| For Decision | |
| --- | --- |
| **Public/Non Public*** | **Public** |
| **Report to:** | **Joint Audit and Scrutiny Panel** |
| **Date of Meeting:** | **November 2020** |
| **Report of:** | **Chief Finance Officer** |
| **Report Author:** | **Charlotte Radford** |
| **Other Contacts:** | **Helen Henshaw** |
| **Agenda Item:** | **6** |

# External Audit of the Accounts 2018-19 (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 2018-19.

## 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 2018-19.

4.2 The Auditor highlights in his report that he intends to issue an unqualified opinion in relation to the accounts.

4.3 The Auditor does make a modified opinion in relation to MFSS within the value for money conclusion of the report.

## 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

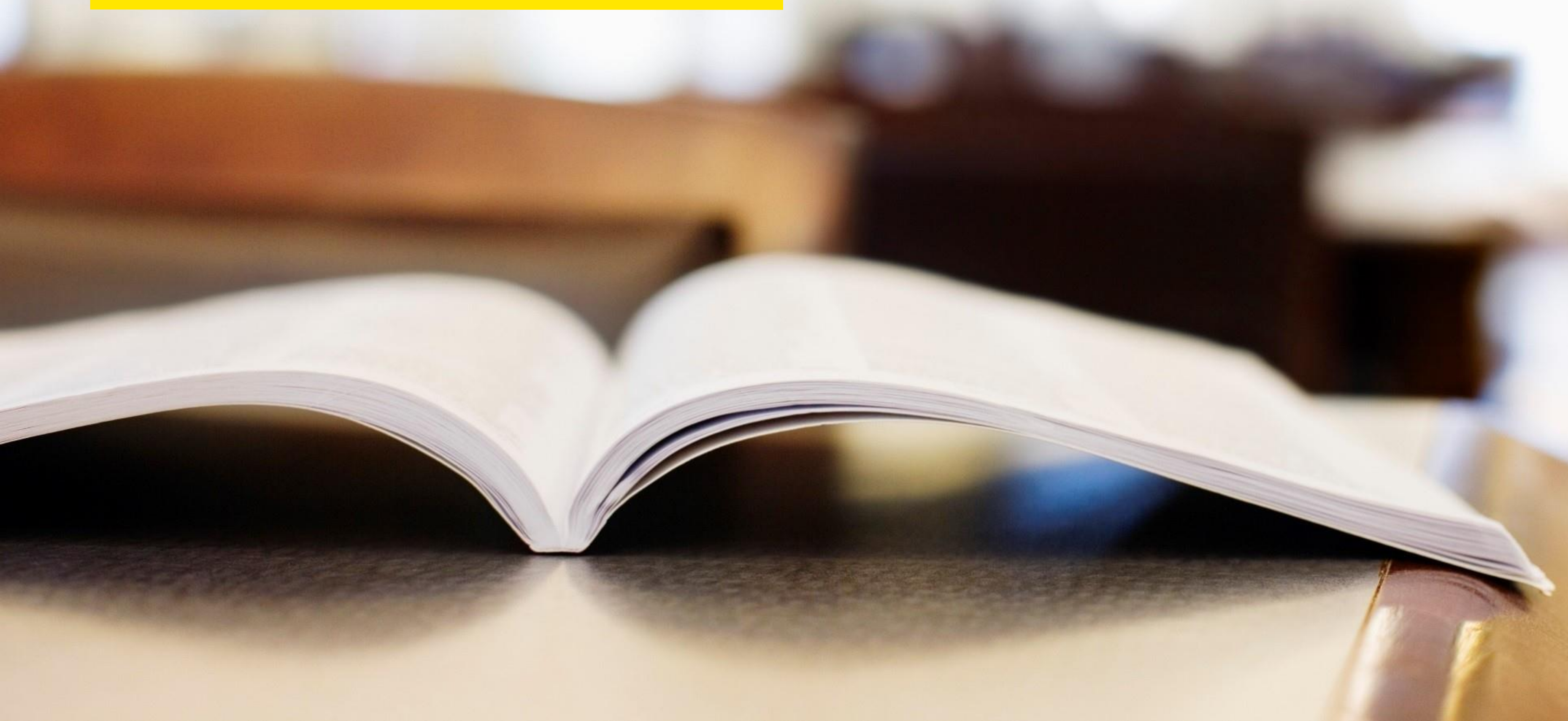
Appendix A – Report to those charges with governance (ISA 260)

# Police and Crime Commissioner and Chief Constable of Nottinghamshire Police

## Audit results Report

Year ended 31 March 2019

November 2020



Building a better working world

Private and Confidential

November 2020

Dear Paddy and Craig

We are pleased to attach our audit results report for the forthcoming meeting of the Joint Audit and Scrutiny Panel. This report summarises our audit conclusion in relation to the audit of the Police and Crime Commissioner and Chief Constable for Nottinghamshire for 2018/19.

We have completed our audit of the Police and Crime Commissioner and Chief Constable for Nottinghamshire (the PCC and CC) for the year ended 31 March 2019.

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. We anticipate issuing a modified opinion on your arrangements to secure economy, efficiency and effectiveness in your use of resources, specifically in respect of the significant overspend on Project Fusion in 2018/19 of £2 million against a £2.2 million budget.

This report is intended solely for the use of the Joint Audit and Scrutiny Panel, members of the PCC and 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 meeting of the Joint Audit and Scrutiny Panel on 27 November 2020.

Yours faithfully

Neil Harris

Associate Partner

For and on behalf of Ernst & Young LLP

Encl

# 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 Result 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 Steve Varley, 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 updated audit planning report tabled at the 29 May 2019 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:

- Prior period adjustments has been posted in the PCC and CC financial statements to correct various issues in the accounting for:
    - Property, plant and equipment valuation and classification errors
    - Recognition of assets held under PFI contracts
    - Misclassification of various expenditure items and debtor/creditor balances in the prior year.

- Identification of 2 additional risks to our value for money conclusion, being:
    - Taking informed decisions and working with partners and third parties: the PCC's and CC's arrangements for the governance and decision making processes concerning Joint Police and Fire Headquarters with the Nottinghamshire Fire and Rescue Authority; and
    - Sustainable resource deployment: the PCC's and CC's budgeting arrangements for achieving a sustainable financial position given an overall net overspend of £0.854 million and the use of £1.4m use of reserves to support the overrun on the MFSS budget in 2018/19 and anticipated use of earmarked reserves of £7.257 million by 31 March 2022.

- Additional consideration and procedures required in respect of the impact of the Global Covid-19 pandemic in the post balance sheet period.

## Timing of the audit

In the spring of 2019 it became clear that EY, as a firm, were experiencing severe resource constraints which meant we felt unable to commit to delivering the high quality audits which we and all stakeholders expect, by the 31 July 2019. We had an open discussion with management at that time and an agreement was reached to reschedule the audit until later in the year. Subsequent to that decision being taken, the resourcing and related issues only increased. The volume of new audits to be undertaken, the variety and extent of issues to be dealt with, and pressure on staff recruitment and retention all playing a part in the audit becoming significantly more delayed than was the original intention.

We acknowledge our inability to provide a continuous audit team through the planning, interim and execution phases of the audit, together with a level of project management and communication which did not best support your team and the transition to EY as auditor and only exacerbated the length of the delay in concluding the audit.

In our view there were significant quality issues in the production of the draft financial statements and supporting workpapers presented to EY for audit. This has resulted in difficulties in obtaining sufficient appropriate audit evidence to form our audit conclusions in respect of various areas of the accounts, and has led to the many adjustments made to the accounts between the draft and final versions.

It is important that management and EY work together through the 19-20 audit cycle to address these issues, and communicate with the Panel in an open and timely manner should similar issues arise in 19-20.

# Executive Summary

## Update to materiality levels

We updated our planning materiality assessment using the draft financial statements and have also reconsidered our risk assessment. We have updated our overall materiality assessment as follows:

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

## Impact of Covid-19

The financial statements are prepared under the going concern basis of accounting This presumes that the organisation will continue to operate for a period of at least 12 months from the date on which the financial statements are authorised for issue. The Covid-19 global pandemic occurred within this period.

We considered that the unpredictability of the current environment caused by Covid-19 gave rise to a risk that the PCC/CC would not appropriately disclose the key factors relating to going concern, underpinned by managements assessment with particular reference to Covid-19 and the impact that was expected to have on liquidity, and use of reserves, and relating to the impact of C-19 as a post balance sheet event.

We have reviewed management's updated going concern analysis. We have reviewed the costs incurred to date resulting from C-19 and management's estimations of the costs to come. We have performed scenario planning to assess 'worst case impact' on both cash and reserves of the Group.

We have undertaken the required internal consultations in respect of the sufficiency and appropriateness of the disclosures made in the financial statements, and the resultant impact on our audit opinion. As a result, we were able to conclude that no emphasis of matter in relation to Covid-19 as a post balance sheet event is required in our audit opinion.

This increase in the scope of our work is reflected in our estimation of the final fee on page 49.

# Executive Summary

## Status of the audit

We have substantially completed our audit of the PCC and CC's financial statements for the year ended 31 March 2019 and have performed the procedures outlined in our Audit planning report.

Subject to satisfactory completion of the outstanding matters set out in appendix C we expect to issue an unqualified opinion on the Group financial statements in the form which appears at Section 3. However until work is complete, further amendments may arise.

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

## Audit differences

Management identified a number of errors in the 31 May 2019 draft accounts which were amended prior to commencement of the audit.

In addition, we have identified a large number of audit errors and disclosure issues in the draft financial statements of the PCC, CC and Group which management has chosen to adjust. These are detailed in section 4 of this report. We ask that they be corrected or a rationale as to why they are not corrected be approved by the PCC and CC and included in the Letters of Representation.

The volume of adjustments made between the initial draft financial statements and the final financial statements approved for issue is substantial and has led to significant additional audit effort being required in the delivery of the audit, and will also impact our risk assessment for the 2019/20 external audit and the lowering the level at which our performance materiality for that audit will need to be set.

## Objections

We have received no objections to the 2018/19 accounts from members of the public.

# Executive Summary

## Areas of audit focus

Our Audit Planning Report identified key areas of focus for our audit of the Police and Crime Commissioner and Chief Constable for Nottinghamshire's financial statements. This report sets out our observations to date. We summarise our consideration of these matters, and any others identified, in the "Key Audit Issues" section of this report.

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.

At the time of writing, 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 Police and Crime Commissioner (PCC) and Chief Constable (CC).

## Control observations

We have adopted a fully substantive approach, so have not tested the operation of controls.

During the audit we identified a number of observations and improvement recommendations in relation to management's financial processes and controls:

- Working papers to support the financial statements (particularly in respect debtors/creditors, income and expenditure) were not readily available to show a breakdown of the items included in the year end reported positions. The valuation report used to inform the 31 March 2019 balances was dated 4 months prior to year-end and management performs no assessment to ensure no material movements in that period of time.
- Multiple versions of accounts and confused version control. This has meant that working papers provided for audit do not always agree to the final version of accounts, and there is a lack of clarity over who is responsible for certain disclosure notes,
- There is a lack of segregation of duties in respect of the creation of invoices/credit notes. The same individual at MFSS raises and approves.
- There is a lack of evidence of review of work performed by MFSS by Nottinghamshire police. MFSS performs reconciliations and there is no evidence that NPCC checks the reconciliations.
- Manual journals are not subject to review and do not require authorization before being posted.
- We noted that the valuation report used to inform the 31 March 2019 balances was dated 4 months prior to year-end and management performs no assessment to ensure no material movements in that period of time. It is management's responsibility to perform this assessment in drawing up the financial statements.

# Executive Summary

## 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 risk:

- Take informed decisions and sustainable resource deployment in respect of Multi-Force Shared Services (MFSS): the adequacy of arrangements for governance and risk management for the implementation of new financial systems at the CC (Project Fusion).

In addition, after we had begun the audit of the financial statements, we increased the scope of our VFM Conclusion work to include a significant risk around:

- Taking informed decisions and working with partners and third parties: the PCC's and CC's arrangements for the governance and decision making processes concerning Joint Police and Fire Headquarters with the Nottinghamshire Fire and Rescue Authority.

We have also reviewed the financial standing of the PCC and CC:

- Sustainable resource deployment: the PCC's and CC's budgeting arrangements for achieving a sustainable financial position given an overall net overspend of £0.854 million and the use of £1.4m use of reserves to support the overrun on the MFSS budget in 2018/19 and anticipated and planned for use of earmarked reserves of £7.257 million by 31 March 2022.

We have undertaken appropriate procedures and anticipate we will have no matters to include in the auditor's report about your arrangements to secure economy efficiency and effectiveness in your use of resources as regards the Joint Police and Fire Headquarters with the Nottinghamshire Fire and Rescue Authority and financial resilience. We are, however, awaiting further information in respect of the joint Headquarters on the financial and legal advice received. We will update our findings within the final report.

However, we anticipate issuing a modified opinion in respect of the significant overspend on Project Fusion in 2018/19 of £2 million against a £2.2 million budget . Our key considerations are outlined in section 6.

# Executive Summary

## Other reporting issues

We requested several amendments to the PCC and CC Annual Governance Statement as a result of our work (See Section 6). The PCC and CC have responded to the majority of these requests, and we are satisfied that the AGS is now compliant with the regulations and representative of the governance arrangements at the PCC/CC. We have no other matters to report as a result of this work.

We have also reviewed the PCC's and CC's Narrative Report for consistency with the financial statements and our knowledge. We have made several observations for enhancing the context within the Report. The PCC and CC have responded to these suggestions and we are now satisfied that the information presented to the reader of the Narrative Statement is not inconsistent with our knowledge of the organisations. We have no other matters to report as a result of this work.

We do not anticipate reporting any matters to the National Audit Office (NAO) regarding the Whole of Government Accounts submission as the PCC group falls below the £500 million threshold for review as per the NAO's group instructions.

## Independence

Please refer to Section 10 for our update on Independence.


# 02 Areas of Audit Focus

# Significant risk

## Misstatements due to fraud or error

### 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.

Under ISA240 there is also a presumed risk that revenue may be misstated due to improper recognition of revenue. 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 consider this risk is not material in relation to our audit.

### What judgements are we focused on?

For the Group and PCC Single Entity, we have identified the potential for the incorrect classification of revenue spend as capital as a particular area where there is a risk of fraud or error.

### What did we do?

- We identified fraud risks during the planning stages;
- We inquired of management about risks of fraud and the controls put in place to address those risks;
- We gained an understanding the oversight given by those charged with governance of management's processes over fraud;
- We considered the effectiveness of management's controls designed to address the risk of fraud;
- We determined an appropriate strategy to address those identified risks of fraud;
- We performed mandatory procedures regardless of specifically identified fraud risks, including testing of journal entries and other adjustments in the preparation of the financial statements;
- We are testing PPE additions to ensure that expenditure has been capitalised appropriately with a sample size reflective of the risk; and
- We are specifically considering how the PCC and CC have made judgements on whether to accrue or provide against known litigations, claims and costs. An example which we are discussing with management is the PCCs share of any costs associated with delays or changes to the MFSS project.

### What are our conclusions?

In our work 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.

Our testing of PPE additions found no instances of expenditure being inappropriately capitalised.

We have challenged management on the treatment of potential liabilities for MFSS costs arising from Avon & Somerset leaving the partnership. Currently there is no provision recognised or contingent liability disclosed in the Nottinghamshire financial statements. We are conscious of the need for consistency and are benchmarking this against the Northamptonshire police position (where a contingent liability is disclosed in relation to this matter). It was our understanding that management intended to disclose a contingent liability in the final financial statements but this has not been done. This has therefore been included on our summary of audit differences.

# Significant risk

## Inappropriate capitalisation of revenue expenditure

### What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error. As identified in ISA (UK) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.

This could materialize as a result of capitalizing expenditure on revenue items.

### What judgements are we focused on?

For the Group and PCC Single Entity, we have identified the potential for the incorrect classification of revenue spend as capital as a particular area where there is a risk of fraud or error.

### What did we do?

Capital expenditure is material to the financial statements in 2018/19. We have undertaken additional procedures to address the specific risk we have identified, which consisted of:

- Sample testing additions to property, plant and equipment to ensure that they have been correctly classified as capital and included at the correct value in order to identify any revenue items that have been inappropriately capitalised.

### What are our conclusions?

Our testing of PPE additions found no instances of expenditure being inappropriately capitalised.

# Significant risk

## Private Finance Initiatives

### What is the risk?

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.

### What did we do?

We:

- Engaged an EY Specialist to test the completeness and accuracy of the inputs to the financial model and the subsequent correct application of the outputs to the financial statements; and
- Reviewed the consistency of the accounting transactions and disclosures with the PFI model.

### What are our conclusions?

Our PFI specialist has reviewed the agreements covering the Riverside building and the vehicles fleet and garage and the accounting models which underpin the financial statements.

- Riverside:
  - We are satisfied that the arrangement is accounted for in accordance with the Code and the amounts included in the financial statements are free from material misstatement.

- Vensons:
  - We disagreed with managements approach to accounting for this scheme in the draft 2018-19 financial statements and prior year accounts. In our view the garage and vehicles should be recorded on balance sheet.
  - Management has subsequently brought the garage onto the PCC balance sheet (at a value of £1.2m) as a prior period adjustment. We are satisfied that this is free from material misstatement, but note that the depreciation has been understated and an uncorrected misstatement has been recorded in section 4 of this report.
  - Management has determined that the vehicles, being used in operational policing matters, would be more appropriately considered assets of the Chief Constable and therefore should be considered as assets in the Chief Constable (and Group) accounts. This has resulted in the vehicles (individually valued at over £10k) being removed from the PCC (and Group) balance sheet as a prior period adjustment. Management has assessed the value of the vehicles as £3.6m and consider this immaterial to the Chief Constable and to the Group and therefore have not recorded this asset/liability in the financial statements. An uncorrected misstatement has been recorded in section 4 of this report to reflect this.

Overall we noted a lack of ownership and **familiarity with the complex accounting technical requirements and judgements associated with these schemes.**

# Significant risk

## Private Finance Initiatives - Riverside

### What judgements have we considered?

The contractor, Miven, provides and maintains the Riverside building on a 25 year contract until 2026-27, at which point the Commissioner has the option to purchase.

We sought the assistance of our PFI specialist to audit the scheme however the operator model was unavailable. The audit team and the PFI specialist discussed this with management on several occasions. Absent the operator model, management was able to provide an extract from the project's financial model showing how that project's operator would pay down its senior debt. From this we are able to form an assessment of whether the accounting model's opening liability is free from material misstatement, and compare the accounting model's lease interest rate (including inflation) with the senior debt interest rate. Management were able to explain to us the history of the Riverside accounting model (and the various now obsolete tabs within it) and we are comfortable now that this follows a methodology in alignment with the CIPFA Code.

There were various amendments that we believe needed to be made to the accounts in order that the code is complied with, and the accounts reflect the accounting model. These are listed below together with a note as to whether addressed in the final draft accounts:

- The value supported by the PFI schedule is £1.943m. The PFI liability included in the accounts was based on the ledger value of £1.891m (note 7.3) and the difference, £51,922, was due to the ledger not being updated to reflect the changes in year and to balance back to the schedule. Since the difference is modest no amendment is to be made for 2018-19. The ledger and accounts will be aligned to the supporting schedule in 2019-20. As the difference is clearly trivial, no further action taken.

- Note 7.3 shows £2,415k other long term liabilities. This comprises the PFI (Riverside site) and lease liabilities (Chilwell building now treated as a finance lease). In error it omits the current value of PFI and lease liabilities of £297k. These values are shown correctly on the PCC balance sheet. The £297k error in the Group is less than Group triviality level and therefore no further action has been taken. This should be corrected in the coming year.

# Significant risk

## Private Finance Initiatives - Vensons

### What judgements have we considered?

Vensons, is responsible for the provision and maintenance of vehicles on a 25 year contract until 2026-27, from a building at Chilwell.
In the draft accounts (and PY financial statements) the contract was held ‘off balance sheet’ for the most part, with certain vehicles (valued at over £10k) carried on the PCC balance sheet.

The EY PFI specialist reviewed the details of the contact and concluded that the control tests were passed and therefore the contract should be brought on balance sheet. A summary of this consideration is as follows:

Our starting point is to consider whether Nottinghamshire Police should account for the Project as a service concession under Code Section 4.3. This section requires authorities to determine whether the control tests in Code Paragraph 4.3.2.5 (‘Control Tests’) apply to an arrangement.
In our view, Control Test 1 applies when an authority or other public body determines a service concession’s underlying asset’s purpose, who receives the services arising from that purpose, and the price for those services. In the Project, the requirements for the Operator to make vehicles available for police use and only to Nottinghamshire Police, and for Nottinghamshire Police to approve any non-availability due to repairs and maintenance scheduling, suggests that Nottinghamshire Police through the contract controls the underlying assets’ purpose and the recipients of the services arising from that purpose. The requirement to pay the Operator determinable amounts depending on the extent to which the Operator makes suitable vehicles available also suggests that Nottinghamshire Police also controls the price for those services.
Control Test 2 applies when an authority has a right to take ownership of the underlying assets for either a fixed or variable amount. This control of the residual interest applies unless and until the authority decides to relinquish that control either by reassigning its right to the underlying asset on expiry or by not exercising an option to purchase these assets. Hence, the provision allowing Nottinghamshire Police an option to purchase the vehicles suggests that Control Test 2 applies to the Project. This is because Nottinghamshire Police determines who holds the assets’ residual interest on expiry, and only ceases to control that residual interest when it determined not to exercise its option to purchase. The same analysis applies to the option to purchase the premises, suggesting in turn that Control Test 2 applies to the premises.
Our analysis therefore suggests that Nottinghamshire Police should account for the Project as an on-balance sheet service concession, which would require it to restate its accounts to hold a liability and asset value reflecting the current fleet fair value less any residual interest that it currently does not expect to obtain.

Management decided to bring the Garage onto the PCC balance sheet (at a value of £1.2m), but consider the Vehicles as ‘novated’ to the Chief Constable since they are used in operational policing activities. We have seen precedent for this approach in other forces. Management then valued the outstanding vehicle lease liability and considered it to be immaterial to the Chief Constable and to the Group at £3.6m. We have included this on our summary of uncorrected misstatements.

In bringing the Garage on balance sheet, the depreciation was calculated, in our view, over an inappropriately long useful economic life which has resulted in depreciation being understated in 2018/19 by £126k in the PCC and Group accounts. This has been taken to our summary of uncorrected misstatements and is considered immaterial.

# Inherent risk

## Valuation of Land and Buildings

### What is the risk?

The fair value of property, plant and equipment (PPE) and investment properties (IP) represent significant balances in the Group's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.

### What did we do?

We:

- Considered the work performed by the Group and PCC valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- Sample tested key asset information used by the valuers in performing their valuation (e.g. floor plans to support valuations based on price per square metre);
- Considered the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code of Practice. We will also consider if there are any specific changes to assets that have occurred and that these have been communicated to the valuer;
- Reviewed assets not subject to valuation in 2018/19 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.

### What are our conclusions?

The quality of management's maintenance of the fixed asset register, including the posting of revaluation adjustments has been poor.

This has resulted in a number of adjustments being required to the current year and prior year balances as follows:

- Incorrect valuation figures used
- Incorrect figures used when categorising assets as 'assets held for sale'
- Assets being incorrectly classified between tangible and intangible
- Revisions to accounting for assets held under lease arrangements and PFI schemes (refer page 12).

Several of these differences were noted by management themselves subsequent to the publication of the draft accounts.

The financial impact of these adjustments on the CIES is a reduction of £747k in the prior year. See further details in section 4.

We also noted that the valuation report used to inform the 31 March 2019 balances was dated 4 months prior to year-end and management performs no assessment to ensure no material movements in that period of time. We performed our own audit procedures to review likely movements over this period and concluded that there was no material misstatement, but it is management's responsibility to also perform this assessment in drawing up the financial statements. We note that for the 2019/20 year end, such a review has been performed in response to our observations.

# Other issues noted with accounting for long term assets

**Deprecation of property, plant and equipment, valuation of Assets held for sale, intangible assets**

Depreciation of property, plant and equipment

When testing depreciation charged on property, plant and equipment, we noted that depreciation was not being charged on a small number of assets. This led to an understatement of depreciation. The adjustment of £820k for the 18-19 financial year has been corrected as a prior period adjustment.

Assets held for sale

We identified an issue where the entity had not correctly valued their assets held for sale. The total net book value that was in the draft financial statements was £2,202k however having assessed each individual asset held for sale as the lower of fair value less costs to sell and the carrying amount at the time it was classified as held for sale (as is the requirement of the Code), the total value of Assets Held For Sale should be £2,586k. This error has been corrected by management.

Intangible assets

In our testing of the existence of property, plant and equipment (PPE) we identified a large number of assets which had been inappropriately classified as PPE which were in actual fact intangible assets (software licences primarily). Management has corrected this £2m net book value error as a prior period adjustment

# Inherent risk

## Pension Liability Valuation

### What is the risk?

The Local Authority Accounting Code of Practice and IAS19 require the PCC and CC to make extensive disclosures within their financial statements regarding its membership of the Local Government Pension Scheme and the Police Pension Fund. The PCC and CC's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the respective balance sheets of the PCC and CC.
The information disclosed is based on the IAS 19 report issued to the PCC and CC by the actuary to the administering body and also the Police Pension Fund. Accounting for these schemes involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

### What did we do?

We:

- Liaised with the auditors of Nottinghamshire Pension Fund, to obtain assurances over the information supplied to the actuary in relation to Nottinghamshire Police Force;
- Assessing the work of the LGPS Pension Fund and the Police Pension actuary including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by Public Sector Auditor Appointments for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team; and
- Reviewing and testing the accounting entries and disclosures made within the PCC and CC's financial statements in relation to IAS19.

In addition, with respect to the Police Pension scheme, we have engaged the support of our EY Actuarial team to review the assumptions and calculations of the actuary with respect to the McCloud adjustment.

### What are our conclusions?

**We have no concerns to raise with respect to the accounting entries and disclosures made in respect of the local government pension scheme.**

**In respect of the Police Pension Scheme, our pension specialist has reviewed the McCloud impact and we consider that the impact lies within an acceptable range.**

# Inherent risk

## Collaboration disclosures

### What is the risk?

Joint arrangements operate with partners across the East Midlands. There is a risk that the allocation of activity in the financial statements is not correctly recorded in their financial statements.

### What did we do?

We have:

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

### What are our conclusions?

We have noted no issues as a result of our work.

# Inherent risk

## Multi-Force Shared Service (MFSS)

### What is the risk?

The Chief Constable of Cheshire Constabulary hosts a collaborative shared service covering Human Resources, Accounts, Purchasing and Payroll for the PCC and CC. Our interim audit work highlighted few PCC and CC controls surrounding the transactions to and from the MFSS. The PCC and CC do not commission an ISAE3402 assurance report covering controls and risk management from the CC of Cheshire Constabulary. Without an ISAE3402 report basis, there is a risk that we do not have a basis for identifying and assessing the risks of material misstatement

### What did we do?

We have carried out a range of procedures to update our knowledge of the MFSS, including:

- Discussing with PCC and CC finance staff to understand the oversight by the participating bodies of the MFSS (governance and controls);
- Reviewing reports by the PCC's and CC's Internal Auditors to review references to procedures at the MFSS; and
- Visit the MFSS to view specific records or carry out testing such as reconciliations of GL data to system data.

We adopt a substantive approach to our audit of the PCC and CC. This involves the direct testing of income, expenditure and balance sheet transactions within the financial statements.

In assessing the control environment at the PCC and CC and MFSS, we assessed the initiation, recording, processing and reporting of a single transaction within each significant financial system, identifying the controls that exist and testing relevant controls.

Having tested transactions at the PCC and CC, a clear boundary existed where we were unable to test processing and recording. Without an independent ISAE3402 assurance report to assess controls at MFSS, we therefore visited MFSS to complete our work.

### What are our conclusions?

From the work that we undertook at both the PCC, CC and MFSS, for each significant financial system we were able to:

- Identify the initiation of a transaction,
- Determine how the transaction had been recorded in the relevant account;
- Follow how transaction had been processed; and
- Check MFSS staff had reconciled the general ledger and subledger data.

During 2018/19, Internal Audit assessed as satisfactory the adequacy and effectiveness of internal controls for core financial systems for General Ledger, Treasury Management, Income and Debtors but assessed as limited for Payroll and Payments for Creditors with priority 2 recommendations for updating procedures, payroll processing times and payment authorisation limits.

As such we have no matters to report from our work

# Other Areas of Audit Focus

## IFRS 9 and IFRS 15

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

# Other Areas of Audit Focus

## Inhouse preparation of accounts

**What was the area of focus?**

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

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

**What have we done?**

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

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

# 03 Audit Report

# Draft audit report (Group and PCC)

## Our draft opinion on the group 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 2019 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- Police and Crime Commissioner for Nottinghamshire and Group Movement in Reserves Statement;
- 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 Cash Flow Statement;
- related notes 1 to 8; and
- Police and Crime Commissioner for Nottinghamshire Pension Fund Account and explanatory notes; and
- Joint Operations.

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 2018/19.

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 2019 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 2018/19.

**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 Authority'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 Commissioner's foreward and the Chief Finance Officer's Narrative Report included in the Annual Accounts 2018-19 set out on pages 5 to 17 and the Annual Governance Statement on pages 20 to 27, 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.

# Draft audit report (Group and PCC), continued

## Our draft opinion on the group financial statements

**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***

***Basis for Qualified Conclusion***

Informed decision making, sustainable resource deployment and working with partners and other third parties.

On 22 March 2017, the Police and Crime Commissioner and the Chief Constable approved the Business Case for the upgrade of the Police's back office system by the Multi Force Shared Service (MFSS) to "Oracle Cloud Computing" (project Fusion). On review of the progress of the project in 2018-19, we noted that:

- The project was not delivered until 1 April 2019 a year after its expected implementation date of 1 April 2018;
- As a result of the delayed implementation and the addition of a new partner, in 2018/19 the share of Police and Crime Commissioner and Chief Constable's MFSS budget increased from £2.2 million to £4.2 million with an extra £1.9 million costs attributable to Project Fusion, funded from the Police and Crime Commissioner's earmarked reserves; and
- The expected functionality of the newly implemented system was not in line with the original scope, which has reduced the recurring revenue savings expected from implementing the project.

In investigating these issues, Police and Crime Commissioner and Chief Constable identified that MFSS did not have adequate governance and monitoring arrangements in place to enable them to exercise significant influence on the progress of the project and cost implications. As such we have concluded that these issues are evidence of weaknesses in the Police and Crime Commissioner for Nottinghamshire's arrangements for commissioning services effectively to support the delivery of strategic priorities.

***Qualified conclusion***

In our opinion, based on the work undertaken in the course of the audit, having regard to the guidance issued by the Comptroller and Auditor General (C&AG) in April 2020, with the exception of the matter(s) reported in the basis for qualified conclusion paragraph above, we are satisfied that, in all significant respects, [Police and Crime Commissioner for Nottinghamshire put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

**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 Statement of Accounts set out on page 19, 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.

# Draft audit report (Group and PCC), continued

## Our draft opinion on the group financial statements

**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 Police and Crime Commissioner for Nottinghamshire 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 Police and Crime Commissioner for Nottinghamshire 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 [Police and Crime Commissioner for Nottinghamshire 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.

*Neil Harris (Key Audit Partner)*
*Ernst & Young LLP (Local Auditor)*
*Luton*
*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.

## Adjusted audit differences

Due to the quality issues arising in the preparation of the financial statements discussed on page 6, there have been many adjustments made between the draft financial statements, the final versions, impacting the financial statements themselves as well as the disclosure notes. The most significant of these are detailed below.

- No Net Assets Statement for the Police Pension Fund had been included, which is necessary as per the CIPFA code;
- Note 3.3 Movements in Unusable Reserves did not agree to Note 3.4 Unusable Reserves due to the incorrect figures for CIES/Adjustments Line being used;
- Presentation of bad debt provision of £123k under Note 4.11 had to be moved to the Debtors Note and be presented as net of the total debtors in accordance with CIPFA Guidance in page 527;
- Adjustments were made to the insurance provision in net cost claims (should be £937K, not the £1,168k originally disclosed) and additional provision (should be £966k, not the original £1,139k disclosed). There was no impact on the beginning and ending balance of provision;
- The Debtors & Creditors figures from their relevant notes in the financial statements were input incorrectly within the Financial Instruments Outstanding table;
- £3.5m of payroll creditors had been misclassified within debtors.
- The garage at Chilwell, held under PFI contract has been brought on balance sheet at a value of £1.2m (prior period adjustment)
- Removal of leased vehicles previously held on the PCC balance sheet pertaining to the Vensons PFI contract £302k capital value (prior period adjustment)
- Correction of undercharged depreciation £820k (correction of a prior period error)
- *Misclassification of intangible assets as property, plant and equipment £2m (correction of a prior period error)
- *Correction of inappropriate valuation of assets held for sale £384k (correction of a prior period error)

*noted by management on review of financial statement subsequent to publication of draft accounts.

## Uncorrected disclosure misstatements

**The following items were raised with management as disclosure misstatements. Management have chosen not to correct in the final version of the financial statements. We feel that these matters are of a level of significance which require communication to the Audit Committee:**

- **Contingent liabilities**

We were provided with a working paper prepared and jointly signed by the CFO of both Nottinghamshire and Northamptonshire PCCs setting out the conclusion that a contingent liability should be disclosed in respect of the Avon & Somerset MFSS position. This disclosure has not been made.

- **Police Pension Fund**

The Chief Constable financial statements should fully disclose the Police Pension Fund and related notes. This is omitted and only disclosed in the PCC/Group accounts.

# Audit Differences

## Summary of unadjusted differences – Chief Constable and Group

We highlight the following misstatements to the financial statements and/or disclosures which were not corrected by management. We request that these uncorrected misstatements be corrected or a rationale as to why they are not corrected be considered and approved by the **PCC and CC** and provided within the Letters of Representation:

| Uncorrected misstatements 31 March 2019 (£000) | Effect on the current period: | Balance Sheet (Decrease)/Increase | | | |
|---|---|---|---|---|---|
| | Comprehensive income and expenditure statement Debit/(Credit) | Assets current Debit/ (Credit) | Assets non current Debit/ (Credit) | Liabilities current Debit/ (Credit) | Liabilities non-current Debit/ (Credit) |
| **Judgemental difference** | | | | | |
| Failure to record assets/liabilities in relation to vehicles held under the Vensons PFI scheme on balance sheet | | | 3,600 | | 3,600 |

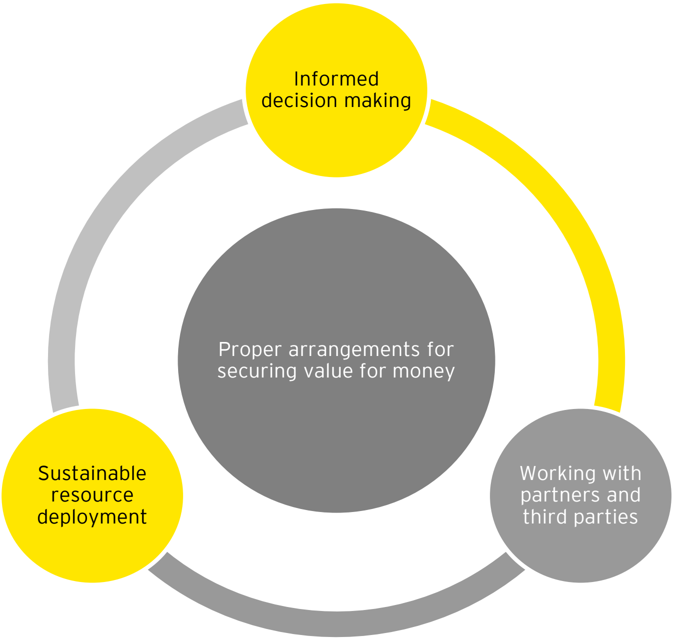
## Summary of unadjusted differences – Police and Crime Commissioner

We highlight the following misstatements to the financial statements and/or disclosures which were not corrected by management. We request that these uncorrected misstatements be corrected or a rationale as to why they are not corrected be considered and approved by the **PCC and CC** and provided within the Letters of Representation:

| Uncorrected misstatements 31 March 2019 (£000) | Effect on the current period: | Balance Sheet (Decrease)/Increase | | | |
|---|---|---|---|---|---|
| | Comprehensive income and expenditure statement Debit/(Credit) | Assets current Debit/ (Credit) | Assets non current Debit/ (Credit) | Liabilities current Debit/ (Credit) | Liabilities non-current Debit/ (Credit) |
| **Error** | | | | | |
| Insufficient depreciation charged in respect of PFI Garage due to inappropriate useful economic life being assigned | 126 | | (126) | | |

# 05 Value for Money Risks

# Value for Money




## Background

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

For 2018/19 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.

## Overall conclusion

At the planning stage of the audit we identified one significant risk for taking informed decisions and sustainable resource deployment as regards the Multi-Force Shared Services (MFSS): the adequacy of arrangements for governance and risk management for the implementation of new financial systems at the CC (Project Fusion) We have noted the significant overspend on MFSS Project Fusion in 2018/19 of £2 million against a £2.2 million budget.

Since our planning procedures we increased the scope of our VFM Conclusion work to include a significant risk around the PCC's and CC's arrangements for the governance and decision making processes concerning the Joint Police and Fire Headquarters with the Nottinghamshire Fire and Rescue Authority. Pending the receipt of further information, we have no matters to include in the auditor's report to the PCC and CC.

From our work, we have determined that whilst financial resilience is not a significant risk to our VFM Conclusion, we have identified weaknesses as regards controlling expenditure and have reported our key considerations to you.

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

# Value for Money Risks

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

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

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

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

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

# Value for Money Risks

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

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

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

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

| What is the significant value for money risk? | What arrangements did the risk affect? | What are our findings? |
|---|---|---|
| The Multi-Force Shared Services (MFSS) provides transactional back office services to Cheshire, Nottinghamshire and Northamptonshire Police and the Civil Nuclear Authority.<br><br>The PCC migrated to Oracle Cloud Applications (FUSION) in April 2019. is to offer expanded application functionality, real-time Business Intelligence and related modules all via Oracle Cloud Applications.<br><br>However, the project was not implemented by the due date of April 2018 and has incurred significant budget overruns. | Sustainable resource deployment<br><br>Take informed decisions<br><br>Working with partners and other third parties | The monitoring and documenting of Board meetings is detailed and consistent, However, we have been unable to gauge the impact of the changes as minutes are insufficiently detailed. In addition, without actions clearly linked to improving the shortcomings highlighted by the meetings, this does not benefit the overall project as the lack of process limits their usefulness and ability to drive change.<br><br>The PCC and CC have two main mechanisms in place to monitor the MFSS, being attendance at the fortnightly MFSS meetings and review of the MFSS Highlight Reports in its weekly internal meetings. However, there is no strong correlation between the MFSS Highlight Reports and subsequent Project Quantum action logs, indicating that the areas of concern for the project as a whole are not influencing the actions of Project Quantum This would provide an early warning system to Project Quantum team to have a more significant impact on progress and to have more control over the project as a whole.<br><br>The PCC and CC maintain a risk and issues register for the MFSS. This maintenance of an ongoing risk register is important in helping the Authority to ensure it has a good overall view of the potential risks and problems that they may encounter throughout the project. However, financial overruns were not noted in this risk register which lessened their profile and ability of decision-makers to take decisive action on a timely basis.<br><br>The PCC and CC have not set out a collaboration strategy. The PCC reported to the April 2018 Police and Crime Panel on collaboration initiatives and is included within the Financial Regulations and Governance between the PCC and CC. However, without a strategy, it is unclear the aim of the PCC and CC in joining MFSS and indeed withdrawing from regional collaboration schemes in recent years. Therefore, a strategy would provide legitimacy, clear structure, governance and a clear direction of travel to the work of both PCC, Management, Audit Committee Members, the wider public and stakeholders. |

# Value for Money Risks

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

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

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

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

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

# Value for Money Risks

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

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

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

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

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

# Value for Money Risks

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

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

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

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

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

# Value for Money Risks

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

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

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

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

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

# Value for Money


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

## Our Assessment

In our assessment we considered:

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

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

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

# 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 Annual Accounts with the audited financial statements<br><br>We requested several amendments to the PCC and CC Annual Governance Statement as a result of our work (See Section 6). The PCC and CC have responded to the majority of these requests, and we are satisfied that the AGS is now compliant with the regulations and representative of the governance arrangements at the PCC/CC. We have no other matters to report as a result of this work.<br><br>We have also reviewed the PCC's and CC's Narrative Report for consistency with the financial statements and our knowledge. We have made several observations for enhancing the context within the Report. The PCC and CC have responded to these suggestions and we are now satisfied that the information presented to the reader of the Narrative Statement is not inconsistent with our knowledge of the organisations. We have no other matters to report as a result of this work. |

| 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.<br><br>We do not anticipate reporting any matters to the National Audit Office (NAO) regarding the Whole of Government Accounts submission as the PCC group falls below the £500 million threshold for review as per the NAO's group instructions. |

# 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;
- Related parties;
- External confirmations;
- Going concern;
- Consideration of laws and regulations; and
- Group audits

# 07 Assessment of Control Environment

# Assessment of Control Environment

## Financial controls

It is the responsibility of the PCC and CC 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 the PCC and CC have 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.

Below we set out our control observations and management's response:

| Observation | Risk | Management response |
|---|---|---|
| Working papers to support the financial statements (particularly in respect debtors/creditors, income and expenditure) were not readily available to show a breakdown of the items included in the year end reported positions.<br><br>We also note (as reported on page 16) that the valuation report used to inform the 31 March 2019 balances was dated 4 months prior to year-end and management performs no assessment to ensure no material movements in that period of time. | This increases the risk that in management's own review of the financial statements prior to them being published and presented for audit, inaccuracies and significant areas of code non-compliance are not detected. | We accept that were differences in expectations in respect of working papers; some of this as a result of using a new system; some as a result of the change of external auditor and also the need to improve more generally.<br><br>Improvements have been made for the 2019-20 closedown process. |
| Multiple versions of accounts and confused version control. This has meant that working papers provided for audit do not always agree to the final version of accounts, and there is a lack of clarity over who is responsible for certain disclosure notes. | This increases the risk that errors are introduced to the financial statements. | Delays to the audit resulted in changes to the staff member dealing with the Statement of Accounts production, this change happened several times during the process. However version control has been an issue for several years now and changes have been made for 2019-20. |

# Assessment of Control Environment

| Financial controls (continued) | | |
|---|---|---|
| **Observation** | **Risk** | **Management response** |
| There is a lack of evidence of review of work performed by MFSS by Nottinghamshire police. MFSS performs reconciliations and there is no evidence that NPCC checks the reconciliations. | There is an increased risk that errors and/or omissions in reconciliations are not spotted by Nottinghamshire police on a timely basis and corrected. | This is accepted and changes to Force processes will be implemented. |
| Manual journals are not subject to review and do not require authorization before being posted. | Lack of review increases the risk that inappropriate / incorrect journals are posted. | This System approach is common and the risk is accepted is by the Force.<br><br>Reconciliation and monitoring processes reduce the risk of material error. |
| There is a lack of segregation of duties in respect of the creation of invoices/credit notes. The same individual at MFSS raises and approves. | Lack of segregation of incompatible duties leads to increased risk of fraudulent activity occurring. | We recognise that this a system issue, but feel that segregation earlier in the process, i.e. as MFSS only undertake action as a result of being supplied a Service Request by an employees of the force reduces potential risk.<br><br>Other monitoring processes would help detect any risks of error of fraud.<br><br>The organisation accepts the current system risks. |
| We noted that the valuation report used to inform the 31 March 2019 balances was dated 4 months prior to year-end and management performs no assessment to ensure no material movements in that period of time. It is management's responsibility to perform this assessment in drawing up the financial statements. | Material movements in value between the last valuation date and the balance sheet date are not reflected in the balance sheet resulting in material misstatement. | All assets are on a rolling 5year rolling basis and we do seek advice from the valuers and our estates manager if the property market has been volatile in the last quarter of the year. This was not the case in 18-19 so the risk was deemed immaterial.<br>It should be noted that the assets valued in 18-19 were subject to the table top exercise implemented by us following audit questioning for the 19-20 accounts. There was no material difference applying the table top exercise and the total value of assets within the balance sheet. So whilst this is a new exercise it shows that there was no materiality issue with a valuation as at 31 December compared with 31 March. |

# 08 Independence

# Confirmation

We confirm that there are no changes in our assessment of independence since our confirmation in our audit planning board report dated 15 May 2019.

We complied with the FRC Ethical Standards and the requirements of the PSAA's Terms of Appointment. 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 which you should review, as well as us. It is important that you and your Joint Audit and Scrutiny Panel consider the facts known to you and come to a view. If you would like to discuss any matters concerning our independence, we will be pleased to do this at the next meeting of the Joint Audit and Scrutiny Panel.

# Relationships, services and related threats and safeguards

The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY), the PCC and CC, their directors and senior management and affiliates, including all services provided by us and our network to the PCC and CC, their directors and senior management and 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 2018 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

Below includes a summary of the fees that you have paid to us in the year ended 31 March 2019 in line with the disclosures set out in FRC Ethical Standard and in statute.

We confirm that none of our services 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.

# Fee analysis

As part of our reporting on our independence, we set out below a summary of the fees paid for the year ended 31 March 2019.

We confirm that we have not undertaken non-audit work outside the NAO Code requirements.

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

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

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

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

# 10 Appendices

# Appendix A

## Required communications with the PCC and CC

There are certain communications that we must provide to the PCC and CC. 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 PCC and CC of acceptance of terms of engagement as written in the engagement letter signed by both parties. | The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies. |
| Our responsibilities | Reminder of our responsibilities as set out in the engagement letter. | Audit Plan |
| Planning and audit approach | Communication of the planned scope and timing of the audit, any limitations and the significant risks identified. | Audit Plan |
| Significant findings from the audit | ▸ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures<br>▸ Significant difficulties, if any, encountered during the audit<br>▸ Significant matters, if any, arising from the audit that were discussed with management<br>▸ Written representations that we are seeking<br>▸ Expected modifications to the audit report<br>▸ Other matters if any, significant to the oversight of the financial reporting process<br>▸ Findings and issues regarding the opening balance on initial audits | Audit results report |

# Appendix A

| | | 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:<br>▸ Whether the events or conditions constitute a material uncertainty<br>▸ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements<br>▸ The adequacy of related disclosures in the financial statements | No conditions or events were identified, either individually or together to raise any doubt about [insert client name]'s ability to continue for the 12 months from the date of our report |
| Misstatements | ▸ Uncorrected misstatements and their effect on our audit opinion<br>▸ The effect of uncorrected misstatements related to prior periods<br>▸ A request that any uncorrected misstatement be corrected<br>▸ Material misstatements corrected by management | Audit results report |
| 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. | Audit results report |
| Fraud | ▸ Enquiries of the PCC, CC and Joint Audit and Scrutiny Panel to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the PCC and CC<br>▸ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist<br>▸ Unless all of those charged with governance are involved in managing the PCC and CC, any identified or suspected fraud involving:<br>a. Management;<br>b. Employees who have significant roles in internal control; or<br>c. Others where the fraud results in a material misstatement in the financial statements.<br>▸ The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected<br>▸ Any other matters related to fraud, relevant to PCC, CC & Joint Audit and Scrutiny Panel responsibility. | Audit results report |

# Appendix A

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

# Appendix A

| | | Our Reporting to you |
|---|---|---|
| **Required communications** | **What is reported?** | **When and where** |
| External confirmations | ▸ Management's refusal for us to request confirmations<br>▸ 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<br>▸ Enquiry of the PCC, CC and 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 asked management and those charged with governance. 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 |

# Appendix A

| | | 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<br>▶ 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<br>▶ 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<br>▶ Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted<br>▶ 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 Plan/audit results report |
| 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 | Audit results report |
| 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 |
| Auditors report | ▶ Any circumstances identified that affect the form and content of our auditor's report | Audit results report |
| Fee Reporting | ▶ Breakdown of fee information when the audit planning report is agreed<br>▶ Breakdown of fee information at the completion of the audit<br>▶ Any non-audit work | Audit Results Report |

# Appendix B

# Management representation letter

Draft Management representation letter for the Chief Constable (a separate, similar, representation letter will be required for the PCC/Group)

## Management Rep Letter

[To be prepared on the entity's letterhead]

*[Date]*

Mr Neil Harris
Ernst & Young LLP
400 Capability Green
Luton LU1 3LU

Dear Neil,

This letter of representations is provided in connection with your audit of the financial statements of the Chief Constable for Nottinghamshire Police ("the CC") for the year ended 31 March 2019. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the financial position of the Chief Constable for Nottinghamshire Police as of 31 March 2019 and of its income and expenditure for the year then ended in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

We understand that the purpose of your audit of the CC's financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing, which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

**A. Financial Statements and Financial Records**

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.
2. We acknowledge, as those charged with governance and members of management of the CC, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the CC in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19. We have approved the financial statements.
3. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
4. As those charged with governance and members of management of the CC, we believe that the CC has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 that are free from material misstatement, whether due to fraud or error.
5. We believe that the effects of any unadjusted audit differences, summarised in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. We have not corrected these differences identified by and brought to the attention from the auditor because [specify reasons for not correcting misstatement].

**B. Non-compliance with law and regulations, including fraud**

1. We acknowledge that we are responsible to determine that the CC's activities are conducted in accordance with laws and regulations and that we are responsible to identify and address any non-compliance with applicable laws and regulations, including fraud.
2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
3. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
4. We have no knowledge of any identified or suspected non-compliance with laws or regulations, including fraud that may have affected the CC (regardless of the source or form and including without limitation, any allegations by "whistleblowers"), including non-compliance matters:
    - involving financial statements;
    - related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the CC's financial statements;
    - related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the CC's activities, its ability to continue to operate, or to avoid material penalties;

# Management representation letter (continued)

## Management Rep Letter

- involving management, or employees who have significant roles in internal controls, or others; or
- in relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

**C. Information Provided and Completeness of Information and Transactions**

1. We have provided you with:
   - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
   - Additional information that you have requested from us for the purpose of the audit; and
   - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
3. We have made available to you all minutes of the meetings of the CC and committees, including the Joint Audit Committee, (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meeting on the following date: 27 January 2020.
4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the CC's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the year ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the financial statements.
5. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
6. We have disclosed to you, and the CC has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

**D. Liabilities and Contingencies**

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
3. We have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent, and confirm there are no guarantees that we have given to third parties.

**E. Subsequent Events**

1. Other than the Global Covid-19 pandemic described in Note 23 to the financial statements, there have been no events, including events related to the COVID-19 pandemicsubsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

**F. Other information**

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the Narrative Report and the Annual Governance Statement.
2. We confirm that the content contained within the other information is consistent with the financial statements.

**G. Going Concern**

1. We are not aware of any matters that are relevant to the CC's ability to continue as a going concern, including significant conditions and events, our plans for future action, and the feasibility of those plans.

**H. Reserves**

1. We have properly recorded or disclosed in the financial statements the useable and unusable reserves.

**I. Contingent Liabilities**

1. We are unaware of any violations or possible violations of laws or regulations the effects of which should be considered for disclosure in the financial statements or as the basis of recording a contingent loss (other than those disclosed or accrued in the financial statements).
2. We are unaware of any known or probable instances of non-compliance with the requirements of regulatory or governmental authorities, including their financial reporting requirements, and there have been no communications from regulatory agencies or government representatives concerning investigations or allegations of non-compliance.

**J. Use of the Work of a Specialist**

1. We agree with the findings of the specialists that we engaged to evaluate the measurement and valuation of the Pension Fund and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

# Management representation letter (continued)

## Management Rep Letter

**K. Estimates (pensions valuation)**

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimate has been consistently applied and are appropriate in the context of CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.
2. We confirm that the significant assumptions used in making the estimate of the pension liability appropriately reflects our intent and ability to carry out providing services on behalf of the entity.
3. We confirm that the disclosures made in financial statements with respect to the accounting estimate are complete and made in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.
4. We confirm that no adjustments are required to the accounting estimate(s) and disclosures in the CC financial statements due to subsequent events.

**L. Retirement Benefits**

1. On the basis of the process established by us and having made appropriate enquiries, we are satisfied that the actuarial assumptions underlying the scheme liabilities are consistent with our knowledge of the business. All significant retirement benefits and all settlements and curtailments have been identified and properly accounted for.

*Yours faithfully,*

______________________

Chief Finance Officer

______________________

Chief Constable

# Appendix C

## Outstanding matters

The following items relating to the completion of our audit procedures are outstanding at the date of the release of this report:

| Item | Actions to resolve | Responsibility |
|---|---|---|
| Subsequent events review | Completion of subsequent events procedures to the date of signing the audit report | EY and management |
| Management representation letter | Receipt of signed management representation letter | Management and Joint Audit and Scrutiny Panel |

EY | Assurance | Tax | Transactions | Advisory