



Annual Audit Letter 2016/17

Police and Crime Commissioner for
Nottinghamshire
&
Chief Constable for Nottinghamshire

kpmg.com/uk

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Contents

Report sections

Summary 3

Appendices

- 1. Key issues and recommendations 6
- 2. Summary of reports issues 9
- 3. Audit fees 11

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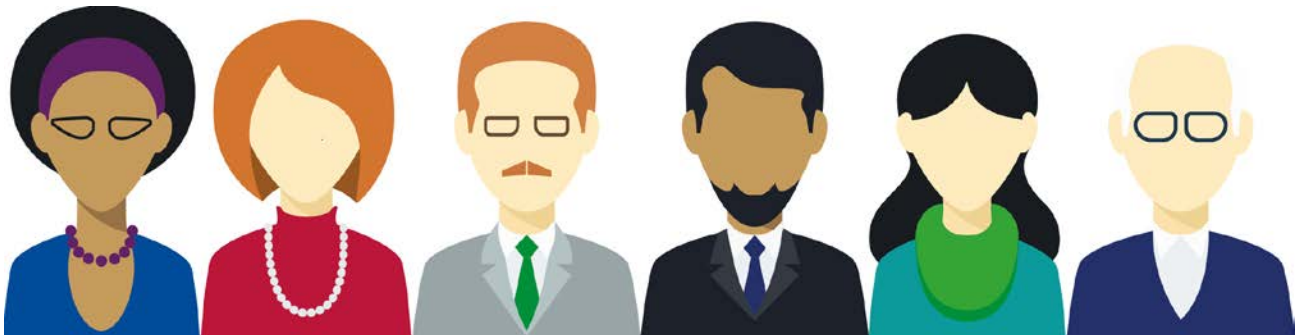
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Section one

Summary

This Annual Audit Letter summarises the outcome from our audit work at both the Police and Crime Commissioner (“PCC”) and Chief Constable (“CC”) for Nottinghamshire in relation to the 2016/17 audit year. Although it is addressed to the PCC and CC, it is also intended to communicate these key messages to key external stakeholders, including members of the public, and will be placed on the PCC and CC’s websites.



VFM conclusion

We issued an unqualified conclusion on both the PCC and CC’s arrangements to secure value for money (VFM conclusion) for 2016/17 on 29 September 2017. This means we are satisfied that during the year the PCC and CC had appropriate arrangements for securing economy, efficiency and effectiveness in the use of their resources.

To arrive at our conclusion we looked at the PCC and CC’s arrangements to make informed decisions, sustainable resource deployment and working with partners and third parties.

VFM risk areas

We undertook a risk assessment as part of our VFM audit work to identify the key areas impacting on our VFM conclusion and considered the arrangements you have put in place to mitigate these risks.

Our work identified the following significant matters:

- Financial resilience and delivery of medium term financial plan: We assessed the arrangements put in place by the PCC and CC to maintain its record of meeting efficiency savings to address national funding changes, and, by relying on our accounts audit work where relevant, underpinned by a review of the PCC and CC’s budget setting process, financial management processes, and discussions with the senior management team. We were able to conclude that the PCC and CC had made proper arrangements to secure economy, efficiency and effectiveness in their use of resources.

Audit opinion

We issued an unqualified opinion on the PCC and CC’s financial statements on 29 September 2017. This means that we believe the financial statements give a true and fair view of the financial positions of the PCC and CC and of their respective expenditure and income for the year.

We did not issue our audit certificate to conclude the audit as we had not receive the WGA pack by the required deadline of the 29 September. This was received on the 13 October and is yet to be audited.

Although we did issue an unqualified opinion we did find 2 further casting errors and a change to one note (made without our knowledge) on the day of signing the opinion, 29 September 2017. These errors then had to be rectified prior to the signed accounts being posted on the PCC website.

Section one

Financial statements audit

We found the audit of the 2016/17 financial statements more challenging than in previous years. The audit took significantly longer than expected as a result of the numerous changes that were required and in total we received four draft sets of accounts prior to the final version being agreed. In summary, we identified the following issues in the course of the 2016/17 audit:

- The initial draft set of accounts presented to audit was completed on a group basis only and therefore the main financial statements were not code compliant. Our opinion is given on the authority (in this case the PCC). In order to be code compliant and to receive an unqualified opinion a PCC CIES had to be compiled and the PCC costs had to be split out on the Balance Sheet, and Cash Flow. Notes were added to show the PCC element for the EFA and the MIRS;
- A number of notes did not show the required split between the PCC and Group costs as per the Code of Practice on Local Authority Accounting in the United Kingdom in 2016/17;
- A number of notes to the accounts were missing from the original draft. These included notes on cash and cash equivalents, borrowing, unusable reserves and the adjustment between funding and accounting basis note. Some additional notes were also required for financial instruments and pensions;
- There were a high number of casting and rounding errors and inconsistencies between the main statements and the main statements and notes. In addition some notes did not cast because information from the big red button was missing due to the functionality not being actioned correctly when the first draft was produced. This plus other items listed here indicate a lack of robust management review and checks;
- The template did not reference any of the key financial statements to the notes and had not been refined for Police Use i.e. it referred to the Housing Revenue Account in places which is not applicable to the Police;
- The Big Red Button (BRB) software was not set up to fully analyse the PCC costs in 2016/17. As a result some amendments were made in the group when they should be made in the PCC. All audit amendments to date have been made outside of the Big Red Button and these amendments need to be addressed and updated in the BRB system prior to next years audit;
- An amendment was required to the officers earning over £50k note to ensure the note agreed to the working paper. The Joint collaboration note also required amendment as the 2015/16 information was shown on a gross basis while the 2016/17 costs were shown net and were therefore not comparable;
- The narrative statement financial costs were amended a number of times to fully reflect the period 12 financial position and to include the HMIC peel review findings; and
- The audit was heavily reliant on one member of staff this year due to staff illness and this coupled with annual leave and working from home during part of the audit visit made it more difficult to progress with audit queries and working paper requests.

Our audit plan identified the Local Government pension scheme triennial revaluation, changes to CIPFA's Code on Local Authority Accounting, the introduction of the CIPFA Model (Big Red Button) and the change to the Payroll System as significant risks for the year. Assurance over the regional collaboration accounts and transactions was chose as an area of audit focus. We noted that most of these areas had been appropriately addressed by the PCC and CC. However, we recognise that there were issues with the introduction of the BRB and the new code requirements which led to issues with code compliance and working papers as mentioned in the key issues above.

We have had regular meetings with officers throughout the year which has facilitated delivery of the audit and have already discussed how we can work together to secure further improvement next year.

Section one

Other information accompanying the financial statements

Whilst not explicitly covered by our audit opinion, we review other information that accompanies the financial statements to consider its material consistency with the audited accounts. This year we reviewed the Annual Governance Statements and Narrative Reports. At our request a number of amendments were made to the PCC narrative report to ensure the financial information agreed to the period 12 Trial Balance and to make it clear to the reader it did not include Joint operations and pension costs and was therefore not fully comparable with the CIES. We also asked for the HMIC PEEL report to be included as a risk in the reports. After these amendments were actioned we concluded that they were materially consistent with our understanding although we noted that the Narrative Reports did not fully comply with CIPFA's requirements in that the use of both financial and non-financial performance indicators was expected.

Whole of Government Accounts

The PCC prepares a consolidation pack to support the production of Whole of Government Accounts by HM Treasury. We are not required to review your pack in detail as the PCC falls below the threshold where an audit is required.

The WGA pack was not received by the audit deadline of the 29 September. We received the pack on the 13 October 2017. As a result of this delay we have not yet audited the WGA and have not been able to issue our audit certificate or confirm the accuracy of the WGA pack with the National Audit Office.

High priority recommendations

We raised four high priority recommendation as a result of our 2016/17 audit work. This is detailed in Appendix 1 together with the action plan agreed by management.

— **Financial Statements Code Compliance:**

Our review of the accounts this year identified that the PCC/Group accounts presented for audit were not code compliant. In 2016/17 the split of PCC costs was not correctly applied in the main statements or all applicable notes. A number of notes were also missing from the accounts. All amendments were made.

— **Management Review of the Draft Statement of Accounts:**

The draft accounts provided for audit contained numerous errors and had not been subject to a timely or robust management review prior to audit which would have identified these problems. This issue continued in some form through the remaining 4 drafts with further errors identified on the final draft on our opinion deadline day.

— **Management Review of Working Papers and Version Control:**

Our testing this year identified that working papers were once again not subject to a thorough management review. This led to delays and additional work. Not all working papers requested on audit request were provided and in some instances we were not provided with the correct version of the working paper.

— **Staff Availability:**

This year the audit was heavily reliant on one member of staff. During the two week on site audit period the staff member was often on leave or working from home which led to delays in progressing with audit queries.

We will formally follow up these recommendations as part of our 2017/18 work.

Certificate



We did not receive the WGA pack by the required deadline of the 29 September 2017. The pack was received on the 13 October 2017 but at the time of writing this report this has yet to be audited. This means we are not yet able to issue our 2016/17 audit certificate and the 2016/17 accounts and audit remains open.

Audit fee

Our fees for 2016/17 were £35,220 and £15,000 excluding VAT, for the PCC and CC respectively. We have also proposed an additional fee of £10,000 to cover the extra audit work we had to undertake as part of the audit this year.

A breakdown of the additional fee was provided to both s151 Officers on the 3 October 2017 with a further breakdown provided as requested by the s151 officer of the PCC on the 6 October 2017. However, we are still awaiting final agreement of this overrun fee, prior to submission to the PSAA for their approval.

Key issues and recommendations

No.	H/M/L	Issue and recommendation	Summary management response/responsible officer/due date
1		<p>Code Compliance</p> <p>The PCC and CC should ensure that the draft provided for audit in 2017/18 are fully code compliant and include all relevant statements and notes.</p> <p>Sufficient time and resource should be devoted to the accurate completion of CIPFA's Code Disclosure Checklist, with any uncertainties over answers being investigated more thoroughly.</p> <p>The CIPFA BRB model should be updated to enable the PCC costs to be fully identifiable and mapped from 2017/18.</p>	<p>Management Response</p> <p>In relation to the notes this issue was picked up by the internal management review and was being addressed before the auditors identified it. One of the notes is actually more than required by the code and will be reviewed in the post audit review. It may be something that is kept as a working paper for the auditors, but removed from the statements as it adds no value to the reader of the statements.</p> <p>Owner PCC CFO/CC CFO</p> <p>Deadline 2016/17 and 2017/18 Statement of Accounts</p>
2		<p>Management Review of the Draft Statement of Accounts</p> <p>The PCC and CC should ensure that an appropriate, timely and robust level of review is put in place over the draft accounts next year particularly given the earlier deadline. This review should include the following checks:</p> <ul style="list-style-type: none"> • Agreeing PY figures agree to signed 2016/17 accounts; • Ensuring all statements and notes cast and cross cast; • Ensuring all figures within main statements are consistent and do not contain rounding errors; • Ensuring all notes agree to the main statements; • Ensuring the PCC plus CC equals the Group; • Ensuring all cross references are included in the main statements; • Ensuring all brackets are included; • Ensuring financial figures within the narrative agree to working papers; and • Ensuring the big red button functionality is turned on for all notes. 	<p>Management Response</p> <p>The CFO to the PCC and HoF to the CC have constantly reviewed and requested changes to the statements throughout the process. We identified part way through an issue with version control, which meant that changes made were not always tracked through fully to BRB so the next BRB update to the statements reverted to include previous errors.</p> <p>Casting errors arose where the functionality had not been turned on in the BRB.</p> <p>It should be emphasized that we were a PILOT for the BRB. We did not buy into something that was already fully developed and therefore we knew there would be issues. We also did not become a pilot until very late in the process.</p> <p>Owner Head of Finance</p> <p>Deadline 2017/18 Statement of Accounts</p>

 Low  Medium  High

Key issues and recommendations

No.	H/M/L	Issue and recommendation	Summary management response/responsible officer/due date
3	H	<p>Management Review of Working Papers and Version Control</p> <p>All working papers should be subject to a full and timely independent review. The review function for the CIPFA BRB should be utilised next year ensuring all work within the model is checked. Working papers provided outside of the model should also be reviewed for accuracy and to ensure that the figures agree to the draft provided for audit and have not been superseded by another version. All working papers requested on the PBC should be supplied.</p> <p>All changes made to this years accounts should be updated in the CIPFA model so that next year all prior year figures will be brought forward correctly.</p>	<p>Management Response</p> <p>The Management review of working papers did not take place this year. All effort was directed at getting the statements correct. With the exception of Officers Emoluments which was put through independent checks by staff and managers and different errors kept feeding through. Each time this was identified it was amended.</p> <p>Next year a change in process will ensure a peer review has time to take place, before the draft statements are issued to the auditors. As explained previously this was not possible this year.</p> <p>The planned post review of the accounts will ensure items that were not automated in BRB are for next year and all of the manual adjustments made are fully integrated into BRB. The one exception to this may be the rounding corrections that will be made at the very end.</p> <p>Owner PCC CFO/CC CFO</p> <p>Deadline 2016/17 and 2017/18 Statement of Accounts</p>
4	H	<p>Staff Availability</p> <p>Given the much earlier close down next year and the time pressures this will bring it is essential that all key finance staff are available during the 2 week audit period which will be in June and that leave/working from home is not allowed during this two week window.</p>	<p>Management Response</p> <p>It had not been our intention to be single person reliant and we could not have predicted the long term absence of another key member of the team. To negate the impact of this other members of staff in the OPCC and Force undertook the work (such as the asset management system and related accounts). These members of staff also made themselves available during the original audit period and beyond, with advance notice of intended holidays provided to the audit team.</p> <p>Currently, there is a review of the finance function underway and this will ensure more resilience to the closedown process in future years.</p> <p>Owner PCC CFO/CC CFO</p> <p>Deadline 2017/18 Statement of Accounts</p>



Low



Medium



high

Key issues and recommendations

No.	H/M/L	Issue and recommendation	Summary management response/responsible officer/due date
5	M	<p>Audit Advert and Publication of Accounts</p> <p>The PCC and CC should ensure that the audit advert follows the recommendations provided to you in our letter and is provided to us to check prior to publication on the website.</p> <p>Both statements of accounts will need to be published by the required earlier deadline next year and audit evidence provided to us to enable us to prove this.</p>	<p>Management Response</p> <p>The advert was indeed worded that the public inspection period would run from 14 June to 24 July, which does equate to 29 working days not 30. However, the advert was on the website from the 16 May (and remains there today) and if a member of public had made enquiry or request on either the 13 June or the 25 July we would have responded fully. Indeed if a request is made at any time we would respond. There were no public enquiries.</p> <p>In relation to providing audit evidence: The advert was shared with the Audit Director on the 16 May 2017, and following his reply that the dates were “ok” was made live on the website. This error will not be made next year.</p> <p>Owner</p> <p>PCC CFO/CC CFO</p> <p>Deadline</p> <p>2016/17 and 2017/18 Statement of Accounts</p>

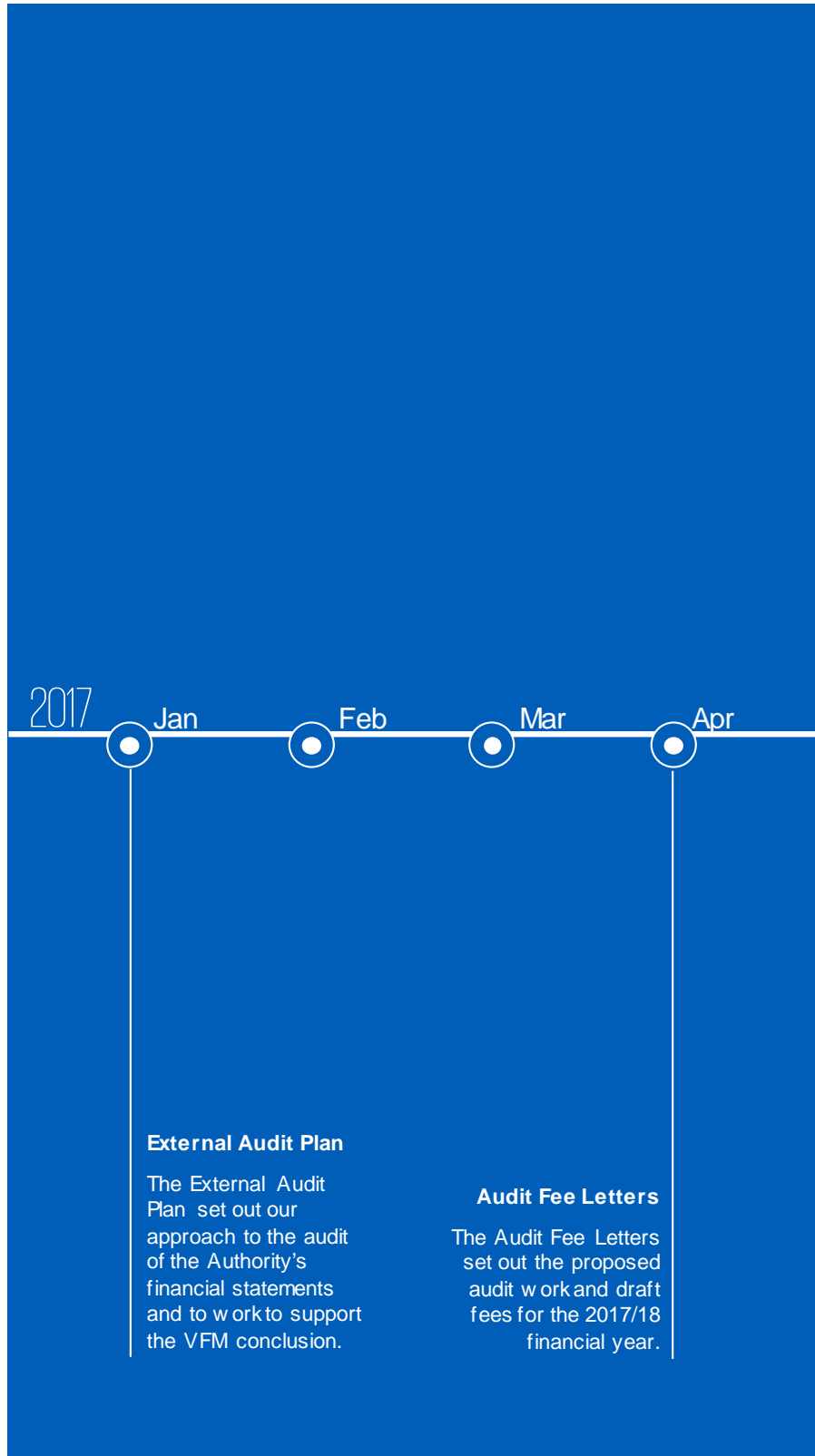
Follow up of previous recommendations

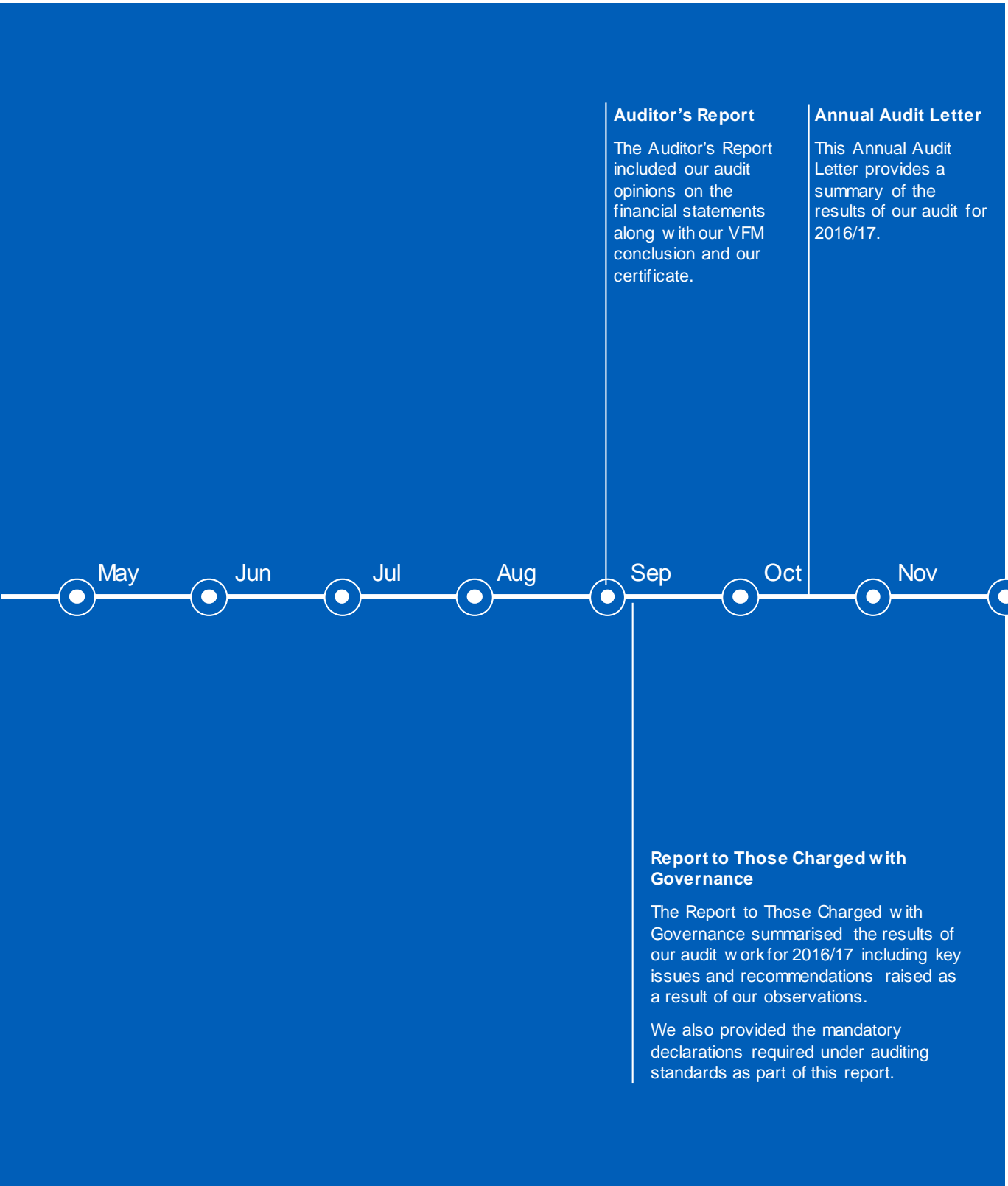
As part of our audit work we followed up on the PCC’s progress against the previous year’s audit recommendations. We found that the PCC and CC have only partly implemented the recommendation on improving the financial statements and working papers due to the issues identified this financial year. Given the issues found again in 2016/17 this recommendation was reiterated again this year.

Appendix 2

Summary of reports issued

This appendix summarises the reports we issued since our last Annual Audit Letter.





Auditor's Report

The Auditor's Report included our audit opinions on the financial statements along with our VFM conclusion and our certificate.

Annual Audit Letter

This Annual Audit Letter provides a summary of the results of our audit for 2016/17.

Report to Those Charged with Governance

The Report to Those Charged with Governance summarised the results of our audit work for 2016/17 including key issues and recommendations raised as a result of our observations.

We also provided the mandatory declarations required under auditing standards as part of this report.

Appendix 3

Audit fees

This appendix provides information on our final fees for the 2016/17 audit.

To ensure transparency about the extent of our fee relationship with the PCC and CC we have summarised below the outturn against the 2016/17 planned audit fee.

External audit

Our final fees for the 2016/17 audits of the PCC and CC were £35,220 and £15,000 respectively.

We have also raised an additional fee variation of £10,000. The reasons for this variance are:

- increased fees for the audit of the restatements necessary to the PCC and CC's accounts to reflect the revised CIES and new Expenditure and Funding Analysis reflecting additional costs incurred in carrying out the final accounts audit over and above our initial estimate;
- Increased fees for the work required to ensure the accounts were code compliant and to reflect the additional time required to audit the new statements and notes as well as technical specialists time;
- additional work to map the accounts to the CIPFA model known as the Big Red Button (BRB) which was implemented for the first time this financial year;
- additional work on the four further drafts of the accounts which included auditing the PCC statements which had initially been excluded, a variety of new notes as well as changes that we requested to disclosure notes and the narrative statements and AGS;
- Additional time needed to audit information which was not provided during the two week audit visit.

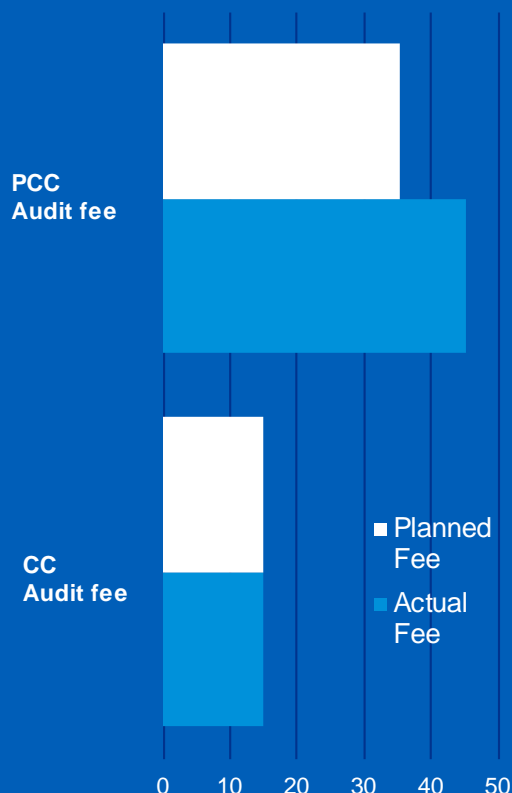
Our fees are still subject to final agreement with the s151 officers of the PCC and CC and determination by Public Sector Audit Appointments.

The additional fee and split between the CC and PCC was not submitted to the PSAA by ourselves by the required deadline of the 11 October 2017 as we did not receive a formal response from the PCC's s151 officer. We are still awaiting a formal response from the s151 officer of the PCC.

Other services

We did not charge any additional fees for other services.

External audit fees 2016/17
(£'000)



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