. As a result Management also incurred addition time in responding to additional audit queries from us as a result. |
| **Quality of supporting working papers** | Our *Accounts Audit Protocol*, which we issued in March 2015, set out our working paper requirements for the audit.<br><br>Some of the working papers met the standards set out in the *Accounts Audit Protocol.* However, the quality of supporting working papers in some cases, did not match the entry in the accounts, did not cast, were blank as links had not worked correctly, and were in an inappropriate format i.e. PDF rather than excel. We have made a specific recommendation for improvement at Appendix 1. |
| **Response to audit queries** | Officers resolved some of the audit queries in a reasonable time. However, in some cases, we experienced delays, specifically where staff who prepared the working papers were not available during the audit due to absences. These factors, the inconsistencies within the draft statements provided for audit and the quality of supporting working papers have resulted in additional audit time to complete the audit. |

## Findings in respect of the control environment for key financial systems

There are no significant findings to report to you in respect of the control environment.

## Prior year recommendations

As part of our audit we have specifically followed up the PCC/CC's progress in addressing the recommendations in last years ISA 260 report. There was one recommendation in the previous year which has not been effectively implemented and we have repeated the same concerns this year. Appendix 2 provides further details.

# Financial Statements (continued)
# Completion

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

**Before we can issue our opinion we require a signed management representation letter.**

**Once we have finalised our opinions and conclusions we will prepare our A*nnual 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 Nottinghamshire PCC and CC for the year ending 31 March 2015, we confirm that there were no relationships between KPMG LLP and Nottinghamshire PCC and CC, its directors and senior management and its 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 4 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 S151 Officer for presentation to the Audit Committee. We require a signed copy of your management representations before we issue our audit opinion.

### 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 judgment, 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 other 2014/15 matters which we wish to draw to your attention in addition to those highlighted in this report.

### Emerging Risks

The Force/PCC has implements a new ledger system from the 1 April 2015 and the S151 has raised some emerging risks in relation to Creditors, Payroll and VAT. Work is being undertaken through the Internal Auditors to review these concerns which in turn could emerge as additional risks in our 2015/16 external audit plan. We will reassess these risks during our planning work for the 2015/16 external audit plan.

# VFM conclusion

**Our VFM conclusion considers how the PCC/CC secures financial resilience and challenges how it secures economy, efficiency and effectiveness.**

**We have concluded that the PCC/CC has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.**

## Background

Auditors are required to give their statutory VFM conclusion based on two criteria specified by the Audit Commission. These consider whether the PCC/CC have proper arrangements in place for:

- securing financial resilience: looking at the PCC/CC's financial governance, financial planning and financial control processes; and
- challenging how it secures economy, efficiency and effectiveness: looking at how the PCC/CC is prioritising resources and improving efficiency and productivity.

We follow a risk based approach to target audit effort on the areas of greatest audit risk. We consider the arrangements put in place by the PCC/CC to mitigate these risks and plan our work accordingly.

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

## Work completed

We performed a risk assessment earlier in the year and have reviewed this throughout the year.

We have not identified any significant risks to our VFM conclusion and therefore have not completed any additional work.

## Conclusion

We have concluded that the PCC/CC have made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

| VFM criterion | Met |
|---|---|
| **Securing financial resilience** | ✓ |
| **Securing economy, efficiency and effectiveness** | ✓ |

# Specific VFM risks

**We have identified a number of specific VFM risks.**

**We are satisfied that external or internal scrutiny provides sufficient assurance that the PCC/CC's current arrangements in relation to these risk areas are adequate.**

## Work completed

In line with the risk-based approach set out on the previous page, and in our *External Audit Plan* we have:

- assessed the PCC/CC's key business risks which are relevant to our VFM conclusion;
- identified the residual audit risks for our VFM conclusion, taking account of work undertaken in previous years or as part of our financial statements audit; and
- considered the results of relevant work by the PCC/CC, inspectorates and review agencies in relation to these risk areas.

## Key findings

Below we set out the findings in respect of those areas where we have identified a residual audit risk for our VFM conclusion.

We concluded that we did not need to carry out additional work for these risks as there was sufficient relevant work that had completed by the PCC/CC, inspectorates and review agencies in relation to these risk areas.

| Key VFM risk | Risk description and link to VFM conclusion | Assessment |
|---|---|---|
| A19 Tribunal Ruling | Nottinghamshire lost the employment tribunal brought against them and four other forces by the Police Superintendents Association of England and Wales. This challenged the legality of their decision to force nearly 100 officers with more than 30 years service to retire.<br><br>Nottinghamshire have appealed this decision but the outcome of the appeal and its potential financial consequence is not yet known.<br><br>If Nottinghamshire lose the appeal and have to pay compensation and the costs associated with calculating this the financial impact could be detrimental to the financial resilience element of the VFM conclusion. | In accordance with accounting practice a contingent liability of £3.5m was included in the previous year's financial statements.<br><br>The 2014-15 accounts presented for audit include recognition of the same contingent liability. The legal ruling in July 2015 ruled in Nottinghamshire PCC/CC's favour that the A19 staff had been lawfully dismissed and time has now expired for a further appeal. The contingent liability within the accounts has been updated to reflect this. This decision could have a positive impact for the PCC as they will have a further £3.5m reserves available for the MTFS.<br><br>**Specific risk based work required: No** |

# Specific VFM risks

**We have identified a number of specific VFM risks.**

**We are satisfied that external or internal scrutiny provides sufficient assurance that the PCC/CC's current arrangements in relation to these risk areas are adequate.**

## Work completed

In line with the risk-based approach set out on the previous page, and in our *External Audit Plan* we have:

- assessed the PCC/CC's key business risks which are relevant to our VFM conclusion;
- identified the residual audit risks for our VFM conclusion, taking account of work undertaken in previous years or as part of our financial statements audit; and
- considered the results of relevant work by the PCC/CC, inspectorates and review agencies in relation to these risk areas.

## Key findings

Below we set out the findings in respect of those areas where we have identified a residual audit risk for our VFM conclusion.

We concluded that we did not need to carry out additional work for these risks as there was sufficient relevant work that had completed by the PCC/CC, inspectorates and review agencies in relation to these risk areas.

| Key VFM risk | Risk description and link to VFM conclusion | Assessment |
|---|---|---|
|   | Nottinghamshire Police along with all forces have significant budget savings to make over the coming years. Plans are in place to achieve these savings and these were reviewed as part of last years VFM assessment.<br><br>We will review ongoing saving plans and processes as part of our VFM audit work linking this to any further HMIC or external body reports in relation to VFM such as the PEEL review. | All police bodies have been affected by reductions is central funding and these will continue for the next few years. The PCC/CC have to date responded well to these pressures, maintaining performance and in identifying savings to be delivered.<br><br>The Force/PCC have delivered £42m of savings over the last 5 years and has identified the need for £48m saving over the next 5 years. Whilst the Force was short of its planned savings target in 2014-15 by £3m, which the PCC has agreed to support through the use of reserves. The Force/PCC have identified plans to achieve savings required in 2015-16, but is still working on further savings projects to fill the gap and if not achieve a further call on reserves may be required.<br><br>These future plans are based on realistic assumptions for reductions in grant funding. Our review of the specific risk indicators would suggest that there is no adverse impact on financial resilience or value for money.<br><br>**Specific risk based work required: No** |

# Appendix 1: Key issues and recommendations

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

**The PCC/CC should closely monitor progress in addressing specific risks and implementing our recommendations.**

**We will formally follow up these recommendations next year.**

| 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. | 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. | 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. |

| No. | Risk | Issue and recommendation | Management response / responsible officer / due date |
|---|---|---|---|
| 1 | 2 | **Quality and availability of working papers**<br>Some working papers were not provided at the start of the audit; we experienced some delays due to staff absences which were not notified to the audit team on a timely basis.<br>We will work with your officers to ensure there is clearer communication and understanding of what we require.<br>**Recommendation**<br>The Finance team should ensure:<br>▪ availability of the working papers specified in the agreed Prepared By Client (PBC) schedule prior to the start of the audit;<br>▪ availability of key (and/or appropriate alternative) staff during the audit process; and<br>▪ appropriate Management/Peer review of working papers prior to handover for audit. | Agreed. This year was particularly difficult with unplanned absence. All effort was put into delivering a balanced set of accounts and therefore some working papers were delayed.<br>**Responsible Officer** – Chief Finance Officer – Office of the Police & Crime Commissioner<br>**Due Date** – April 2016 |

# Appendix 1: Key issues and recommendations

| No | Risk | Issue and recommendation | Management response / responsible officer / due date |
|---|---|---|---|
| 2 | 2 | **Accounts Presented for Audit**<br>We received version 1 of the accounts on the 30 June but were subsequently provided with version 2 on the 3 July 2015. Version 2 of the accounts included a number of casting errors, figures which were not supported with amended working papers and entries that did not agree to the PCC/CC accounts template used.<br>**Recommendation**<br>The Finance team should ensure:<br>▪ that the version presented to Members and Officers has been subject to sufficient and appropriate management quality review, proof reading of entries and cross checking to supporting notes; and<br>▪ that the version of the accounts 'prepared for audit' is the finalised version, subject to quality review and that we as the external auditor are provided with working papers for any amendments made to the version being audited. | Agreed. Version 1 had been checked by several people, but version 2 had not been so robustly checked. The errors occur in how the spreadsheet feeds through to the word document once updates are made. We were keen to make sure the auditors had a set of accounts that did not contain any "balancing" adjustments, but the right set of figures. Unfortunately in doing this version 2 was updated by the spreadsheet and the upload created errors.<br>**Responsible Officer** – Chief Finance Officer – Office of the Police & Crime Commissioner<br>**Due Date** – April 2016 |
| 3 | 2 | **Accounts Production Version Control**<br>The accounts prepared for our audit contained a number of electronic links to subsequent working papers and links to support the account entries. A number of these links failed during the audit of the accounts or were not updated to reflect changes made to the different version of the accounts. This delayed the audit process and generated additional queries for your staff to resolve.<br>**Recommendation**<br>The Finance team should ensure an alternative accounts template for the generation of the statements is used and limit the number of links used to support them. If links are required they should be tested during the management quality review process prior to submitting the accounts for audit. | Agreed in principle. We are looking into the possibility of computers for the staff that can meet the processing need. This will also mean that access to computers with increased processing ability will also be needed by the auditors.<br>**Responsible Officer** – Chief Finance Officer – Office of the Police & Crime Commissioner<br>**Due Date** – April 2016 |

# Appendix 2: Follow up of prior year recommendations

**The PCC/CC has not effectively implemented the recommendation in our *ISA 260 Report 2013/14.***

**We re-iterate the importance of the outstanding recommendation and repeated this within our ISA 260 report 2014/15.**

This appendix summarises the progress made to implement the recommendations identified in our *ISA 260 Report 2013/14* and re-iterates any recommendations still outstanding.

| Number of recommendations that were: | |
|---|---|
| **Included in original report** | 1 |
| **Implemented in year or superseded** | 0 |
| **Remain outstanding (re-iterated below)** | 1 |

| No. | Risk | Issue and recommendation | Officer responsible and due date | Status as at July 2015 |
|---|---|---|---|---|
| 1 | 3 | **Quality and availability of working papers**<br>Some working papers were not provided at the start of the audit; we experienced some delays due to staff absences which were not notified on a timely basis.<br>We will work with your officers to ensure there is clearer communication and understanding of what we require.<br>Recommendation<br>The Finance team should ensure:<br>▪ availability of the working papers specified in the PBC schedule prior to the start of the audit;<br>▪ availability of key staff during the audit process; and<br>▪ appropriate peer review of working papers prior to handover. | Discussed and agreed in principle by the Chief Finance Officer and the Assistant Chief Officer (Resources).<br>A detailed response will be reported to the Audit and Scrutiny Panel after a feedback meeting with the auditors. | Not implemented - reiterated |

# Appendix 3: Audit differences

**This appendix sets out the audit differences.**

**The financial statements have been amended for all of the errors identified through the audit process.**

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 Audit Committee). 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.

## Uncorrected audit differences

We are pleased to report that there are no uncorrected audit differences.

## Corrected audit differences

**Material misstatements**

We are pleased to report that there are no uncorrected audit differences.

**Non material audit differences**

We are pleased to report that there are no uncorrected audit differences.

A number of amendments focused on presentational improvements have been made to the draft financial statements. The Finance Department are committed to continuous improvement in the quality of the financial statements submitted for audit in future years.

# Appendix 4: Declaration of independence and objectivity

**The *Code of Audit Practice* requires us to exercise our professional judgement and act independently of both Public Sector Audit Appointments Ltd and the PCC/CC.**

## Requirements

Auditors appointed by Public Sector Audit Appointments Ltd must comply with the *Code of Audit Practice* (the 'Code') which states that:

*"Auditors and their staff should exercise their professional judgement and act independently of both the Commission and the audited body. Auditors, or any firm with which an auditor is associated, should not carry out work for an audited body that does not relate directly to the discharge of auditors' functions, if it would impair the auditors' independence or might give rise to a reasonable perception that their independence could be impaired."*

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code, the detailed provisions of the Statement of Independence included within the Public Sector Audit Appointments Ltd *Terms of Appointment* ('Public Sector Audit Appointments Ltd Guidance') and the requirements of APB Ethical Standard 1 *Integrity, Objectivity and Independence* ('Ethical Standards').

The Code states that, in carrying out their audit of the financial statements, auditors should comply with auditing standards currently in force, and as may be amended from time to time. Public Sector Audit Appointments Ltd guidance requires appointed auditors to follow the provisions of ISA (UK &I) 260 Communication of *Audit Matters with Those Charged with Governance*' that are applicable to the audit of listed companies. This means that the appointed auditor must disclose in writing:

- Details of all relationships between the auditor and the client, its directors and senior management and its affiliates, including all services provided by the audit firm and its network to the client, its directors and senior management and its affiliates, that the auditor considers may reasonably be thought to bear on the auditor's objectivity and independence.
- The related safeguards that are in place.
- The total amount of fees that the auditor and the auditor's network firms have charged to the client and its affiliates for the provision of services during the reporting period, analysed into appropriate categories, for example, statutory audit services, further audit services, tax advisory services and other non-audit services. For each category, the amounts of any future services which have been contracted or where a written proposal has been submitted are separately disclosed. We do this in our *Annual Audit Letter*.

Appointed auditors are also required to confirm in writing that they have complied with Ethical Standards and that, in the auditor's professional judgement, the auditor is independent and the auditor's objectivity is not compromised, or otherwise declare that the auditor has concerns that the auditor's objectivity and independence may be compromised and explaining the actions which necessarily follow from his. These matters should be discussed with the Audit Committee.

Ethical Standards require us to communicate to those charged with governance in writing at least annually all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place that, in our professional judgement, may reasonably be thought to bear on our independence and the objectivity of the Engagement Lead and the audit team.

## General procedures to safeguard independence and objectivity

KPMG's reputation is built, in great part, upon the conduct of our professionals and their ability to deliver objective and independent advice and opinions. That integrity and objectivity underpins the work that KPMG performs and is important to the regulatory environments in which we operate. All partners and staff have an obligation to maintain the relevant level of required independence and to identify and evaluate circumstances and relationships that may impair that independence.

# Appendix 4: Declaration of independence and objectivity (continued)

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

Acting as an auditor places specific obligations on the firm, partners and staff in order to demonstrate the firm's required independence. KPMG's policies and procedures regarding independence matters are detailed in the *Ethics and Independence Manual* ('the Manual'). The Manual sets out the overriding principles and summarises the policies and regulations which all partners and staff must adhere to in the area of professional conduct and in dealings with clients and others.

KPMG is committed to ensuring that all partners and staff are aware of these principles. To facilitate this, a hard copy of the Manual is provided to everyone annually. The Manual is divided into two parts. Part 1 sets out KPMG's ethics and independence policies which partners and staff must observe both in relation to their personal dealings and in relation to the professional services they provide. Part 2 of the Manual summarises the key risk management policies which partners and staff are required to follow when providing such services.

All partners and staff must understand the personal responsibilities they have towards complying with the policies outlined in the Manual and follow them at all times. To acknowledge understanding of and adherence to the policies set out in the Manual, all partners and staff are required to submit an annual ethics and independence confirmation. Failure to follow these policies can result in disciplinary action.

### Auditor declaration

In relation to the audit of the financial statements of Nottinghamshire PCC/CC for the financial year ending 31 March 2015, we confirm that there were no relationships between KPMG LLP and Nottinghamshire PCC/CC, its directors and senior management and its 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.

# Appendix 5: Materiality and reporting of audit differences

**For 2014/15 our materiality is £4.5 million for the PCC/CC's accounts.**

**We have reported all audit differences over £220,000 for the PCC/CC's accounts to the Audit Committee.**

## Materiality

The assessment of what is material is a matter of professional judgment 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 2014/15, presented to you in April 2015 .

Materiality for the PCC/CC's accounts was set at £4.5m which equates to around 2 percent of gross expenditure. We design our procedures to detect errors in specific accounts at a lower level of precision.

## Reporting to the Audit Committee

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 Audit Committee 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/CC, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £220,000 for the PCC/CC.

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

# Appendix 6: KPMG Audit Quality Framework

**We continually focus on delivering a high quality audit.**

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

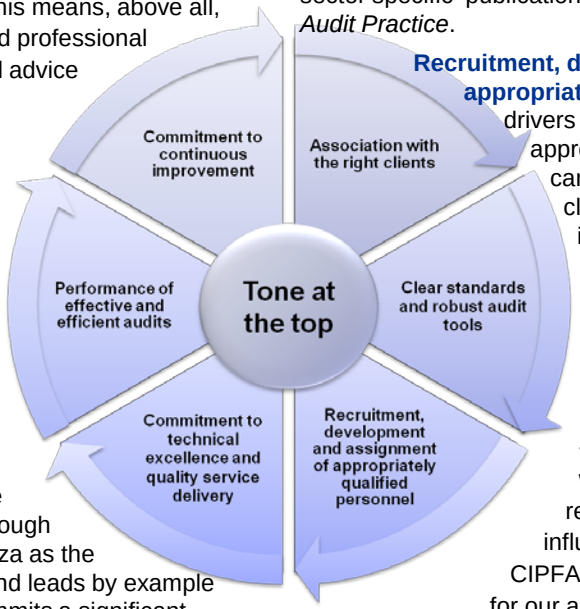
**KPMG's Audit Quality Framework consists of seven key drivers combined with the commitment of each individual in KPMG.**

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

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

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

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




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

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

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

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

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

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

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

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

# Appendix 6: KPMG Audit Quality Framework

**We continually focus on delivering a high quality audit.**

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

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

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

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

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

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

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

### Our quality review results

Public Sector Audit Appointments Ltd publishes information on the quality of work provided by us (and all other firms) for audits undertaken on behalf of them (http://www.psaa.co.uk/audit-quality/principal-audits/kpmg-audit-quality/).

The latest Annual Regulatory Compliance and Quality Report (issued June 2014/2015) showed that we are meeting the overall audit quality and regulatory compliance requirements.

KPMG

*cutting through complexity™*