

For Decision	
Public/Non Public*	Public
Report to:	Joint Audit and Scrutiny Panel
Date of Meeting:	May 2021
Report of:	Chief Finance Officer
Report Author:	Charlotte Radford
Other Contacts:	Helen Henshaw
Agenda Item:	7

External Audit of the Accounts 2019-20 (ISA260)

1. Purpose of the Report

- 1.1 To provide members with the results of the review of the Statement of Accounts and supporting documentation for the Financial Year 2019-20.

2. Recommendations

- 2.1 Members are requested to:
- Consider the report of the External Auditor and recommend its findings to the Police & Crime Commissioner and Chief Constable

3. Reasons for Recommendations

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

4. Summary of Key Points

- 4.1 The attached report details the findings of the external auditors during the audit of the accounts for 2019-20.
- 4.2 The Auditor highlights in his report that she intends to issue an unqualified opinion in relation to the accounts.

5. Financial Implications and Budget Provision

- 5.1 None as a direct result of this report.

6. Human Resources Implications

- 6.1 None as a direct result of this report.

7. Equality Implications

7.1 None as a direct result of this report.

8. Risk Management

8.1 Risks identified are being managed.

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

9.1 None as a direct result of this report.

10. Changes in Legislation or other Legal Considerations

10.1 The report explains the requirements with legislation.

11. Details of outcome of consultation

11.1 Not applicable

12. Appendices

Appendix A – Report to those charged with governance (ISA 260)

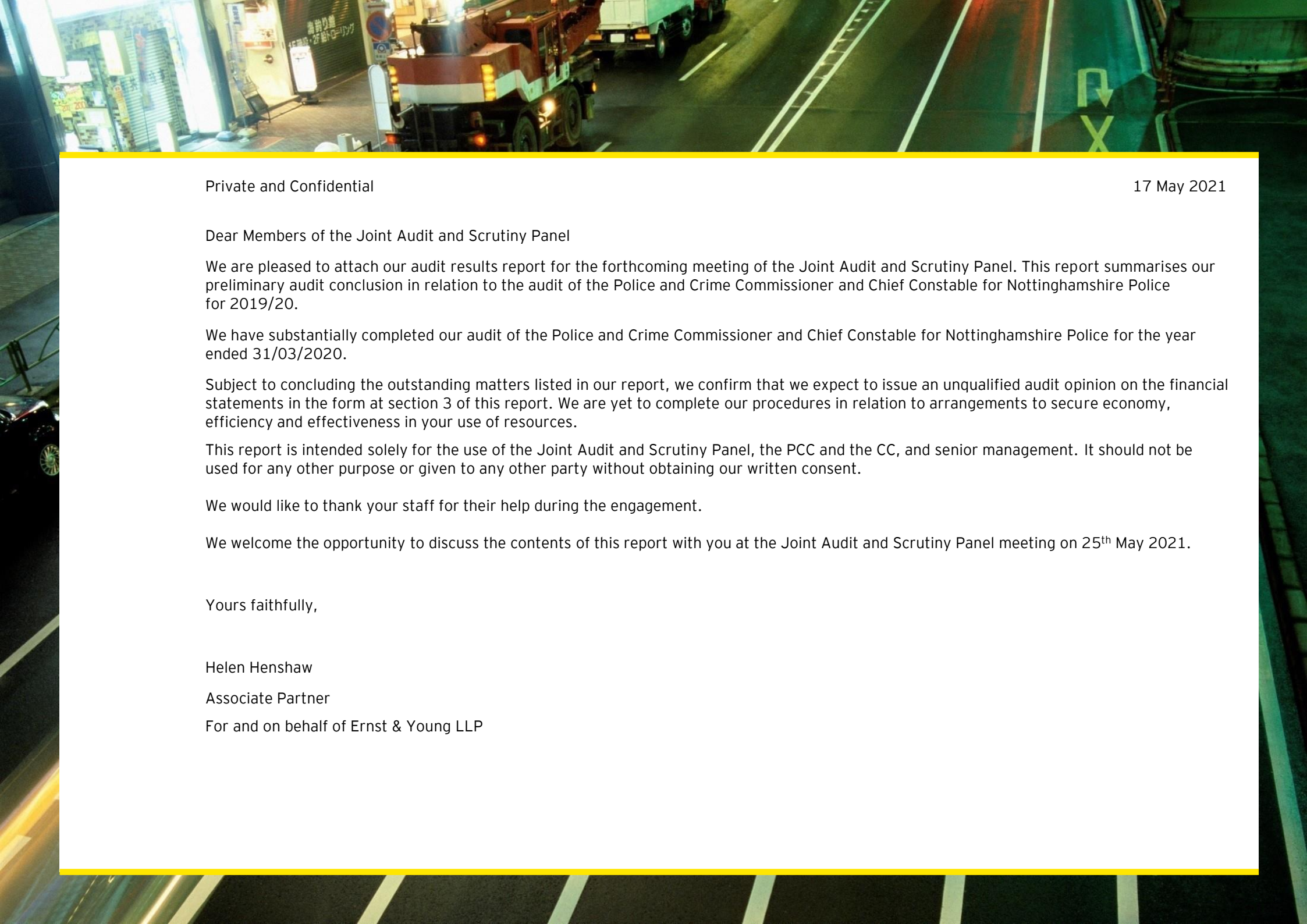
**Police and Crime
Commissioner and Chief
Constable for
Nottinghamshire Police
Audit Results Report**

Year ended 31 March 2020

May 2021



Building a better
working world



Private and Confidential

17 May 2021

Dear Members of the Joint Audit and Scrutiny Panel

We are pleased to attach our audit results report for the forthcoming meeting of the Joint Audit and Scrutiny Panel. This report summarises our preliminary audit conclusion in relation to the audit of the Police and Crime Commissioner and Chief Constable for Nottinghamshire Police for 2019/20.

We have substantially completed our audit of the Police and Crime Commissioner and Chief Constable for Nottinghamshire Police for the year ended 31/03/2020.

Subject to concluding the outstanding matters listed in our report, we confirm that we expect to issue an unqualified audit opinion on the financial statements in the form at section 3 of this report. We are yet to complete our procedures in relation to arrangements to secure economy, efficiency and effectiveness in your use of resources.

This report is intended solely for the use of the Joint Audit and Scrutiny Panel, the PCC and the CC, and senior management. It should not be used for any other purpose or given to any other party without obtaining our written consent.

We would like to thank your staff for their help during the engagement.

We welcome the opportunity to discuss the contents of this report with you at the Joint Audit and Scrutiny Panel meeting on 25th May 2021.

Yours faithfully,

Helen Henshaw

Associate Partner

For and on behalf of Ernst & Young LLP

Contents



Public Sector Audit Appointments Ltd (PSAA) have issued a 'Statement of responsibilities of auditors and audited bodies'. It is available from the Chief Executive of each audited body and via the PSAA website (www.psaa.co.uk). This Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The 'Terms of Appointment (updated April 2018)' issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature. This Audit Results Report is prepared in the context of the Statement of responsibilities. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

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



01

Executive Summary



Executive Summary

Scope update

In our audit planning report tabled at the 30 September 2020 Joint Audit and Scrutiny Panel meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We carried out our audit in accordance with this plan, with the following exceptions:

Changes to reporting timescales

As a result of COVID-19, new regulations, the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020 No. 404, have been published and came into force on 30 April 2020. This announced a change to publication date for final, audited accounts from 31 July to 30 November 2020 for all relevant authorities.

Changes to our risk assessment as a result of Covid-19

Disclosures on Going Concern - Financial plans for 2020/21 and medium term financial plans will need revision for Covid-19. We considered the unpredictability of the current environment gave rise to a risk that the Local Authority would not appropriately disclose the key factors relating to going concern, underpinned by managements assessment with particular reference to Covid-19 and the Local Authority's actual year end financial position and performance.

- ▶ **Events after the balance sheet date** - We identified an increased risk that further events after the balance sheet date concerning the current Covid-19 pandemic will need to be disclosed. The amount of detail required in the disclosure needed to reflect the specific circumstances of the Local Authority.
- ▶ **Adoption of IFRS16** - The adoption of IFRS 16 by CIPFA/LASAAC as the basis for preparation of Local Authority Financial Statements has been deferred until 1 April 2021. The Authority will therefore no longer be required to undertake an impact assessment, and disclosure of the impact of the standard in the financial statements does not now need to be financially quantified in 2019/20. We therefore no longer consider this to be an area of audit focus for 2019/20.

In our Audit Planning Report, we communicated that our audit procedures would be performed using a materiality of £2.38m (PCC) £7.29m (CC), £7.49 (Group), with performance materiality, at 50% of overall materiality, of £1.19m (PCC), £3.65m (CC), £3.74 (Group), and a threshold for reporting misstatements of £0.119m (PCC), £0.365m (CC), £0.374m (Group). We have considered whether any change to our materiality is required in light of Covid-19. Following this consideration we remain satisfied that the basis for planning materiality, performance materiality and our audit threshold for reporting differences reported to you in our Audit Planning Report remain appropriate.

The basis of our assessment has remained consistent with prior years at 2% of gross operating expenditure (CC, Group) and 2% of assets (PCC).

Executive Summary

Scope update

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

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

Additional EY consultation requirements concerning the impact on auditor reports because of Covid-19: The changes to audit risks, audit approach and auditor reporting requirements changed the level of work we needed to perform. We have set out the impact on our audit fee on page 38.



Executive Summary

Status of the audit

We have substantially completed our audit of Nottinghamshire Police's financial statements for the year ended 31/03/2020 and have performed the procedures outlined in our Audit planning report. Subject to satisfactory completion of the following outstanding items we expect to issue an unqualified opinion on the financial statements in the form which appears at Section 4. However until work is complete, further amendments may arise:

- Pensions
- Property, plant and equipment
- Payables
- Staff related disclosures
- Other information (Narrative report)
- Reserves
- Going concern
- Value for money

We expect to issue the audit certificate at the same time as the audit opinion.

Audit differences

We are yet to receive a final set of financial statements, so the adjusted / unadjusted position of audit differences raised is not yet finalised.

We have identified a number of audit differences, which have been raised to management. Details can be found in Section 4 Audit Differences.



Executive Summary

Areas of audit focus

Our Audit Planning Report identified key areas of focus for our audit of Nottinghamshire Police's financial statements. This report sets out our observations and conclusions, including our views on areas which might be conservative, and where there is potential risk and exposure. We summarise our consideration of these matters, and any others identified, in the "Key Audit Issues" section of this report.

Audit findings and conclusions: significant risks:

- Misstatements due to fraud or error
- Risk of fraud in revenue and expenditure recognition (incorrect capitalisation of revenue expenditure (PCC))
- Valuation of property, plant and equipment

Audit findings and conclusions: other financial statement risks:

- Pension liability valuation
- Collaborative arrangements (CC)
- Private finance initiative (PFI) accounting (PCC)
- Going concern and compliance with ISA 570
- Impact of Covid-19

We ask you to review these and any other matters in this report to ensure:

- ▶ There are no other considerations or matters that could have an impact on these issues
- ▶ You agree with the resolution of the issue
- ▶ There are no other significant issues to be considered.

There are no matters, apart from those reported by management or disclosed in this report, which we believe should be brought to the attention of the Joint Audit and Scrutiny Panel at this stage.



Executive Summary

Control observations

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. As we have adopted a fully substantive approach, we have therefore not tested the operation of controls.

Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant deficiencies in internal control. We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements and which is unknown to you. However, we have set out one control observation in section 7 of this report as follows:

- ▶ *There are numerous assets which are maintained on the intangibles asset register which are of a significant age that are likely no longer in use. The result of this is that there is a possibility that the gross value of intangibles reported within Note 4.5 of the Group Financial Statements is incorrectly reported. We have agreed with management that the contents of the intangible register needs to be reviewed prior to the completion of the 2020/21 Financial Statements in order to give a more accurate reflection of the gross value of intangible assets that continue to be in use. Given that these assets are fully written down there is no impact on the net book value recorded in the balance sheet.*
- ▶ *Manual journals can be posted to the General Ledger with no approval or review process. Although we have not identified any issues within our testing of manual journals, there is an opportunity for fraudulent transactions to be posted without detection due to insufficient controls being in place. There is now a process of sample testing some manual journals each month which helps mitigate risk however it doesn't fully alleviate the risk.*
- ▶ *Multiple versions of accounts have still been present in the 2019/20 period, due to the number of audit findings. This was a control observation raised in the 2018/19 year and is still present.*
- ▶ *There have been improvements in relation to management's review of work performed by MFSS, working papers to support financial statements and PPE valuation report, which were raised as control observations in the prior year.*

Value for money

We have considered your arrangements to take informed decisions; deploy resources in a sustainable manner; and work with partners and other third parties. In our Audit Planning Report we identified the following significant risks:

- Multi-force shared services (MFSS)
- Joint headquarters with Nottinghamshire Fire
- Management of contracts to ensure value for money in the provision of core services used in operational policing
- Arrangements for financial reporting
- Securing financial resilience

We are yet to complete our procedures in relation to the significant risks identified above as we require additional information from management. We will report on the matters on completion of the procedures.

Executive Summary

Other reporting issues

We have reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of the PCC and CC. We have no matters to report as a result of this work.

We have not yet performed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission.

We have no other matters to report.

Independence

Please refer to Section 9 for our update on Independence. We have no independence issues to bring to your attention.



02

Areas of Audit Focus



Areas of Audit Focus

Significant risk

Risk of fraud in revenue and expenditure recognition - Incorrect capitalisation of Revenue Expenditure (PCC)

What is the risk?

Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.

We identified the risk of expenditure recognition as lying within the incorrect capitalisation of revenue expenditure.

What judgements are we focused on?

We are focused on understanding the procedures and controls involved in the processes around the capitalisation of PPE. Particularly the appropriateness of management's criteria for capitalisation of expenditure.

What did we do?

We increased our substantive testing of PPE additions to respond for the risk identified. For every PPE additions item sampled, we reviewed the classification of expenditure to test whether it was appropriately capitalised.

What are our conclusions?

Our testing has not identified any material misstatements from revenue and expenditure recognition. Our conclusion was that all capitalised expenditure was categorised appropriately, and there was no identified incorrect capitalisation of expenditure.

Overall our audit work did not identify any material issues or unusual transactions to indicate any misreporting of the entity's financial position.



Areas of Audit Focus

Significant risk

Misstatements due to fraud or error (PCC & CC)

What is the risk?

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

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

What judgements are we focused on?

The risk manifests specifically in whether year-end adjustment journals are appropriate and supported, the application of estimates and judgements, and whether significant or unusual transactions are identified and accounted for appropriately.

What did we do?

We will;

- Identifying fraud risks during the planning stages;
- Understand the oversight given by those charged with governance of management process over fraud;
- Review and discuss with management any changes the methodologies of existing and new accounting estimates, accruals and provisions for evidence of bias;
- Sample test year-end accruals and provisions for completeness and proper valuation;
- Evaluate the business rationale for significant unusual transactions; and
- Test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.

What are our conclusions?

In our procedures to date, we have not identified any material weaknesses in controls or evidence of material management override.

We have not identified any instances of inappropriate judgements being applied.

We did not identify any other transactions during our audit which appeared unusual or outside Nottinghamshire Police's normal course of business.



Areas of Audit Focus

Significant risk

Valuation of Property, Plant and Equipment (PCC)

What is the risk?

Valuation of assets in previous years has been undertaken by an external valuer.

The fair value of Property, Plant and Equipment including assets held for sale, represent significant balances in the Group accounts and are subject to valuation changes and impairment reviews which are based on assumptions and judgements. The risk is if these are inappropriate this could result in a material impact on the financial statements.

What judgements are we focused on?

In valuing the assets held by the Police and Crime Commissioner, management (with the support of its external valuer) applies several judgements and estimations. The judgements that our audit has focused on include:

- identifying which assets to include within the rolling valuation program,
- how to assess the value of those not formally revalued in the year to determine whether the values remain free from material misstatement,
- which valuation method to apply, and
- what remaining useful life to assign to the asset.

What did we do?

- Documented our understanding of the processes and controls in place to mitigate the risks identified, and walk through those processes and controls to confirm our understanding;
- Tested the revaluation cycle, including instruction and completeness of information provided to the external valuer (e.g. floor plans to support valuations based on price per square metre);
- Reviewed each class of asset and the valuation approach adopted to assess where the risk of material misstatement is higher;
- Evaluated the competence, capabilities and objectivity of management's specialist;
- Reviewed the terms of engagement or instructions issued to the valuer to ensure these are consistent with accounting standards;
- Performed appropriate tests over the completeness and appropriateness of information provided to the valuer;
- Engaged our valuation specialist to support our testing strategy and help evaluate the work of the new management specialist;
- Reviewed the classification of assets and ensure an appropriate valuation methodology has been applied;
- Review assets not subject to valuation in 2019/20 to confirm that the remaining asset base is not materially misstated;
- Considered changes to useful economic lives as a result of the most recent valuation; and
- Tested accounting entries have been correctly processed in the financial statements.



Areas of Audit Focus

Significant risk



What are our conclusions

For those assets which were subject to revaluation in the year, supported by our EY Real Estate Specialists, we were able to conclude that the values determined by Management and included within the draft financial statements fell within an acceptable range, subject to confirmation of the appropriateness of the inputs to the valuation calculations.

For those assets which were not subject to formal revaluation in the year, via the use of relevant property valuation indices, we have been able to gain assurance that the assets would not have been expected to have moved in value by a material amount since their date of last valuation.

This work is still pending senior staff review. Until review has been finalised there is still a potential risk of material misstatement being present.

Audit risks

Other areas of audit focus



Pension Liability Valuation

The Local Authority Accounting Code of Practice and IAS19 require extensive disclosures within the financial statements regarding membership of the Local Government Pension Scheme administered by Nottinghamshire County Council.

The information disclosed is based on the IAS 19 report issued to the PCC and CC by the actuaries to the County Council and also the Police Pension Fund. Accounting for these schemes involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

We have performed the following procedures:

Local Government and Police Pension Schemes

- ▶ Updated our documentation of management's processes and controls over pension expenditure and deduction of employer and employee contributions;
- ▶ Liaised with the auditors of Nottinghamshire Pension Fund, to obtain assurances over the information supplied to the actuary;
- ▶ Reviewed the work of the Local Government actuary (Barnett Waddingham) and the Police Pension actuary (GAD) including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by Public Sector Auditor Appointments for all Local Government sector auditors, and considered relevant reviews by the EY actuarial team to ensure they are in our expected range; and
- ▶ Reviewed and tested the accounting entries and disclosures made within the PCC and CC's financial statements to ensure consistency with the IAS 19 entries in both actuarial reports.

Police Pension Scheme (only)

- ▶ Tested a sample of lump sums and pension payments for new Police pensioners; and
- ▶ Completed a predictive analytical review for both the pensions payroll and employees and employers pension contributions.

Our conclusion:

Management obtained revised actuarial reports to reflect the recent McCloud remedy consultation. This resulted in material amendments being posted to the financials statements.

We have identified errors in the treatment of the pension fund accounting entries which are material to the financial statements. This relates to the incorrect reporting of return on pension assets as interest income. The issues were also present in the prior year (2018/19) financial statements. We await the updated financial statements. As a result are procedures are ongoing at present.



Audit risks

Other areas of audit focus



Collaborative Arrangements (CC)

Joint arrangements operate with partners across the East Midlands. Given the volume of transactions being accounted for across the various forces that participate in the joint arrangements and their value, we consider there to be a risk associated with the accuracy of the information being reported and accounted for (i.e. the measurement/valuation, completeness and presentation and disclosure of balances included in the financial statements)

We have performed the following procedures:

- ▶ Review the underlying allocation of expenditure in the Authority's own accounts against agreements in place; and
- ▶ Seek further assurance from external auditors at the other Police Authorities where required over any significant stream of expenditure not controlled by Nottinghamshire.

Our conclusion:

We conclude that the underlying allocations have been disclosed appropriately. The collaborative arrangement disclosures are free from material misstatement.



Private Finance Initiative (PFI) accounting (PCC)

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

We have performed the following procedures:

- ▶ Review the consistency of the accounting transactions and disclosures with the PFI model
- ▶ Review the PFI model for consistency with the model applied in the prior period.

Our conclusion:

We conclude that PFI schemes have been reported correctly and the related disclosures are free from material misstatement. The model has been applied consistently in line with the prior year.

We have raised one audit finding in relation to the disclosure, to enhance the narrative in relation to Vensons PFI scheme.



03

Audit Report



Audit Report

Draft audit report

Our draft opinion on the financial statements

INDEPENDENT AUDITOR'S REPORT TO THE POLICE AND CRIME COMMISSIONER FOR NOTTINGHAMSHIRE

Opinion

We have audited the financial statements of the Police and Crime Commissioner for Nottinghamshire for the year ended 31 March 2020 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- Police and Crime Commissioner for Nottinghamshire and Group Comprehensive Income and Expenditure Statement;
- Police and Crime Commissioner for Nottinghamshire and Group Balance Sheet;
- Police and Crime Commissioner for Nottinghamshire and Group Movement in Reserves Statement;
- Police and Crime Commissioner for Nottinghamshire and Group Cash Flow Statement
- Related notes 1 to 32;
- Statement of Accounting Policies; and
- Police and Crime Commissioner for Nottingham Pension Fund Account Statements and related notes 1 to 3.

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

In our opinion the financial statements:

- give a true and fair view of the financial position of the Police and Crime Commissioner for Nottinghamshire and Group as at 31 March 2020 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Police and Crime Commissioner for Nottinghamshire and Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's (C&AG) AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Chief Financial Officer's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Chief Financial Officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Police and Crime Commissioner's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The other information comprises the information included in the narrative report and annual governance statement, other than the financial statements and our auditor's report thereon. The Chief Financial Officer is responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matters prescribed by the Local Audit and Accountability Act 2014

Arrangements to secure economy, efficiency and effectiveness in the use of resources

Work outstanding - to be confirmed



Audit Report

Our draft opinion on the financial statements (continued)

Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the entity;
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects

Responsibility of the Chief Finance Officer

As explained more fully in the Statement of Responsibilities for the Accounts set out on page 12, the Chief Finance Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20, and for being satisfied that they give a true and fair view.

In preparing the financial statements, the Chief Finance Officer is responsible for assessing the Police and Crime Commissioner's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Police and Crime Commissioner either intends to cease operations, or have no realistic alternative but to do so.

The Police and Crime Commissioner is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General (C&AG) in April 2020, as to whether the PCC had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the PCC put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the PCC had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Police and Crime Commissioner has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our conclusion relating to proper arrangements.

We report if significant matters have come to our attention which prevent us from concluding that the Police and Crime Commissioner has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Police and Crime Commissioner's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Certificate

We certify that we have completed the audit of the accounts of the Police and Crime Commissioner for Nottinghamshire in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office.

Use of our report

This report is made solely to Police and Crime Commissioner for Nottinghamshire, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Police and Crime Commissioner for Nottinghamshire, for our audit work, for this report, or for the opinions we have formed.

Helen Henshaw (Key Audit Partner)
Ernst & Young LLP (Local Auditor)
Birmingham
Date:



Audit Report

Draft audit report

Our draft opinion on the financial statements

INDEPENDENT AUDITOR'S REPORT TO THE CHIEF CONSTABLE OF NOTTINGHAMSHIRE

Opinion

We have audited the financial statements of the Chief Constable of Nottinghamshire for the year ended 31 March 2020 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- Chief Constable of Nottinghamshire Comprehensive Income and Expenditure Statement;
- Chief Constable of Nottinghamshire Balance Sheet;
- Chief Constable of Nottinghamshire Movement in Reserves Statement;
- Chief Constable of Nottinghamshire Cash Flow Statement;
- and the related notes 1 to 19;
- Statement of Accounting Policies; and
- Chief Constable of Nottinghamshire Pension Fund Account and related notes 1 to 3.

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

In our opinion the financial statements:

- give a true and fair view of the financial position of the Chief Constable of Nottinghamshire as at 31 March 2020 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Chief Constable for Nottinghamshire in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's (C&AG) AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Chief Financial Officer's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or

- the Chief Financial Officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Chief Constable's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The other information comprises the information included in the narrative report and annual governance statement, other than the financial statements and our auditor's report thereon. The Chief Financial Officer is responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matters prescribed by the Local Audit and Accountability Act 2014

Arrangements to secure economy, efficiency and effectiveness in the use of resources

Work outstanding - to be confirmed

Matters on which we report by exception

We report if:

- in our opinion the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the entity;
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;



Audit Report

Our draft opinion on the financial statements (continued)

- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects

Responsibilities of the Joint Director of Finance and Business Services

As explained more fully in the *Statement of Responsibilities for the Accounts* set out on page 15, the Joint Director of Finance and Business Services is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20, and for being satisfied that they give a true and fair view.

In preparing the financial statements, the Joint Director of Finance and Business Services is responsible for assessing the Chief Constable's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Chief Constable either intends to cease operations, or have no realistic alternative but to do so.

The Chief Constable is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General (C&AG) in April 2020, as to whether the Chief Constable had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Chief Constable put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Chief Constable had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the *Chief Constable of Nottinghamshire* has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our conclusion relating to proper arrangements.

We report if significant matters have come to our attention which prevent us from concluding that the Chief Constable has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Chief Constable's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Certificate

We certify that we have completed the audit of the accounts of the Chief Constable of Nottinghamshire in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office.

Use of our report

This report is made solely to the Chief Constable of Nottinghamshire, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Chief Constable of Nottinghamshire, for our audit work, for this report, or for the opinions we have formed.

Helen Henshaw (Key Audit Partner)
Ernst & Young LLP (Local Auditor)
Birmingham
Date:



04

Audit Differences



Audit Differences

In the normal course of any audit, we identify misstatements between amounts we believe should be recorded in the financial statements and the disclosures and amounts actually recorded. These differences are classified as “known” or “judgemental”. Known differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation.

Summary of adjusted differences - CC

We highlight the following misstatements relating to the Chief Constable greater than £364k which have been corrected by management that were identified during the course of our audit:

- ▶ Management obtained revised actuarial reports to reflect the recent McCloud remedy consultation which resulted in changes to the draft financial statements. The net pension liability of the entity decreased by £26m from the original draft set of financial statements to the updated financial statements.
- ▶ Various disclosure errors were identified including the omission of some notes which are mandatory under CIPFA guidance, the cash flow statements included errors and also narrative throughout the statements have been subject to change.

It is expected that all differences identified will be adjusted. We are yet to receive updated versions of the financial statements. Any unadjusted audit differences will be included within the letter of management representation

Summary of adjusted differences - PCC

We highlight the following misstatement relating to the Police and Crime Commissioner greater than £119k which have been corrected by management that were identified during the course of our audit:

- ▶ Note 2.5 (Taxation and Non-Specific Grant Income) had originally included £263k within the ‘HO Police Pension Grant’ which should not have been included – this has been removed from the disclosure.
- ▶ An accrual of income posted at year-end for £919k from the Home Office was identified to be overstated by £667k based on the evidence provided, therefore this has been adjusted.
- ▶ Overstatement of a creditor relating to the HQ Build Capital Scheme due to a duplication of a purchase order: this was a £312k adjustment.
- ▶ Understatement of an accrual relating to the new custody suite’s Capital Scheme: this was a £1,124k adjustment.
- ▶ Understatement of an accrual in relation to settlement costs with MFSS: this was a £219k adjustment.
- ▶ Various disclosure errors were identified including the omission of some notes which are mandatory under CIPFA guidance, the cash flow statements included errors and also narrative throughout the statements have been subject to change.

It is expected that all differences identified will be adjusted. We are yet to receive updated versions of the financial statements. Any unadjusted audit differences will be included within the letter of management representation



05

Value for Money



Value for Money

Background

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

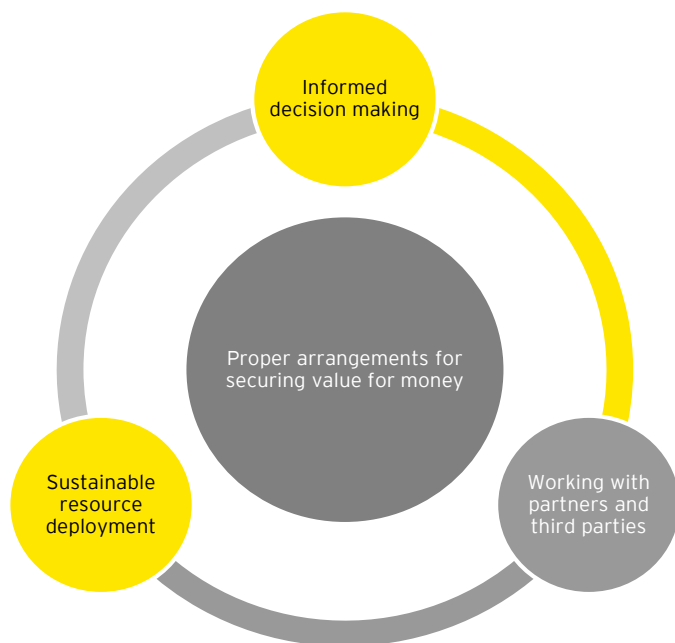
For 2019/20 this is based on the overall evaluation criterion:

"In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people"

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

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

In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.



Impact of covid-19 on our Value for Money assessment

On 16 April 2020 the National Audit Office published an update to auditor guidance in relation to the 2019/20 Value for Money assessment in the light of covid-19. This clarified that in undertaking the 2019/20 Value for Money assessment auditors should consider Local Authorities' response to Covid-19 only as far as it relates to the 2019-20 financial year; only where clear evidence comes to the auditor's attention of a significant failure in arrangements as a result of Covid-19 during the financial year, would it be appropriate to recognise a significant risk in relation to the 2019-20 VFM arrangements conclusion.

Overall conclusion

We identified a number of significant risks around these arrangements. We are yet to complete our procedures in relation to your arrangements to secure economy, efficiency and effectiveness in your use of resources.



Value for Money Risks

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

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

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

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

What is the significant value for money risk?	What arrangements did the risk affect?	What are our findings?
Multi-Force Shared Services (MFSS)	- Take informed decisions - Deploy resources in a sustainable manner - Working with partners and other third parties	We are yet to complete our procedures in relation to this risk
Joint headquarters with Nottinghamshire Fire	-Take informed decisions	We reviewed the reporting and governance around decision making processes undertaken in the decisions undertaken in relation to the joint headquarters. We conclude that procedures undertaken were suitably robust to enable informed decisions to be taken to secure economy, efficiency and effectiveness.
Management of contracts to ensure value for money in the provision of core services used in operational policing	-Take informed decisions	We are yet to complete our procedures in relation to this risk
Arrangements for financial reporting	-Take informed decisions -Deploy resources in a sustainable manner	We are yet to complete our procedures in relation to this risk
Securing financial resilience	-Deploy resources in a sustainable manner	We are yet to complete our procedures in relation to this risk



06 Other reporting issues

Other reporting issues

Consistency of other information published with the financial statements, including the Annual Governance Statement

We must give an opinion on the consistency of the financial and non-financial information in the statement of accounts 2019/20 with the audited financial statements

We must also review the Annual Governance Statement for completeness of disclosures, consistency with other information from our work, and whether it complies with relevant guidance.

We are yet to complete our procedures on other information

We have reviewed the Annual Governance Statement and can confirm it is consistent with other information from our audit of the financial statements and we have no other matters to report.

Whole of Government Accounts

Alongside our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of our review, and the nature of our report, is specified by the National Audit Office.

We have not yet undertaken procedures in relation to Whole of Government Accounts.

Other reporting issues

Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Authority to consider it or to bring it to the attention of the public (i.e. “a report in the public interest”). We did not identify any issues which required us to issue a report in the public interest.

We also have a duty to make written recommendations to the Authority, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014. We did not identify any issues.

Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of the [Authority]'s financial reporting process. They include the following:

- Significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures;
- Any significant difficulties encountered during the audit;
- Any significant matters arising from the audit that were discussed with management;
- Written representations we have requested;
- Expected modifications to the audit report;
- Any other matters significant to overseeing the financial reporting process;
- Findings and issues around the opening balance on initial audits (if applicable);
- Related parties;
- External confirmations;
- Going concern;
- Consideration of laws and regulations; and
- Group audits

All matters significant to your oversight are included within this report.



07

Assessment of Control Environment



Assessment of Control Environment

Financial controls

It is the responsibility of Nottinghamshire Police to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether Nottinghamshire Police has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. As we have adopted a fully substantive approach, we have therefore not tested the operation of controls. Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant deficiencies in internal control. We have not identified any new significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware. We considered whether circumstances arising from COVID-19 resulted in a change to the overall control environment of effectiveness of internal controls, for example due to significant staff absence or limitations as a result of working remotely. We identified no issues which we wish to bring to your attention/details of issues noted.

Challenges for the coming year

Description	Impact
Review of draft financial statements In our view, a significant number of the proposed adjustments would have been detected by management had a thorough review of the draft financial statements been undertaken prior to publication and presentation for audit. We therefore recommend that sufficient time for a detailed review of the draft financial statements including completion/review of the CIPFA disclosure checklist be built into the timetable for the preparation of the 2020/21 financial statements.	Lack of detailed review has led to increased time and cost in the audit process, for both management and the external auditor.

Status of previous year's recommendations:

Description	Update
Journal controls We have previously reported that journals were not authorised prior to posting to the general ledger. The entity subsequently introduced a mitigating control to review journals on a sample basis each month to ensure accuracy of posting. We identified that this control did not take place throughout 2018/19.	We have confirmed that this control is now operating in 2019/20.
Management review of the work performed by MFSS There was a lack of review evidence in relation to work performed by MFSS for Nottinghamshire police, including evidence of reconciliation checks.	No issues have been identified in relation to reconciliations or the review of MFSS work
Working papers to support financial statements We have previously reported that working papers provided to the audit team have not readily available to show a breakdown of items included in year or reported positions	We have seen improvements in working papers provided in the 2019/20 closedown process.
Multiple versions of accounts We reported on the issue of production of multiple versions of the accounts and the impact on working papers not agreeing to the final version of accounts.	Due to the number of audit errors identified there have again been considerable amendments to the accounts and numerous versions of the accounts.
PPE valuation report We reported in the prior year that the valuation report provided to management was dated 4 months prior to the balance sheet date and no consideration had been given to the potential for material movement from the date of valuation to the balance sheet date.	No issues have been identified in relation to PPE valuation at this stage of the 2019/20 audit.



08

Data Analytics



Use of Data Analytics in the Audit

► Data analytics

Analytics Driven Audit

Data analytics

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

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

In 2019/20, our use of these analysers in the Authority's audit included testing journal entries and employee expenses, to identify and focus our testing on those entries we deem to have the highest inherent risk to the audit.

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

Journal Entry Analysis

We obtain downloads of all financial ledger transactions posted in the year. We perform completeness analysis over the data, reconciling the sum of transactions to the movement in the trial balances and financial statements to ensure we have captured all data. Our analysers then review and sort transactions, allowing us to more effectively identify and test journals that we consider to be higher risk, as identified in our Audit Planning Report dated 30 September 2020.

Payroll Analysis

We also use our analysers in our payroll testing. We obtain all payroll transactions posted in the year from the payroll system and perform completeness analysis over the data, including reconciling the total amount to the General Ledger trial balance. We then analyse the data against a number of specifically designed procedures. These include analysis of payroll costs by month to identify any variances from established expectations, as well as more detailed transactional interrogation.

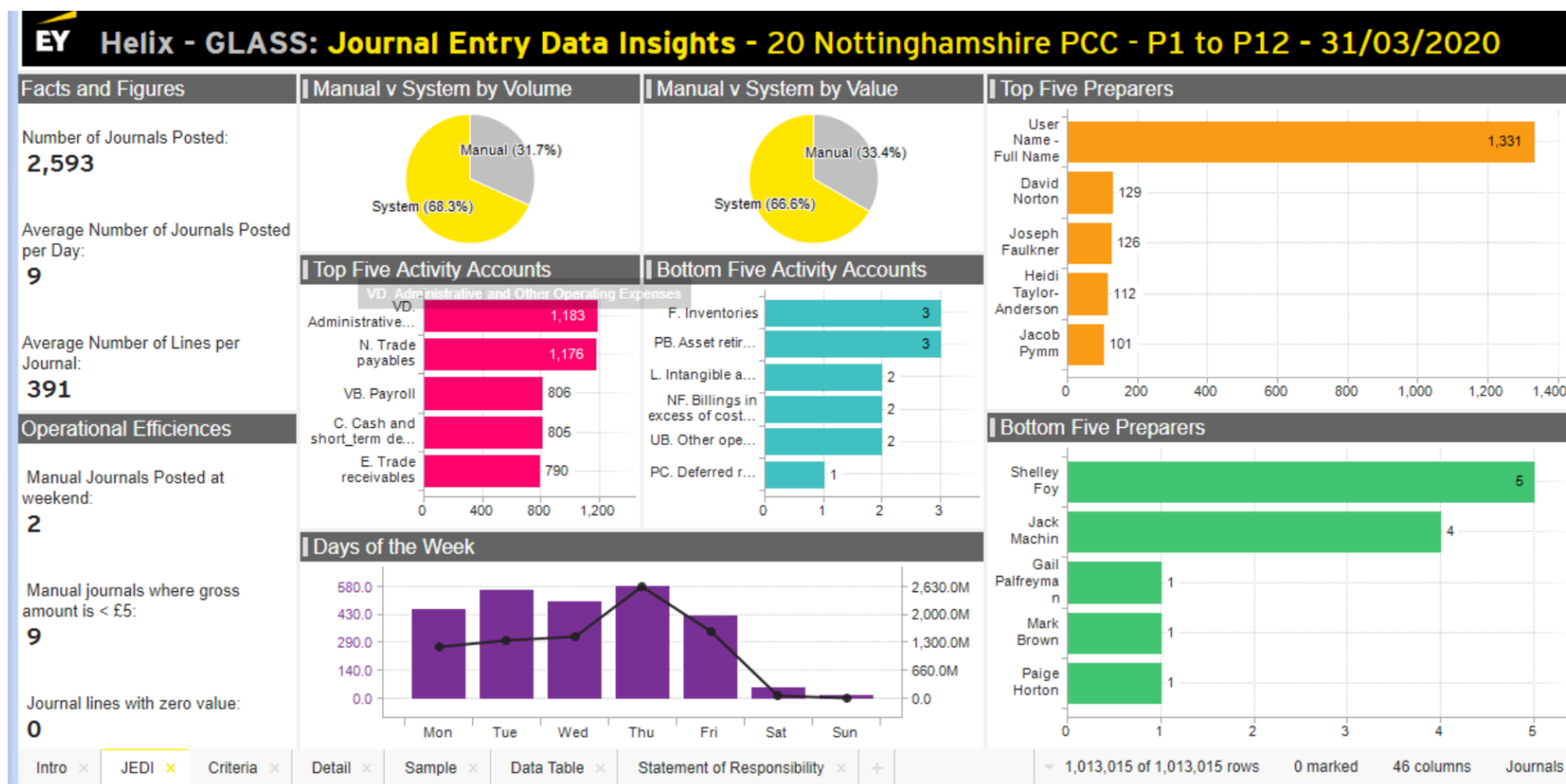


Data Analytics

Journal Entry Data Insights

The graphic outlined below summarises the journal population for 2019/20. We review journals by certain risk based criteria to focus on higher risk transactions, such as journals posted manually by management, those posted around the year-end, those with unusual debit and credit relationships, and those posted by individuals we would not expect to be entering transactions.

The purpose of this approach is to provide a more effective, risk focused approach to auditing journal entries, minimising the burden of compliance on management by minimising randomly selected samples.





Journal Entry Testing

What is the risk?

In line with ISA 240 we are required to test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.

Journal entry data criteria – 31 March 2020

What judgements are we focused on?

Using our analysers we are able to take a risk based approach to identify journals with a higher risk of management override, as outlined in our audit planning report.



What did we do?

We obtained general ledger journal data for the period and have used our analysers to identify characteristics typically associated with inappropriate journal entries or adjustments, and journals entries that are subject to a higher risk of management override.

We then performed tests on the journals identified to determine if they were appropriate and reasonable.

What are our conclusions?

We isolated a sub set of journals for further investigation and obtained supporting evidence to verify the posting of these transactions and concluded that they were appropriately stated.



09

Independence

Confirmation and analysis of Audit fees

We confirm there are no changes in our assessment of independence since our confirmation in our audit planning report dated 18 September 2020.

We complied with the APB Ethical Standards. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We consider that our independence in this context is a matter that should be reviewed by both you and ourselves. It is therefore important that the Ethics, Transparency and Audit Panel consider the facts of which you are aware and come to a view. If you wish to discuss any matters concerning our independence, we will be pleased to do so at the forthcoming meeting of the Joint Audit and Scrutiny Panel on 25 May 2021.

We confirm we have undertaken non-audit work outside of the Statement of responsibilities of auditors and audited bodies as issued by the Public Sector Audit Appointments Ltd.

As part of our reporting on our independence, we set out below a summary of the fees you have paid us in the year ended 31 March 2020.

We confirm that we have not undertaken non-audit work.

	Final Fee 2019/20	Planned Fee 2019/20	Final Fee 2018/19
	£	£	£
Total Audit Fee - PCC Code work	TBC*	27,119	59,653**
Total Audit Fee - CC Code work	TBC*	11,550	25,470**
Total non-audit services	Nil	Nil	Nil

* The final fee for 2019/20 will be subject to additional fees for the work carried out in response to significant risks and change of scope, specifically the work identified in this report covering:

- Additional pensions procedures as a result of the McCloud consultation, including the review of an additional set of draft financial statements and the engagement of EY Pensions;
- Restatement of current and prior year pension disclosures in relation to LGPS;
- The engagement of EY Real Estate to assess the calculation of assets and challenge the Authority's valuer in respect of assumptions used;
- Use of lower materiality to respond to extent of errors found in the prior (and current) year audit;
- The VFM significant risks identified; and
- Additional procedures required in respect of the impact of Covid-19, including additional procedures and consultation on the going concern assessment, and consideration of the impact of C-19 on the control environment and governance arrangements.

We will discuss these fees with management in the first instance, before agreeing them with you and requesting approval from Public Sector Audit Appointments (PSAA).

** Final scale fee variation to be confirmed by Public Sector Audit Appointments (PSAA)

Relationships, services and related threats and safeguards



The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and your Authority, senior management and its affiliates, including all services provided by us and our network to your Authority, senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on the our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats.

There are no relationships from 1 April 2019 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

Services provided by Ernst & Young

The previous page sets out a summary of the fees that you have paid to us in the year ended 31 March 2020 in line with the disclosures set out in FRC Ethical Standard and in statute.

We confirm that none of the services listed have been provided on a contingent fee basis.

As at the date of this report, there are no future services which have been contracted and no written proposal to provide non-audit services has been submitted.

New UK Independence Standards

The Financial Reporting Council (FRC) published the Revised Ethical Standard 2019 in December and it will apply to accounting periods starting on or after 15 March 2020. A key change in the new Ethical Standard will be a general prohibition on the provision of non-audit services by the auditor (and its network) which will apply to UK Public Interest Entities (PIEs). A narrow list of permitted services will continue to be allowed.

Summary of key changes

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

Next Steps

We will continue to monitor and assess all ongoing and proposed non-audit services and relationships to ensure they are permitted under FRC Revised Ethical Standard 2016 which will continue to apply until 31 March 2020 as well as the recently released FRC Revised Ethical Standard 2019 which will be effective from 1 April 2020. We will work with you to ensure orderly completion of the services or where required, transition to another service provider within mutually agreed timescales.

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

Other communications

EY Transparency Report 2020

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

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year end 30 June 2020:

https://www.ey.com/en_uk/who-we-are/transparency-report-2020



10 Appendices

Appendix A

Required communications with the Joint Audit and Scrutiny Panel

There are certain communications that we must provide to the Joint Audit and Scrutiny Panels of UK clients. We have detailed these here together with a reference of when and where they were covered:

		 Our Reporting to you
Required communications	 What is reported?	 When and where
Terms of engagement	Confirmation by the Joint Audit and Scrutiny Panel of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	Audit Planning Report dated 18 September 2020
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit Planning Report dated 18 September 2020
Significant findings from the audit	▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ Significant difficulties, if any, encountered during the audit ▶ Significant matters, if any, arising from the audit that were discussed with management ▶ Written representations that we are seeking ▶ Expected modifications to the audit report ▶ Other matters if any, significant to the oversight of the financial reporting process	Audit results report dated 17 May 2021

Appendix A (Continued)

		 Our Reporting to you
Required communications	 What is reported?	  When and where
Going concern	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: ▶ Whether the events or conditions constitute a material uncertainty ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The adequacy of related disclosures in the financial statements	Audit results report dated 17 May 2021
Misstatements	▶ Uncorrected misstatements and their effect on our audit opinion ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ Material misstatements corrected by management	Audit results report dated 17 May 2021
Subsequent events	▶ Enquiry of the Joint Audit and Scrutiny Panel where appropriate regarding whether any subsequent events have occurred that might affect the financial statements.	To be provided to TCWG and management prior to the accounts being signed.
Fraud	▶ Enquiries of the Joint Audit and Scrutiny Panel to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Authority ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▶ Unless all of those charged with governance are involved in managing the Authority, any identified or suspected fraud involving: a. Management; b. Employees who have significant roles in internal control; or c. Others where the fraud results in a material misstatement in the financial statements. ▶ The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected ▶ Any other matters related to fraud, relevant to Joint Audit and Scrutiny Panel responsibility.	Audit results report dated 17 May 2021

Appendix A (Continued)

		 Our Reporting to you
Required communications	 What is reported?	 When and where
Related parties	Significant matters arising during the audit in connection with the Authority's related parties including, when applicable: ▶ Non-disclosure by management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures ▶ Non-compliance with laws and regulations ▶ Difficulty in identifying the party that ultimately controls the Authority	Audit results report dated 17 May 2021
Independence	Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence. Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information about the general policies and process within the firm to maintain objectivity and independence Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place.	Audit Planning Report dated 18 September 2020 and Audit results report dated 17 May 2021



Appendix A (Continued)

		Our Reporting to you
Required communications	What is reported?	When and where
External confirmations	▶ Management's refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures.	We have received all requested confirmations
Consideration of laws and regulations	▶ Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur ▶ Enquiry of the Joint Audit and Scrutiny Panel into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Joint Audit and Scrutiny Panel may be aware of	We have not identified any material instances or non-compliance with laws and regulations.
Significant deficiencies in internal controls identified during the audit	▶ Significant deficiencies in internal controls identified during the audit.	Audit results report dated 17 May 2021

Appendix A (Continued)

		Our Reporting to you
Required communications	What is reported?	When and where
Group Audits	▶ An overview of the type of work to be performed on the financial information of the components ▶ An overview of the nature of the group audit team's planned involvement in the work to be performed by the component auditors on the financial information of significant components ▶ Instances where the group audit team's evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work ▶ Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted ▶ Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial statements.	Audit results report dated 17 May 2021
Written representations we are requesting from management and/or those charged with governance	▶ Written representations we are requesting from management and/or those charged with governance	To be provided to TCWG and management prior to the accounts being signed.
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	▶ Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit results report dated 17 May 2021
Auditors report	▶ Any circumstances identified that affect the form and content of our auditor's report	Audit results report dated 17 May 2021
Fee Reporting	▶ Breakdown of fee information when the audit planning report is agreed ▶ Breakdown of fee information at the completion of the audit ▶ Any non-audit work	Audit Planning Report dated 18 September 2020 Audit results report dated 17 May 2021

Appendix B

Accounting and regulatory update

Future accounting developments

Since the date of our last report to the Ethics, Transparency and Audit Panel, there have been a number of exposure drafts, discussion papers and other projects issues. The following table provides a high level summary of those that have the potential to have the most significant impact on you:

Name	Summary of key measures	Impact on Nottinghamshire Police
IFRS 16	▶ The adoption of IFRS 16 by CIPFA/LASAAC as the basis for preparation of Local Authority Financial Statements has been deferred until 1 April 2021. The Authority will therefore no longer be required to undertake an impact assessment, and disclosure of the impact of the standard in the financial statements does not now need to be financially quantified in 2019/20.	▶ Nottinghamshire Police need to ensure that all lease arrangements entered into are identified and quantified (including for the comparative period) prior to the new implementation date ▶ Consider whether appropriate systems and processes are in place to embed the requirements of the new accounting standard going forward.

Regulatory update

Since the date of our last report to the Joint Audit and Scrutiny Panel, there have been a number of regulatory developments. The following table provides a high level summary of those that have the potential to have the most significant impact on you:

Name	Summary of key measures	Impact on Nottinghamshire Police
Code of Audit Practice 2020	▶ The updated Code of Audit Practice issued by the National Audit Office has introduced some significant changes to the requirements regarding auditors' work on the value for money conclusion, which will be applicable from 2020/21.	▶ The NAO have updated the Auditor Guidance Notes which set out how the new Code of Audit Practice should be applied when carrying out value for money work.

Appendix C

Reflections from the Redmond Review

Independent Review into the Oversight of Local Audit and the Transparency of Local Authority Financial Reporting

Published on the 8th September 2020, Sir Tony Redmond's findings and recommendations from his independent review provides a significant opportunity to shape the future sustainability of local government financial reporting and auditing. We believe this will help ensure audit continues to meet the evolving needs of local authorities, the public, and the public interest.

Guiding principles for reform

We believe reforms should be guided by the following principles:

- Reforms should enhance, or at least should not create risks to, the quality of financial reporting and external audit.
- The importance of the multidisciplinary audit firm model, to enable local auditors to respond efficiently and effectively to the increased reporting complexity, risks and financial resilience pressures we have seen facing the public sector pre and post Covid-19.
- There should not be a two-tier system of generally accepted accounting and auditing standards between the public and corporate sectors.
- To be effective and sustainable, reforms need to focus on the public sector financial reporting and external audit ecosystem as a whole.



Reflections from the Redmond Review (continued)

Taking our guiding principles, we broadly welcome the Redmond review and proposals, in particular:

Quality of financial reporting and external audit

- The recognition that all stakeholders in the ecosystem have a role to play to improve accountability, transparency and sustainability. This includes improving the effectiveness of Audit Committees, strengthening the training skills, capacity capability and attractiveness of the public sector finance and audit professions.
- His conclusion that the current procurement and fee structure does not support sustainable audit quality. We have provided you with our perspectives on how baseline audit fees need to change to take account of your risk profile, complexity as well as the regulatory and professional context which drive our audits.

Reforming the public sector financial reporting and external audit ecosystem

- Establishing the Office for Local Audit Regulation (OLAR), which provides a “system leader” and will bring clarity to the existing framework for local authority audit.
- The importance of MHCLG establishing a liaison committee of all key stakeholders to oversee reforms. To begin with MHCLG should take urgent action to implement primary legislation to establish OLAR, revise the timetable for financial reporting and revisit the procurement and fee structure for public sector audit.

Multidisciplinary audit firm model

- The importance of the auditors work to critically assess the financial resilience and viability of public sector bodies and his proposals on how this assessment could be enhanced within the NAOs code of audit practice.

Safeguarding professional accounting and auditing standards

- The need for CIPFA/LASAAC to revisit the accounting code and introduce summarised accounts. We agree that there is a need for more proportionality in the Code which also sets out the expectations of practitioners and auditors and how this could be applied in areas such as pensions and asset valuations. However, we believe that any future proposals on the accounting code should not create a two-tier system.

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