Report to those charged with governance (ISA 260) 2015/16

Police and Crime Commissioner for Nottinghamshire and Chief Constable for Nottinghamshire

7 September 2016

Contents

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This report is addressed to the PCC and CC and has been prepared for the sole use of the PCC and CC. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. The Audit Commission issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies summarising where the responsibilities of auditors begin and end and what is expected from audited bodies. We draw your attention to this document 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 PCC and CC, 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 (on 020 7694 8981, or 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, Third Floor, Local Government House, Smith Square, London, SW1P 3HZ.

Section one: Introduction

Introduction

This document summarises:

- **The key issues identified during our audit of the financial statements for the year ended 31 March 2016 for both the PCC and the CC; and**
- **Our 2015/16 assessment of the PCC and CC's arrangements to secure value for money.**

Scope of this report

This report summarises the key findings arising from:

- Our audit work at the Police and Crime Commissioner for Nottinghamshire ('the PCC') and the Chief Constable for Nottinghamshire ('the CC') in relation to their 2015/16 financial statements; and
- The work to support our 2015/16 conclusion on the PCC and CC's arrangements to secure economy, efficiency and effectiveness in its use of resources ('VFM conclusion').

Financial statements

Our External Audit Plan 2015/16, presented to you in February 2016, set out the four stages of our financial statements audit process.

This report focuses on the third stage of the process: substantive procedures. Our on site work for this took place during July 2016.

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

VFM Conclusion

Our External Audit Plan 2015/16 explained our risk-based approach to VFM work. We have now completed the work to support our 2015/16 VFM conclusion. This included:

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

Structure of this report

This report is structured as follows:

- Section 2 summarises the headline messages.
- Section 3 sets out our key findings from our audit work in relation to the 2015/16 financial statements of the PCC and CC.
- Section 4 outlines our key findings from our work on the VFM conclusion.

Our recommendations are included in Appendix one. We have also reviewed your progress in implementing prior year recommendations and this is detailed in Appendix two.

Acknowledgements

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

Section two: Headlines

Headlines

This table summarises the headline messages for the PCC and CC. Sections three and four of this report provide further details on each area.

Proposed audit opinion	We anticipate issuing unqualified audit opinions on the PCC and CC's financial statements by 30 September 2016. We will also report that your Annual Governance Statement complies with guidance issued by CIPFA/SOLACE in June 2007.
Audit adjustments	At the date of this report we had identified no material adjustments to the 2015/16 accounts and all non material adjustments have been accepted and processed within the final set of financial statements for 2015/16, as such there no unadjusted misstatements within the 2015/16 accounts. We did however, identify a number of other disclosure adjustments to the financial statements, most of which were presentational and disclosure related issues, although there were a number of adjustments to be made these did not change the values reported within the core 2015/16 financial statements. It is our understanding that all these have also been adjusted in the final version of the 2015/16 financial statements.
Key financial statements audit risks	We identified the following key financial statements audit risks in our External Audit Plan 2015/16 presented to you in February 2016: — Management override of controls; — Fraudulent revenue recognition; — Multi Force Shared Services – New Financial Systems; and — Assurance over regional collaboration accounts and transactions. We have worked with officers throughout the year to discuss these key risks and our detailed findings are reported in section three of this report. There are no matters of any significance arising as a result of our audit work in these key risk areas.

Headlines (cont.)

This table summarises the headline messages for the PCC and CC. Sections three and four of this report provide further details on each area.

Accounts production and audit process	The quality of working papers continues to develop in line with our prepared by client list and some refinements were required to this for working papers extracted from Oracle for the first time, such as non-pay expenditure and journal reports. This took additional officer and audit time to clarify and resolve. Officers dealt adequately with the majority of audit queries in a reasonable time and we have arranged a return visit in September 2016 to complete the audit work.
Completion	At the date of this report our audit of the financial statements is substantially complete subject to completion of the following areas: — Receipt of letter of representation from management; — Receipt of satisfactory assurances from the Nottinghamshire LGPS auditor; and — Whole of Government Accounts. Before we can issue our opinion we will require a signed management representation letter. We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the PCC and CC's financial statements.
VFM conclusion and risk areas	We identified the following VFM risks from our risk assessment work which we reported in our 2015/16 External Audit Plan in February 2016: — Budget Performance and Medium Term Financial Strategy; and — Strategic Alliance (Tri Force Collaboration). We have worked with officers throughout the year to discuss these VFM risks and our detailed findings are reported in section four of this report. There are no matters of any significance arising as a result of our audit work in these VFM risk areas. We have concluded that the PCC and CC have made proper arrangements to secure economy, efficiency and effectiveness in their use of resources. We therefore anticipate issuing an unqualified VFM conclusion by 30 September 2016.

Section three: Financial Statements

Proposed opinion and audit differences

We have identified no material adjustments during the course of the audit.

We anticipate issuing an unqualified audit opinion in relation to the PCC and CC's 2015/16 financial statements by 30 September 2016.

Proposed audit opinion

Subject to all outstanding queries being resolved to our satisfaction, we anticipate issuing an unqualified audit opinion on the PCC and CC's financial statements following approval of the 2015/16 Statement of Accounts by the PCC and CC by end September 2016. We will update those charged with governance at the Joint Audit & Scrutiny Panel meeting.

Audit differences

In accordance with ISA 260 we are required to report uncorrected audit differences to you. We also report any material misstatements which have been corrected and which we believe should be communicated to you to help you meet your governance responsibilities.

The final 2015/16 accounts audit materiality (see Appendix five for more information on materiality) level for this year's audit was set at £3.4 million. Audit differences below £170k are not considered significant.

Our audit identified no material misstatements and no uncorrected differences to the core 2015/16 financial statements. All non material misstatement have been amended and there are no differences in the General Fund and Balance Sheet between the pre audit and post audit 2015/16 financial statements. We have identified a number of non material disclosure adjustments that have also been agreed and subsequently duly amended.

There is no net impact on the General Fund as a result of audit adjustments.

Proposed opinion and audit differences (cont.)

The wording of your Annual Governance Statement complies with guidance issued by CIPFA/SOLACE in June 2007 and revised in December 2012.

Disclosure Differences

We identified a number of presentational adjustments required to ensure that the accounts are compliant with the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 (‘the Code’), none of these were material to the accounts:

- Note 18.1 – Finance Lease – the amounts disclosed were amended from the draft accounts following review of working papers;
- Note 18.2 – Operating Lease – for similar reasons the figures from the draft were amended;
- Note 3.1 – Income within Cost of Services – the disclosure note was amended to reflect the entry on the core statements;
- Note 7.1 – Short Term Borrowing – the disclosure note was amended to include a table identifying the short term borrowing;
- Notes in the accounts in relation to Contingent Liabilities and Long Term Liabilities were also amended for clarity and additional disclosure requirements; and
- Details within the Narrative Report, and inclusion of Brexit, were amended to update figures within the tables and pie charts to reflect changes to the accounts.

Annual Governance Statement

We have reviewed the Annual Governance Statement and confirmed that:

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

Significant risks and key areas of audit focus

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

This section sets out our detailed findings on those risks.

In our External Audit Plan 2015/16, presented to you in February 2016, we identified the significant risks affecting the PCC and CC's 2015/16 financial statements. We have now completed our testing of these areas and set out our evaluation following our substantive work. The table below sets out our detailed findings for each of the risks that are specific to the PCC and CC.

Significant audit risk	Issue	Findings
Multi Force Shared Service	Multi Force Shared Service – New Financial System — The 2015/16 financial statements for the PCC/CC have been generated using information from the Multi Force Shared Service (MFSS) in 2015/16 for the first time. Internal Audit have identified current weaknesses within financial systems operated through MFSS for the generation of financial information. The 2015/16 financial statements will also be prepared using a new financial system (Oracle) for the first time. There is an increased risk that this could have an impact on the audit approach and the degree of substantive testing that would be required. — We reviewed the controls and output from MFSS financial systems in place that generates information to compile the 2015/16 financial statements. We will review work undertaken by the finance staff to prepare for the use of Oracle to generate the financial statements.	We have reviewed the controls in place within MFSS and the core financial systems, especially Oracle following the work undertaken by internal audit. We noted that Internal Audit had identified weaknesses with regards to the operation of the controls within some of the key financial systems, however the controls in operation for the generation of the financial statements through Oracle were in place and effective. The financial statement generated from Oracle for the first time have not contained any material errors and were generated in accordance with the closure timescale.

Significant risks and key areas of audit focus

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

This section sets out our detailed findings on those risks.

In our External Audit Plan 2015/16, presented to you in February 2016, we identified the significant risks affecting the PCC and CC's 2015/16 financial statements. We have now completed our testing of these areas and set out our evaluation following our substantive work. The table below sets out our detailed findings for each of the risks that are specific to the PCC and CC.

Significant audit risk	Issue	Findings
Regional collaboration	Assurance over Regional Collaboration Accounts and Transactions — The level of collaborative work with other forces across the East Midlands has increased significantly over the past few years. This level of collaboration brings with it the need to ensure that appropriate governance arrangements are in place for each arrangement and that the necessary assurances are held over the completeness and accuracy of the financial information being provided to the PCC and CC for consolidation into their accounts. — We reviewed your governance arrangements over each aspect of regional collaboration and, more specifically, over the assurances you have sought in respect of the completeness and accuracy of the year end figures consolidated into your financial statements.	We have reviewed your arrangements to seek assurances over each aspect of regional collaboration, in particular those covering the completeness and accuracy of the year end figures consolidated into your 2015/16 financial statements. We found that the appropriate assurances had been received in respect of the governance arrangements of the regional collaboration, and that assurances had been received from each lead body's Chief Finance Officer over the completeness and accuracy of financial transactions. Our work on the regional collaboration has been completed appropriately.

Significant risks and key areas of audit focus

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

This section sets out our detailed findings on those risks.

In our External Audit Plan 2015/16 we reported that we would consider two risk areas that are specifically required by professional standards and report our findings to you. These risk areas were Management override of controls and the Fraud risk of revenue recognition. The table below sets out the outcome of our audit procedures and assessment on these risk areas.

Areas of significant risk	Summary of findings
Management override of controls Audit areas affected — All areas.	Our audit methodology incorporates the risk of management override as a default significant risk. Management is typically in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We have not identified any specific additional risks of management override relating to this audit. In line with our methodology, we carried out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual. There are no matters arising from this work that we need to bring to your attention.
Fraud risk of revenue recognition Audit areas affected — None.	Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk. In our External Audit Plan 2015/16 we reported that we do not consider this to be a significant risk for Local Authorities as there is unlikely to be an incentive to fraudulently recognise revenue. This is still the case. Since we have rebutted this presumed risk, there has been no impact on our audit work.

Significant risks and key areas of audit focus (cont.)

In our 2015/16 External Audit Plan, presented to you in February 2016, we identified one area of audit focus.

This is not considered a significant risk but an area of importance where we would carry out some substantive audit procedures to ensure there is no risk of material misstatement.

We have now completed our testing. The table sets out our detailed findings for each area of audit focus.

Areas of audit focus	Issue	Findings
Financial Statements	Generation of the Financial Statements — Over the last two years we have incurred additional audit time to complete the audit due to the completion and quality of working papers and the availability of staff. We have met with Senior Officers to review requirements and identify future needs. The CC accounts will also become the responsibility of a new S151 officer. — We have continued to work with Senior Officers and finance staff through our interim visit and our prepared by client list to identify required working papers. We will also review the Senior Officers quality review of working papers to support the accounts submitted for audit.	We have continued to work with Senior Officers and finance staff during the audit and have held meetings during the interim visit to discuss developments with MFSS, Oracle and our prepared by client list. The 2015/16 financial statements for both the PCC and CC were signed by the respective S151 Officers and received by the 30 June 2016 deadline. The 2015/16 financial statements had been presented to the Joint Audit & Scrutiny Panel. We have not identified any material amendments required to the financial statements and only disclosure and presentation adjustments have been required. We have continued to work with Senior Officers to refine the needs for the prepared by client list.

Accounts production and audit process

The quality of working papers continues to develop in line with our prepared by client list.

Officers dealt efficiently with the majority of audit queries and the audit process could be completed within the planned timescales.

The PCC and CC have mainly implemented recommendations in our ISA 260 Report 2014/15.

Accounts production and audit process

ISA 260 requires us to communicate to you our views about the significant qualitative aspects of the PCC and CC's accounting practices and financial reporting. We also assessed the PCC and CC's processes for preparing the accounts and their support for an efficient audit.

We considered the following criteria:

Element	Commentary
Accounting practices and financial reporting	The PCC and CC has strengthened its financial reporting process by improving its review arrangements prior to the issue of the financial statements. We consider that accounting practices are appropriate.
Completeness of draft accounts	We received a complete set of 2015/16 draft accounts on 30 June 2016. The PCC and CC have made a number of minor amendments to the 2015/16 accounts presented for audit, however there have been no changes which affect the financial position.
Quality of supporting working papers	Our Accounts Audit Protocol, which we issued in February 2016 and discussed with the Finance team, set out our working paper requirements for the audit. The quality of the 2015/16 working papers continues to develop in line with our prepared by client list and some refinements were required to this for working papers generated form Oracle for the first time.
Response to audit queries	The response in resolving audit queries was adequate with the majority of audit queries being resolved in a reasonable timescale.

Findings in respect of the control environment for key financial systems

At the date of this report there were no significant external audit findings to bring to the attention of those charged with governance in respect of the control environment operating over the key financial systems.

Prior year recommendations

As part of our 2015/16 audit we have specifically followed up the PCC and CC's progress in addressing the recommendations in last year's ISA 260 report.

The PCC and CC has mainly implemented recommendations in our ISA 260 Report 2014/15.

Appendix two provides further details.

Completion

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

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

Once we have finalised our opinions and conclusions we will prepare our Annual Audit Letter and close our audit.

Declaration of independence and objectivity

As part of the finalisation process we are required to provide you with representations concerning our independence.

In relation to the audit of the financial statements of the Police and Crime Commissioner for Nottinghamshire and the Chief Constable for Nottinghamshire for the year ending 31 March 2016, we confirm that there were no relationships between KPMG LLP and the Police and Crime Commissioner for Nottinghamshire and the Chief Constable for Nottinghamshire, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

We have provided a detailed declaration in Appendix four in accordance with ISA 260.

Management representations

You are required to provide us with representations on specific matters such as your financial standing and whether the transactions within the accounts are legal and unaffected by fraud. We have provided a template to the respective Chief Finance Officers for presentation to the PCC and CC. We require a signed copy of their management representations before we issue our audit opinion.

As part of this process we are seeking specific management representations in respect of the assurances you have gained over the completeness and accuracy of the figures consolidated for the regional collaboration.

Other matters

ISA 260 requires us to communicate to you by exception 'audit matters of governance interest that arise from the audit of the financial statements' which include:

- Significant difficulties encountered during the audit;
- Significant matters arising from the audit that were discussed, or subject to correspondence with management;
- Other matters, if arising from the audit that, in the auditor's professional judgment, are significant to the oversight of the financial reporting process; and
- Matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. significant deficiencies in internal control; issues relating to fraud, compliance with laws and regulations, subsequent events, non disclosure, related party, public interest reporting, questions/objections, opening balances etc.).

There are no others matters which we wish to draw to your attention in addition to those highlighted in this report.

Section four: Value for Money

VFM Conclusion

Our 2015/16 VFM conclusion considers whether the PCC and CC had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

We follow a risk based approach to target audit effort on the areas of greatest audit risk.

We have concluded that in all significant respects the PCC and CC have proper arrangements to ensure they took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

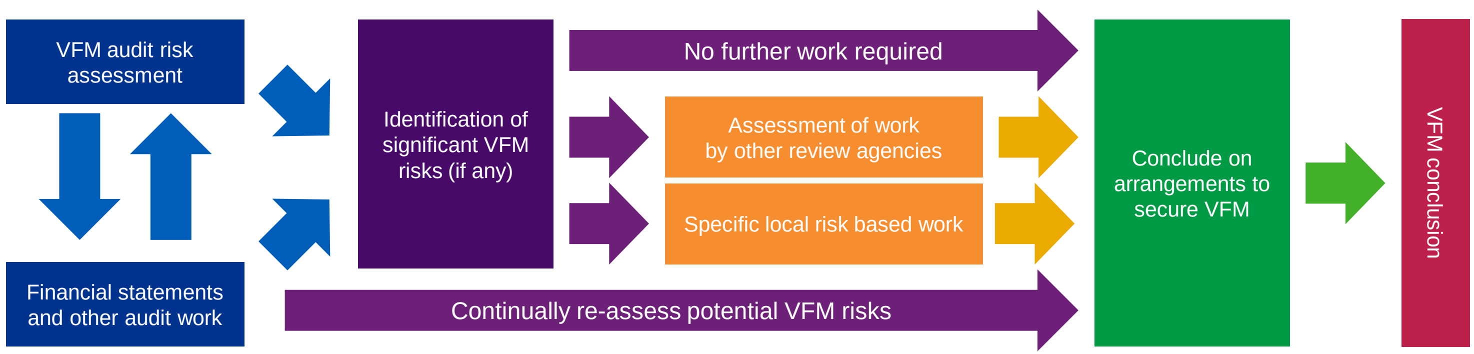
Background

The Local Audit and Accountability Act 2014 requires auditors of local government bodies to be satisfied that the authority 'has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources'.

This is supported by the Code of Audit Practice, published by the NAO in April 2015, which requires auditors to 'take into account their knowledge of the relevant local sector as a whole, and the audited body specifically, to identify any risks that, in the auditor's judgement, have the potential to cause the auditor to reach an inappropriate conclusion on the audited body's arrangements.'

The VFM approach is fundamentally unchanged from that adopted in 2014/2015 and the process is shown in the diagram below. However, the previous two specified reporting criteria (financial resilience and economy, efficiency and effectiveness) have been replaced with a single criteria supported by three sub-criteria.

These sub-criteria provide a focus to our VFM work at the Authority.



Overview of the VFM audit approach

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

VFM Conclusion (cont.)

We have identified two specific 2015/16 VFM risks from our planning work as included in our 2015/16 External Audit Plan.

Work completed

In line with the risk-based approach set out on the previous page, and in our 2015/16 External Audit Plan we have:

— Assessed the PCC and CC’s key business risks which are relevant to our VFM conclusion;

— Identified the residual audit risks for our VFM conclusion, taking account of work undertaken in previous years or as part of our financial statements audit;

— Considered the results of relevant work by the PCC and CC, inspectorates and review agencies in relation to these risk areas; and

— Completed specific local risk based work.

Key findings

Below we set out the findings in respect of those areas where we have identified a residual audit risk for our 2015/16 VFM conclusion.

Our 2015/16 External Audit Plan identified that as a result of the risk assessment we needed to carry out VFM work to address these risks. This work is now complete and we also report on this below.

Specific VFM Risks

We are satisfied that external or internal scrutiny provides sufficient assurance that the PCC and CC's current arrangements in relation to this risk area is adequate.

Key VFM risk	Risk description and link to VFM conclusion	Assessment
Budget Performance and MTFS	Budget Performance and MTFS — Nottinghamshire PCC/CC along with other police forces face on-going financial pressures to achieve desired priorities. Despite the settlement announcements the PCC/CC continue to face reductions in resources for 2015/16. This is reflected within the MTFS which is currently showing a shortfall in savings during 2015/16 of £9m against an in year target of £11m. Shortfalls in savings will have to be met from earmarked and general fund reserves which impact on the financial viability of the PCC/CC and the ability to meet future shortfalls in savings. — We reviewed financial information provided through the MFSS for budget reporting, savings plans and the future MTFS. We also reviewed this against external reviewers/inspectors such as the HMIC.	All police bodies have been affected by reductions in central funding and the PCC/CC has to date responded well to these pressures but is finding the achievement of savings increasingly difficult in recent years. Against this backdrop the PCC has continued to use reserves to support funding. The 2015/16 budget of £191.2m was established on the basis that £11.14m of efficiency savings would be achieved during the year and that this would result in £1.6m use of reserves. However, during the year the anticipated savings have not been achieved and a shortfall of £3.5m has resulted. The final outturn was that the PCC underspend by £1.0m and the CC total overspend was £7.7m this results in £1.0m being transferred to the PCC reserves and £9.3m being transferred from the MTFS reserve to cover the revenue shortfall and this includes the originally approved £1.6m. The shortfall in savings and the use of reserves will increase the pressure on the delivery of future savings and the MTFS will need to be reviewed and more robust controls applied to the delivery of savings from identified initiatives.

Specific VFM Risks

We are satisfied that external or internal scrutiny provides sufficient assurance that the PCC and CC's current arrangements in relation to this risk area is adequate.

Key VFM risk	Risk description and link to VFM conclusion	Assessment
Strategic Alliance	Strategic Alliance — The final business case for the Strategic Alliance was due to be signed in March 2016 and changes the way in which the PCC/CC deliver its services. There are long term beneficial aims for the Strategic Alliance but the PCC/CC will need to monitor the delivery plans in the short term to ensure they are affordable and current priorities continue to be delivered. — We reviewed the development of the Strategic Alliance and the impact on financial plans and performance, considering the views of external inspectorates.	The final business case for the Strategic Alliance was not concluded in March 2016. The impact of the full business case was considered by representatives from the three forces (Nottinghamshire, Leicestershire and Northamptonshire) in June 2016 following the PCC elections. The three forces decided that the proposals within the full business case would not be fully developed into a single Strategic Alliance but certain aspects of the proposals would be developed on a Tri-Force Collaboration basis. This would involve the expansion of collaborative working between the three forces rather than full alliance. Nottinghamshire will need to review the impact this has on the Medium Term Financial Strategy, funding of the Tri Force team and impact on service delivery as it develops the collaborative working with other forces.

Appendices

Appendix 1: Key issues and recommendations
Appendix 2 : Follow Up of prior year recommendations
Appendix 3: Audit differences
Appendix 4: Declaration of independence and objectivity
Appendix 5: Materiality and reporting of audit differences
Appendix 6: KPMG Audit Quality Framework

Key issues and recommendations

We raise any key risk issues and recommendations with respect to our 2015/16 external audit work in this appendix.

We have given each recommendation a risk rating and agreed what action management will need to take. The PCC and CC should closely monitor progress in addressing specific risks and implementing our recommendations. We will formally follow up these recommendations next year.

Priority rating for recommendations					
❶	***Priority one***: issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.	❷	***Priority two***: issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.	❸	***Priority three***: issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.

No.	Risk	Issue and recommendation	Management response/responsible officer/due date
1	❷	**Financial Statements and Working Papers** **Findings** The 2015/16 Financial Statement were prepared by the 30 June 2016 deadline but contained some non material presentation, casting and rounding differences. Working papers supporting the accounts were completed in line with our prepared by client list but there was no evidence of management review of all working papers. **Recommendation** The Financial Statements and supporting working papers to support them should be subject to a robust, documented and comprehensive senior management quality review prior to being submitted for audit.	Agreed. We will work to improve further the working papers for the next statement of accounts and will seek agreement to format before the 31 March 2017. Responsible Officer: Chief Finance Officer – Office of the Police & Crime Commissioner Due Date: By 31 March 2017

Key issues and recommendations

We raise any key risk issues and recommendations with respect to our 2015/16 external audit work in this appendix.

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

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

We will formally follow up these recommendations next year.

No.	Risk	Issue and recommendation	Management response/responsible officer/due date
2	2	**Medium Term Financial Strategy** **Findings** The anticipated efficiency savings were not achieved during the year which has resulted in an overspend against the budget and increased use of reserves. This will increase pressure on the delivery of future MTFS and the annual budget. **Recommendation** The PCC/CC will need to review the MTFS and the savings required for 2016/17 in view of the outturn position. There is also a need to review how robustly the delivery of all individual projects that contribute to the savings required within the MTFS are monitored and ensure Senior Management are duly held accountable.	Agreed. The MTFS and savings plans are under continuous review. They were last year too, but errors went unchecked with senior staff turnover and few alternatives could be delivered in year. More controls are now in place and more detailed reporting is provided. Responsible Officer: Chief Finance Officer – Office of the Police & Crime Commissioner Due Date: Ongoing now

Appendix 2

Follow up of prior year recommendations

The PCC and CC has mainly implemented the recommendations in our *ISA 260 Report 2014/15*.

This appendix summarises the progress made to implement the recommendations identified in our ISA 260 Report 2014/15 and re-iterates any recommendations still outstanding.

Number of recommendations that were:	
Included in original report	**3**
Implemented in year or superseded	**2**
Partial/Remain outstanding	**1**

No.	Risk	Issue and recommendation	Officer responsible and due date	Status as at September 2016
1	2	Quality and availability of working papers. Some working papers were not provided at the start of the audit; we experienced some delays due to staff absences which were not notified to the audit team on a timely basis. We will work with your officers to ensure there is clearer communication and understanding of what we require. Recommendation The Finance team should ensure: — Availability of the working papers specified in the agreed Prepared by Client (PBC) schedule prior to the start of the audit; — Availability of key (and /or appropriate alternative) staff during the audit process; and — Appropriate Management/Peer review of working papers prior to handover for audit.	Agreed. This year was particularly difficult with unplanned absence. All effort was put into delivering a balanced set of accounts and therefore some working papers were delayed. Responsible Officer: Chief Finance Officer – Office of the Police & Crime Commissioner Due Date: April 2016	**Partly** - The generation of the 2015/16 accounts was completed for the 30 June 2016 for presentation to the Joint Audit & Scrutiny Panel. The production of the accounts was pressured due to obtaining supporting information from the new Oracle accounting system. There was no evidence of robust and comprehensive senior management/peer review of the working papers prior to handover for the external audit.

Follow up of prior year recommendations

The PCC and CC has mainly implemented the recommendations in our *ISA 260 Report 2014/15*.

No.	Risk	Issue and recommendation	Officer responsible and due date	Status as at September 2016
2	2	Accounts Presented for Audit We received version 1 of the accounts on 30 June but were subsequently provided with version 2 on the 3 July 2015. Version 2 of the accounts included a number of casting errors, figures which were not supported with amended working papers and entries that did not agree to the PCC/CC accounts template used. Recommendation The Finance team should ensure: — That the version presented to Members and Officers has been subject to sufficient and appropriate management quality review, proof reading of entries and cross checking to supporting notes; and — That the version of the accounts 'prepared for audit' is the finalised version, subject to quality review and that we as the external auditor are provided with working papers for any amendments made to the version being audited.	Agreed. Version 1 had been checked by several people, but version 2 had not been so robustly checked. The errors occur in how the spreadsheet feeds through to the word document once updates are made. We were keen to make sure the auditors had a set of accounts that did not contain any 'balancing' adjustments, but the right set of figures. Unfortunately in doing this version 2 was updated by the spreadsheet and the upload created errors. Responsible Officer: Chief Finance Officer – Office of the Police & Crime Commissioner Due Date: April 2016	**Implemented** – The Version of the draft accounts presented for audit were not altered following submission for audit.

Follow up of prior year recommendations

The PCC and CC has mainly implemented the recommendations in our *ISA 260 Report 2014/15*.

No.	Risk	Issue and recommendation	Officer responsible and due date	Status as at September 2016
3	2	Accounts Production Version Control The accounts prepared for our audit contained a number of electronic links to subsequent working papers and links to support the account entries. A number of these links failed during the audit of the accounts or were not updated to reflect changes made to the different versions of the accounts. This delayed the audit process and generated additional queries for your staff to resolve. Recommendation The Finance team should ensure an alternative accounts template for the generation of the statements is used and limit the number of links used to support them. If links are required they should be tested during the management quality review process prior to submitting the accounts for audit.	Agreed in principle. We are looking into the possibility of computers for the staff that can meet the processing need. This will also mean that access to computers with increased processing ability will also be needed by the auditors. Responsible Officer: Chief Finance Officer – Office of the Police & Crime Commissioner Due Date: April 2016	**Implemented** - There were no issues with capacity and links for the 2015/16 version of the accounts.

Audit differences

This appendix sets out the audit differences.

The 2015/16 financial statements have been amended for all of the differences identified through the audit process.

We are required by ISA 260 to report all uncorrected misstatements, other than those that we believe are clearly trivial, to those charged with governance (which in your case is the PCC and CC). We are also required to report all material misstatements that have been corrected but that we believe should be communicated to you to assist you in fulfilling your governance responsibilities.

Uncorrected audit differences

We confirm that there are no uncorrected misstatements, other than those that we believe are clearly trivial.

Corrected audit differences

Material misstatements

We confirm that there are no material adjustments.

Non-material misstatements

We confirm that all non material misstatements have been amended by the PCC and CC.

Disclosure differences

In addition to the above, only disclosure differences that relate directly to the primary statements or their related notes were identified. These have been discussed with management and again have been amended:

- Note 18.1 – Finance Lease – the amounts disclosed were amended from the draft accounts following review of working papers;
- Note 18.2 – Operating Lease – for similar reasons the figures from the draft were amended;
- Note 3.1 – Income within Cost of Services – the disclosure note was amended to reflect the entry on the core statements;
- Note 7.1 – Short Term Borrowing – the disclosure note was amended to include a table identifying the short term borrowing;
- Notes in the accounts in relation to Contingent Liabilities and Long Term Liabilities were also amended for clarity and additional disclosure requirements; and
- Details within the Narrative Report, and inclusion of Brexit, were amended to update figures within the tables and pie charts to reflect changes to the accounts.

None of these amendments were material to the accounts or impacted on the financial position reported by the PCC and CC.

Declaration of independence and objectivity

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

Requirements

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

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

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

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

— Details of all relationships between the auditor and the client, its directors and senior management and its affiliates, including all services provided by the audit firm and its network to the client, its directors and senior management and its affiliates, that the auditor considers may reasonably be thought to bear on the auditor's objectivity and independence.

— The related safeguards that are in place.

— The total amount of fees that the auditor and the auditor's network firms have charged to the client and its affiliates for the provision of services during the reporting period, analysed into appropriate categories, for example, statutory audit services, further audit services, tax advisory services and other non-audit services. For each category, the amounts of any future services which have been contracted or where a written proposal has been submitted are separately disclosed. We do this in our *Annual Audit Letter*.

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

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

General procedures to safeguard independence and objectivity

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

Declaration of independence and objectivity (cont.)

We confirm that we have complied with requirements on objectivity and independence in relation to this year's 2015/16 external audit of the PCC and CC's 2015/16 financial statements.

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

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

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

Auditor declaration

In relation to the audit of the financial statements of the Police and Crime Commissioner for Nottinghamshire and the Chief Constable for Nottinghamshire for the financial year ending 31 March 2016, we confirm that there were no relationships between KPMG LLP and the Police and Crime Commissioner for Nottinghamshire and the Chief Constable for Nottinghamshire, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

Materiality and reporting of audit differences

For 2015/16 our materiality is £3.4 million for the PCC and CC's accounts.

We have reported all audit differences over £170k for the PCC and CC's accounts to the PCC and CC respectively.

Materiality

The assessment of what is material is a matter of professional judgment and includes consideration of three aspects: materiality by value, nature and context.

— Material errors by value are those which are simply of significant numerical size to distort the reader's perception of the financial statements. Our assessment of the threshold for this depends upon the size of key figures in the financial statements, as well as other factors such as the level of public interest in the financial statements.

— Errors which are material by nature may not be large in value, but may concern accounting disclosures of key importance and sensitivity, for example the salaries of senior staff.

— Errors that are material by context are those that would alter key figures in the financial statements from one result to another – for example, errors that change successful performance against a target to failure.

We used the same planning materiality reported in our External Audit Plan 2015/16, presented to you in February 2016.

Materiality for the PCC and CC's 2015/16 accounts was set at £3.4 million which equates to around 1.5 percent of the Group's gross expenditure. We design our procedures to detect errors in specific accounts at a lower level of precision.

Reporting to the PCC and CC

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the PCC and CC any misstatements of lesser amounts to the extent that these are identified by our audit work.

Under ISA 260, we are obliged to report omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

ISA 450 requires us to request that uncorrected misstatements are corrected.

In the context of the PCC and CC, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £170k for the PCC and CC.

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

Appendix 6

KPMG Audit quality framework

We continually focus on delivering a high quality audit.

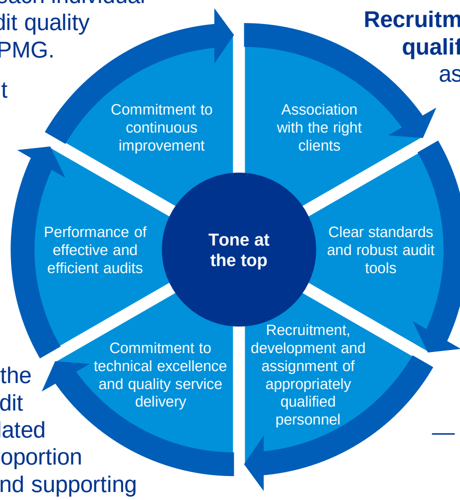
This means building robust quality control procedures into the core audit process rather than bolting them on at the end, and embedding the right attitude and approaches into management and staff.

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

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

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

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



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

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

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

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

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

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

- A national public sector technical director who has responsibility for co-ordinating our response to emerging accounting issues, influencing accounting bodies (such as CIPFA) as well as acting as a sounding board for our auditors.
- A national technical network of public sector audit professionals is established that meets on a monthly basis and is chaired by our national technical director.
- A dedicated Department of Professional Practice comprised of over 100 staff that provide support to our audit teams and deliver our web-based quarterly technical training.

Appendix 6

KPMG Audit quality framework (cont.)

We continually focus on delivering a high quality audit.

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

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

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

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

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

— Timely Engagement Lead and manager involvement;

— Critical assessment of audit evidence;

— Exercise of professional judgment and professional scepticism;

— Ongoing mentoring and on the job coaching, supervision and review;

— Appropriately supported and documented conclusions;

— If relevant, appropriate involvement of the Engagement Quality Control reviewer (EQC review);

— Clear reporting of significant findings;

— Insightful, open and honest two-way communication with those charged with governance; and

— Client confidentiality, information security and data privacy.

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

Our quality review results

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

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

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