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| For Information / Consideration | |
| Public/Non Public* | Public |
| Report to: | Joint Audit and Scrutiny Panel |
| Date of Meeting: | 7th November 2018 |
| Report of: | Chief Finance Officer |
| Report Author: | Charlotte Radford |
| Other Contacts: | Andrew Cardoza KPMG |
| Agenda Item: | 8 |

ANNUAL AUDIT LETTER 2017-18

1. Purpose of the Report

- 1.1 To provide members with the Annual Audit Letter relating to the accounts for 2017-18.

2. Recommendations

- 2.1 Members are recommended to consider and accept this letter.

3. Reasons for Recommendations

- 3.1 This complies with good governance.

4. Summary of Key Points

- 4.1 Each year the Commissioner is required to publish the Statement of Accounts for the Group. The External Auditor on completion of the audit issues his Governance Report (ISA260).
- 4.2 Following receipt of the letter of Representation and conclusion of the full process the External Auditor will issue his Annual Audit Letter. This is attached at **Appendix A**.

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 None as a direct result of this report.

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

9.1 This report complies with good governance and financial regulations.

10. Changes in Legislation or other Legal Considerations

10.1 None

11. Details of outcome of consultation

11.1 Not applicable

12. Appendices

12.1 Appendix A – Annual Audit Letter 2017-18



Annual Audit Letter 2017/18

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

August 2018



A photograph of several people in business attire, including suits and ties, looking down at documents. The image is split horizontally by a blue band containing text. The top half shows the heads and shoulders of the individuals, while the bottom half shows their hands and arms as they handle papers.

Section one

Summary for the Joint Audit and Scrutiny Panel

Section one:

Summary for Joint Audit and Scrutiny Panel

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

Audit opinion

We issued an unqualified opinion on the PCC and CC's 2017/18 financial statements on 31 July 2018. This means that we believe the financial statements give a true and fair view of the financial position of the PCC and CC and of their expenditure and income for the year.

Financial statements audit

Our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole. Materiality for the Authority's accounts was set at £3.3 million which equates to around 1.7 percent of gross expenditure. We design our procedures to detect errors in specific accounts at a lower level of precision.

We report to the Joint Audit and Scrutiny Panel any misstatements of lesser amounts, other than those that are "clearly trivial", to the extent that these are identified by our audit work. In the context of the Authority, an individual difference is considered to be clearly trivial if it is less than £0.160 million.

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

In addition to the audit findings above the draft statements include a Prior Period Adjustment (PPA) of £17.4m in relation to the split of the pension liability between the PCC and CC. This does not affect the group balance sheet total but does impact the PCC and CC PY balance sheet totals. The PPA was audited and found to be accurate. The Finance Team have also processed an error which they identified in relation to Council tax income. The maximum affect this is expected to have on any area of the accounts is approx. £0.12m. This adjustment resulted in a large number of changes to the final statements which we have not yet fully audited.

Based upon our initial assessment of risks to the financial statements (as reported to you in our *External Audit Plan 2017/18* and updated during our audit) we identified the following significant risks (excluding those mandated by International Standards on Auditing):

Pensions Liabilities - The valuation of the Police & Crime Commissioner and Chief Constable's pension liabilities, as calculated by the Actuary, are dependent upon both the accuracy and completeness of the data provided and the assumptions adopted. We reviewed the processes in place to ensure accuracy of data provided to the Actuary and consider the assumptions used in determining the valuation. No issues were identified during the course of our work.

Valuation of PPE - Whilst the Police & Crime Commissioner and Chief Constable operates a cyclical revaluation approach, the Code requires that all land and buildings be held at fair value. We considered the way in which the PCC and CC ensured that those assets that were not subject to in-year revaluation were not materially misstated. Our work on this area has identified that land re-valuations have not been updated correctly for some assets this year. This led to a £1.19m error in the PCC's accounts, which Officers decided not to amend within the accounts as it was below materiality.

Section one:

Summary for Joint Audit and Scrutiny Panel (cont.)

Faster Close – The timetable for the production of the financial statements has been significantly advanced with draft accounts having to be prepared by 31 May (2017: 30 June) and the final accounts signed by 31 July (2017: 30 September). We worked with officers of the Police & Crime Commissioner and Chief Constable in advance of our audit to understand the steps being taken to meet these deadlines and the impact on our work. The 2017/18 Statement of Accounts were provided after the statutory deadline due to the CIPFA Big Red Button (BRB) having to be abandoned at a late stage and the accounts having to then be produced manually.

Other areas of audit focus

A risk with less likelihood of giving rise to a material error but which are nevertheless worthy of additional audit focus was identified as:

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

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

Other information accompanying the financial statements

Whilst not explicitly covered by our audit opinion, we review other information that accompanies the PCC's and CC's financial statements to consider their material consistency with the audited accounts. This year we reviewed the Annual Governance Statements and Narrative Reports. We concluded that they were consistent with our understanding and did not identify any issues.

Whole of Government Accounts

The Authority 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 Authority falls below the threshold where an audit is required. As required by the guidance we have confirmed this with the National Audit Office.

Section one:

Summary for Joint Audit and Scrutiny Panel (cont.)

Value for Money conclusion

We completed our 2017/18 risk-based work to consider whether in all significant respects the PCC and CC have proper arrangements to ensure they have taken properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

We concluded that in 2017/18 the PCC and CC had made proper arrangements to secure economy, efficiency and effectiveness in their use of resources except for in relation to MFSS governance.

We therefore issued an "except for" 2017/18 value for money opinion.

Value for Money risk areas

We set out our assessment of those areas requiring additional risk based work in our External Audit Plan 2017/18 and have updated this assessment during our interim visit. As a result of this we have identified the following significant VFM audit risks:

Medium Term Financial Planning - The Police & Crime Commissioner and Chief Constable continued to face significant financial pressures and uncertainties in relation to their future funding levels with to date grant allocations for future years not yet being published. The Police & Crime Commissioner and Chief Constable need to continue to focus on having effective arrangements in place for managing their annual budgets, generating income and identifying and implementing any savings required to balance their medium term financial plans. We considered the way in which the Police & Crime Commissioner and Chief Constable identify, approve, and monitor both savings plans and how budgets are monitored throughout the year and were able to conclude they were effective.

MFSS Governance and VFM - MFSS currently provides transactional back office services to Nottinghamshire CC and PCC. Nottinghamshire's PCC and other PCCs who use MFSS have expressed serious concerns regarding the governance of MFSS and the services provided to clients. We reviewed the governance arrangements and also identified significant issues with the governance arrangements at the MFSS, particularly in relation to the Project Fusion. We have raised a high priority recommendation relating to this, however, we note that the PCC and Chief Constable have already taken significant steps in year to remedy the situation.

High priority recommendations

As a result of our 2017/18 work we raised one high priority recommendation, related to the need to continue to monitor and manage the MFSS contract and the Fusion Project. This was reported and accepted within our 2017/18 ISA260 report.

Section one:

Summary for Joint Audit and Scrutiny Panel (cont.)

Certificate

We issued our certificate on 31 July 2018. The certificate confirms that we have concluded the 2017/18 audits of the PCC's and CC's financial statements in accordance with the requirements of the Local Audit & Accountability Act 2014 and the Code of Audit Practice.

Audit fee

Our fee for 2017/18 was £50,220 (split PCC: £35,220 and CC: £15,000), excluding VAT (2016/17: £46,090).

Exercising of audit powers

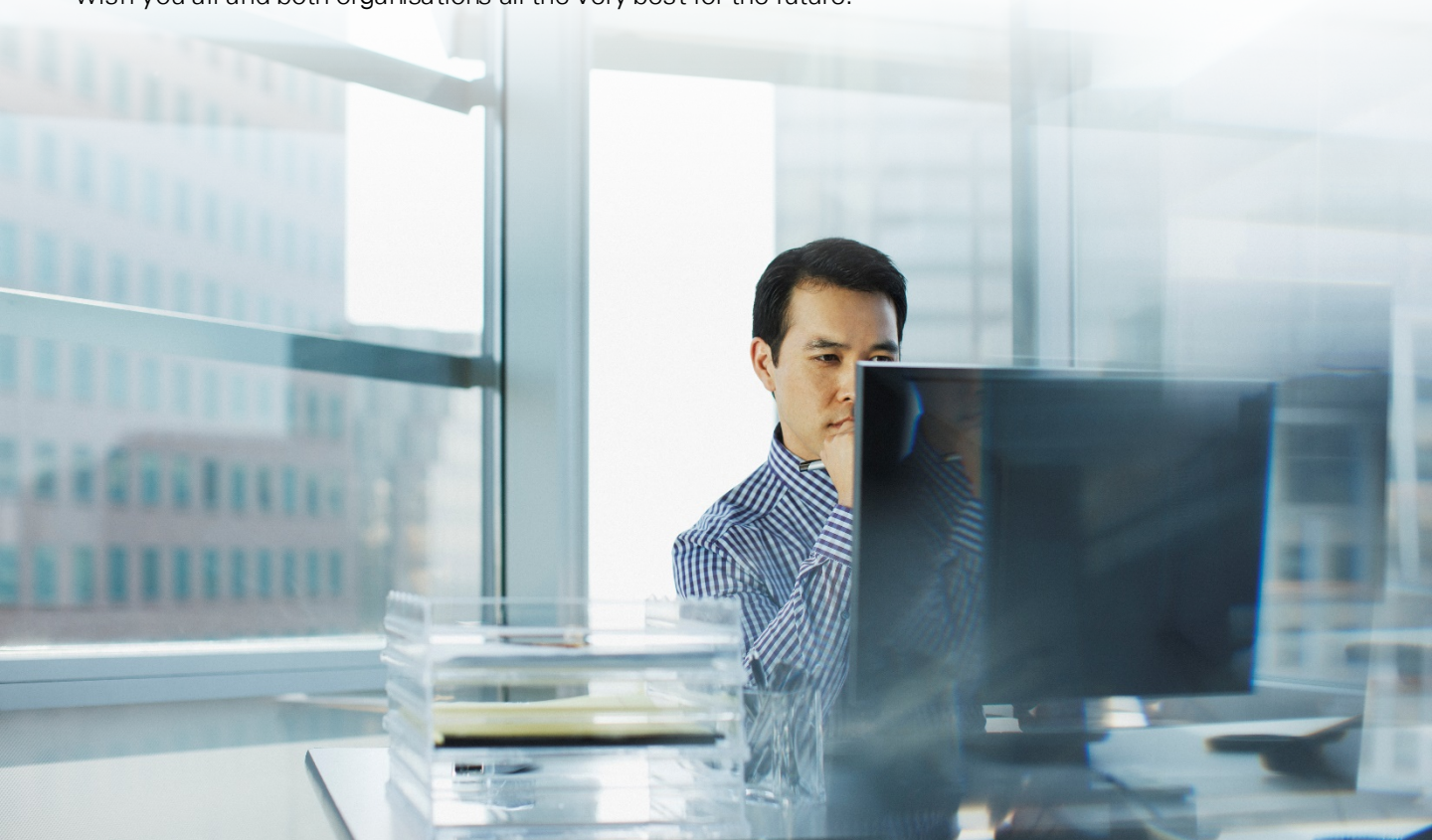
We have a duty to consider whether to issue a report in the public interest about something we believe the PCC or CC should consider, or if the public should know about.

We have not identified any matters that would require us to issue a public interest report.

In addition, we have not had to exercise any other audit powers under the Local Audit & Accountability Act 2014.

Acknowledgements

We would like to take this final opportunity to thank all officers and Members for their help and assistance over the many years that we have provided the external audit service to Nottinghamshire's PCC and CC, and wish you all and both organisations all the very best for the future.



Appendices



Appendix 1:

Summary of reports issued

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

These reports can be accessed via the Joint Audit and Scrutiny Panel pages on the PCC and CC's website.

2017/18 External Audit Plan

The External Audit Plan set out our approach to the audit of the PCC and CC's financial statements and to support the VFM conclusion.

2017/18 Interim Audit Letter

The Interim Audit Letter summarised the results from the preliminary stages of our audit, including testing of financial and other controls.

Report to Those Charged with Governance

The ISA260 Report to Those Charged with Governance summarised the results of our audit work for 2017/18 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.

Auditor's Report

The 2017/18 Auditor's Report included our audit opinions on the PCC's and CC's financial statements along with our VFM conclusions and our certificates.

Annual Audit Letter

This Annual Audit Letter provides a summary of the results of our audit for 2017/18.

2018

January

February

March

April

May

June

July

August

September

October

Appendix 2:

Audit fees

This appendix provides information on our final fees for the 2017/18 audit.

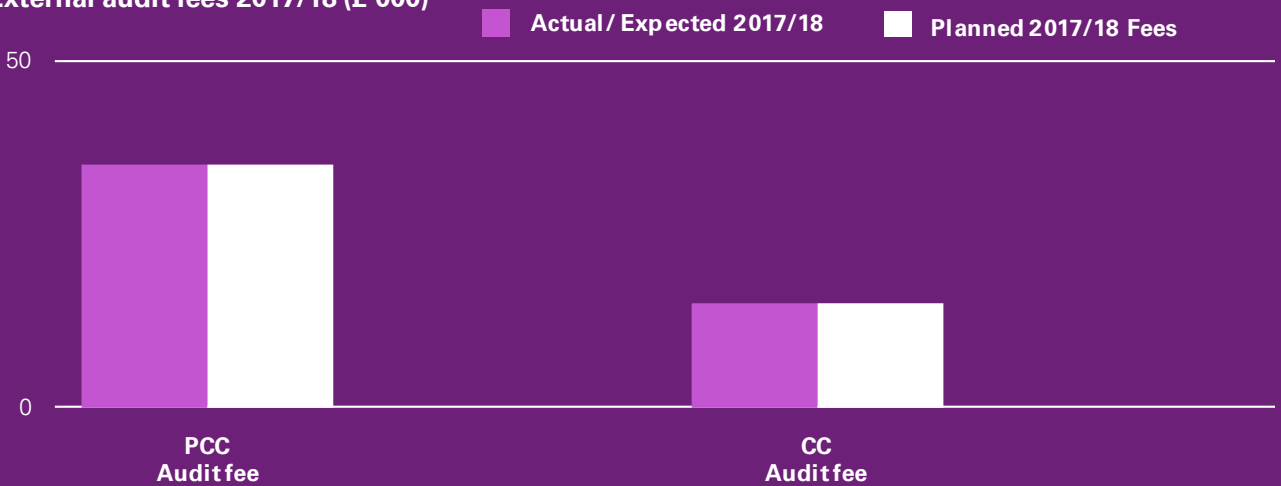
External audit

Our final fee for the 2017/18 audit of the Police and Crime Commissioner was £35,220, for the audit of the Chief Constable, the fee was £15,000. This compares to a planned fee of £35,220 and £15,000 respectively. 2016/17 total fees were £5,000 more than the 2017/18 audit due to a £5,000 overrun charge in the year.

Other services

We did not charge any additional fees for other services.

External audit fees 2017/18 (£'000)





The key contacts in relation to our audit are:

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

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

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

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