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| <b>For Information / Consideration / Comment</b> |  |
| <b>Public/Non Public*</b>                        | <b>Public</b>                                    |
| <b>Report to:</b>                                | <b>Joint Audit and Scrutiny Panel</b>            |
| <b>Date of Meeting:</b>                          | <b>23<sup>rd</sup> September 2014</b>            |
| <b>Report of:</b>                                | <b>Chief Finance Officer</b>                     |
| <b>Report Author:</b>                            | <b>Charlotte Radford</b>                         |
| <b>E-mail:</b>                                   |  |
| <b>Other Contacts:</b>                           | <b>John Cornett &amp; Adrian Benselin (KPMG)</b> |
| <b>Agenda Item:</b>                              | <b>5</b>   |

## **External Audit of the Accounts 2013-14 (ISA 260)**

### **1. Purpose of the Report**

- 1.1 To provide members with the results of the review of the Statement of Accounts and supporting documentation for the Financial Year 2013-14.

### **2. Recommendations**

- 2.1 Members are requested to:
- Consider the report of the External Auditor and recommend its findings to the Police & Crime Commissioner.
  - Recommend the letter of representation to the Police & Crime Commissioner for signing and sending to the external auditors.

### **3. Reasons for Recommendations**

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

### **4. Summary of Key Points**

- 4.1 The attached report details the findings of the external auditors during the audit of the accounts for 2013-14.
- 4.2 The auditor's report also includes a draft letter of representation for the Chief Finance Officer to complete.
- 4.3 The Auditor highlights in his report that he intends to issue an unqualified opinion in relation to the accounts, governance arrangements and value for money.

## **5. Financial Implications and Budget Provision**

- 5.1 None as a direct result of this report. Risks identified will be subject to financial evaluation.

## **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. Risks have been identified and are being managed.

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

- 9.1 None as a direct result of this report.

## **10. Changes in Legislation or other Legal Considerations**

- 10.1 The report explains the changes in legislation, regulation and recommended practice that have resulted to changes incorporated within the Statement of Accounts.

## **11. Details of outcome of consultation**

- 11.1 Not applicable

## **12. Appendices**

- 12.1 A – Report to those charged with governance (ISA260)



cutting through complexity™

# Report to those charged with governance (ISA 260) 2013/14

Police and Crime Commissioner for  
Nottinghamshire

Chief Constable of Nottinghamshire

12 September 2014



## The contacts at KPMG in connection with this report are:

### John Cornett

*Director*

*KPMG LLP (UK)*

Tel: 0116 256 6064

[john.cornett@kpmg.co.uk](mailto:john.cornett@kpmg.co.uk)

### Adrian Benselin

*Manager*

*KPMG LLP (UK)*

Tel: 0116 256 6089

[adrian.benselin@kpmg.co.uk](mailto:adrian.benselin@kpmg.co.uk)

### Anita Pipes

*Assistant Manager*

*KPMG LLP (UK)*

Tel: 0115 945 4481

[anita.pipes@kpmg.co.uk](mailto:anita.pipes@kpmg.co.uk)

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This report is addressed to the Police and Crime Commissioner and the Chief Constable and has been prepared for their sole use. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. The Audit Commission has issued a document entitled *Statement of Responsibilities of Auditors and Audited Bodies*. This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. We draw your attention to this document which is available on the Audit Commission's website at [www.auditcommission.gov.uk](http://www.auditcommission.gov.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.

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact John Cornett the appointed engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees on 0161 246 4000, or by email to [trevor.rees@kpmg.co.uk](mailto:trevor.rees@kpmg.co.uk), who is the national contact partner for all of KPMG's work with the Audit Commission. After this, if you are still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. Put your complaint in writing to the Complaints Unit Manager, Audit Commission, 3<sup>rd</sup> Floor, Fry Building, 2 Marsham Street, London, SW1P 4DF or by email to [complaints@audit-commission.gsi.gov.uk](mailto:complaints@audit-commission.gsi.gov.uk). Their telephone number is 0303 4448 330.

## This document summarises:

- the key issues identified during our audit of the financial statements for the year ended 31 March 2014 for the PCC and CC; and
- our assessment of the PCC's and the CC's arrangements to secure value for money (VFM) in its use of resources.

## Scope of this report

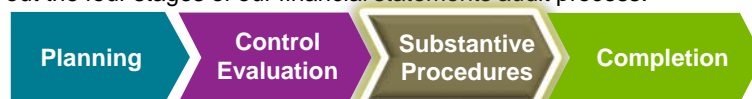
This report summarises the key findings arising from:

- our audit work at the Police and Crime Commissioner for Nottinghamshire ('the PCC') and the Chief Constable of Nottinghamshire ('the CC') on their 2013/14 financial statements; and
- our work to support our 2013/14 value for money (VFM) arrangements conclusion.

ISA 260 requires us to produce this report for those charged with governance; the PCC and the CC acting as corporations sole. We are also providing a copy of this report to the Joint Independent Audit Committee to assist with their role.

## Financial statements

Our *External Audit Plan 2013/14*, presented to you in June 2014, 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 and August 2014.

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 arrangements conclusion

Our *External Audit Plan 2013/14* explained our risk-based approach to VFM work, which follows guidance provided by the Audit Commission. We have now nearly completed our work to support our 2013/14 VFM arrangements conclusion. This included:

- assessing the potential VFM risks and identifying the residual audit risks for our VFM arrangements conclusion; and
- considering the results of any relevant work by the PCC and CC, and other inspectorates and review agencies in relation to these risk areas.

## 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 2013/14 financial statements of the PCC and CC.
- Section 4 outlines our key findings from our work on the VFM arrangements conclusion.

Our recommendations are included in Appendix 1.

## Acknowledgements

We would like to take this opportunity to thank the finance teams and other colleagues for their continuing help and co-operation throughout our audit work.

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

|   |   |
|---|---|
| <b>Proposed audit opinion</b>                     | Our audit is substantially complete. We anticipate issuing unqualified audit opinions on the financial statements for both the PCC and CC by 30 September 2014. We will also report that the wording of your Annual Governance Statements accord with our understanding of arrangements in place.   |
| <b>Audit adjustments</b>                          | For the PCC and the CC our audit has identified only a small number of presentational adjustments. All were adjusted and had no impact on the primary statements.   |
| <b>Changes in accounting approach</b>             | <p>New authoritative guidance has been issued by CIPFA to assist police bodies in allocating financial activity between the PCC and the CC in their single entity financial statements.</p> <p>The CC has therefore recognised the costs of operational policing in their 2013/14 financial statements. A prior period adjustment has been made to ensure the financial statements are comparable between the two periods.</p>  |
| <b>Key financial statements audit risks</b>       | We review risks to the financial statements on an ongoing basis. We have worked with officers throughout the year to discuss specific risk areas. The PCC and the CC addressed issues appropriately.  |
| <b>Accounts production and audit process</b>      | Officers dealt with the majority of audit queries within a reasonable time but in some cases we experienced delays in the audit process, due to some supporting working papers not being available on a timely basis or due to finance staff being on annual leave. We will work with your officers to ensure there is clearer communication and understanding of what we require.  |
| <b>Completion</b>                                 | <p>At the date of this report our audit of the financial statements is substantially complete subject to completing the remaining audit work as shown below and final checks, including Director review, as part our completion procedures:</p> <ul style="list-style-type: none"> <li>• Leased vehicle additions to Property, plant and equipment.</li> </ul> <p>Before we can issue our opinion we require a signed management representation letter.</p> <p>We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the financial statements of the PCC and the CC.</p> |
| <b>VFM arrangements conclusion and risk areas</b> | <p>We have still to complete our work on VFM. We anticipate that this will conclude that the PCC and the CC have made proper arrangements to secure economy, efficiency and effectiveness in their use of resources.</p> <p>We therefore anticipate issuing an unqualified VFM arrangements conclusion by 30 September 2014.</p> <p>We will provide an update when we present this report to the Joint Audit and Scrutiny Panel on 23 September 2014.</p>   |

**Our audit has identified a small number of presentational adjustments.**

**Proposed audit opinion**

Subject to all outstanding queries being resolved to our satisfaction, we anticipate issuing an unqualified audit opinion on the financial statements of the PCC and the CC following approval of the Statement of Accounts by the PCC and the CC on 23 September 2014.

**Audit differences**

In accordance with ISA 260 we are required to report uncorrected audit differences to those charged with governance. 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.

There were no material errors identified which required correction.

There were no uncorrected errors.

We identified a small number of presentational and classification adjustments required to ensure that the accounts are compliant with the *Code of Practice on Local Authority Accounting the United Kingdom 2013/14 ('the Code')*. These were all adjusted for correctly.

**Annual Governance Statements**

We have reviewed the Annual Governance Statements and confirmed that:

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



## Section three

# Changes in accounting approach

**We have worked with management to consider the implications of the new accounting guidance issued by CIPFA. The PCC and the CC have revised the accounting approach adopted for 2013/14, and in the prior period, to reflect these discussions.**

For 2013/14, the PCC and the CC have changed the basis on which their single entity financial statements have been produced.

### Prior period approach

For 2012/13, in common with PCCs and CCs in many other police areas, the PCC and the CC adopted the concept of agent/principal when accounting for their activity. This approach recognised:

- the PCC's strategic policing role in setting the Police and Crime Plan;
- the CC's use of assets owned by the PCC, and of police staff employed by the CC, to deliver the CC's operational policing role; and
- the PCC's ability to hold the CC to account.

As a result, it was considered that the CC was acting as the PCC's agent, with the CC managing the PCC's resources to meet the PCC's strategic objectives, rather than as a principal in their own right. This meant that operational policing and all other activity was recognised in the PCC's primary statements only, with the CC producing 'zero' accounts, that explained their role and showed the resources deployed by the CC on the PCC's behalf, but did not recognise any income and expenditure or assets and liabilities.

Despite the significantly different approaches adopted by different police bodies, there were no qualified audit opinions issued in 2012/13 because the lack of definitive guidance meant that the wide range of different approaches were all considered reasonable to reflect the nature of local arrangements.

### Why change the approach for 2013/14?

The inconsistencies that were apparent in 2012/13 prompted a reconsideration of the basis of police accounting and a desire for greater consistency between the accounts of PCCs and CCs in different police areas.

Changes enacted in the Anti-social Behaviour Act 2014 made CCs local authorities in their own right, changed the statutory basis on which CCs prepared their financial statements, legally requiring them to adopt the Code of Audit Practice for Local Authority Accounting, and permitting CIPFA to consider issuing guidance on interpreting the Code for CCs.

In March 2014, CIPFA issued LAAP Bulletin 98A which provided police bodies with authoritative guidance on apportioning activity and assets between the PCC and the CC in their respective single entity financial statements. The Audit Commission and its audit suppliers, including KPMG, have discussed the guidance to ensure a consistent approach is being adopted to the audit of PCC and CC accounts in 2013/14.

### What changes have been made?

Following discussions between the Responsible Finance Officers and ourselves, we have agreed that, on the basis of the new guidance issued since our 2012/13 audit opinion was issued in September 2013, it is appropriate to change the accounting approach adopted for 2013/14.

In 2013/14, the CC is recognising the operational costs of policing as costs within the Comprehensive Income and Expenditure Statement. This includes the full costs of employing police officers and civilian staff, except for staff employed in the Office of the PCC. Accumulated absences and pensions have been recognised in the CC's Balance Sheet.

All other income and expenditure, assets and liabilities are recognised by the PCC in their single entity financial statements. A prior period adjustment has been made to both sets of financial statements to apply the same accounting approach to the prior period, to make the financial performance and position in both years comparable.

There have been no changes to the group financial performance or position reported in 2012/13 as a result of these changes.

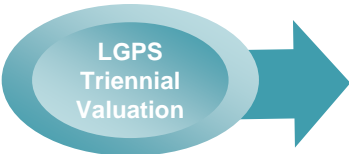


We have worked with officers throughout the year to discuss specific risk areas. The PCC and the CC have addressed these issues appropriately.


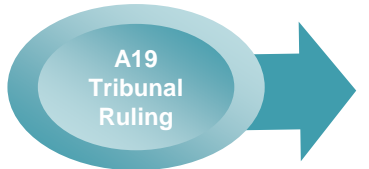
In our *External Audit Plan 2013/14*, presented to you in June 2014 we identified the key risks and other audit issues affecting the 2013/14 financial statements for the PCC and CC. We have now completed our testing of these areas and set out our evaluation following our substantive work.

## Key financial statements audit risks

The table below sets out our detailed findings for each of the risks that are specific to the PCC and the CC.

| Key audit risk  | Issue   | Findings  |
|---|---|---|
|  | <p>During the year, the Local Government Pension Scheme for Nottinghamshire (the Pension Fund) underwent a triennial valuation with an effective date of 31 March 2013 in line with the Local Government Pension Scheme (Administration) Regulations 2008. The PCC and CC's shares of pensions assets and liabilities is determined in detail, and a large volume of data is provided to the actuary in order to carry out this triennial valuation.</p> <p>The IAS 19 numbers included in the financial statements for 2013/14 will be based on the output of the triennial valuation rolled forward to 31 March 2014. For 2014/15 and 2015/16 the actuary will then roll forward the valuation for accounting purposes based on more limited data.</p> <p>There is a risk that the data provided to the actuary for the valuation exercise would be inaccurate and that these inaccuracies would affect the actuarial figures in the accounts. Most of the data is provided to the actuary by Nottinghamshire County Council who administer the Pension Fund.</p> | <p>We have confirmed that the PCC/CC has obtained independent actuarial valuations and that the underlying data submitted to the actuary for this purpose was complete and accurate. We have also confirmed that the assumptions underpinning the actuarial valuations have been reviewed by management and found to be reasonable, and that the IAS19 figures in the accounts agree to the information provided by the actuary. We have also obtained assurances from the auditors of the Pension Fund as to the processes in place at Nottinghamshire County Council.</p> |

We have worked with officers throughout the year to discuss specific risk areas. The PCC and the CC have addressed these issues appropriately.

| Key audit risk  | Issue  | Findings   |
|---|--|--|
|  | <p>CIPFA has issued guidance on the form and content of the 2013/14 accounts. In particular, they expect to see policing activities accounted for in the Chief Constable's accounts in recognition of the control that the Chief Constable exercises in practice. This is a significant departure from the treatment adopted in the 2012/13 accounts, when all the transactions were accounted for in the Commissioner's accounts, and will require restatement of last year's accounts to be consistent with this years approach.</p> | <p>We had discussions with finance staff as the accounting guidance evolved. We agreed an appropriate way forward and we are satisfied that the accounts, as presented, are compliant with the agreed approach.</p>  |
|  | <p>Nottinghamshire Police have recently lost the employment tribunal against them in relation to A19. This forced officers with over 30 years service to retire. In Nottinghamshire this affected just under 100 officers.</p> <p>Along with four other police forces, Nottinghamshire may now have to pay some form of compensation to these former officers. An appeal has been lodged. The ruling may have an impact on the 2013/14 financial statements and also the 2014/15 financial statements.</p>                             | <p>The PCC is currently appealing the decision of the employment tribunal. The potential financial exposure should the appeal be unsuccessful will depend on the individual circumstances of the officers involved.</p> <p>Adequate disclosure of the contingent liability has been made in the notes to the accounts.</p> |

Additionally, we considered the risk of management override of controls, which is a standard risk for all organisations. Our 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, did not identify any issues.

**We have noted a deterioration in the availability of some supporting working papers.**

**Officers dealt with the majority of audit queries within a reasonable time but in some cases we experienced delays in the audit process.**

## Accounts production and audit process

ISA 260 requires us to communicate to those charged with governance, the PCC and the CC as corporations sole, our views about the significant qualitative aspects of their accounting practices and financial reporting. We also assessed the processes for preparing the accounts and supporting an efficient audit.

We considered the following criteria:

| Element  | Commentary  |
|--|---|
| <b>Completeness of draft accounts</b>                        | We received an initial set of draft accounts on 1 July 2014 prior to the commencement of our audit visit on 7 July. This draft was based on the format of the 2012/13 accounts. We received the corrected disaggregated and restated draft accounts at the end of the second week of the audit. The only amendments made to this draft after this date were presentational items requested by the audit team.   |
| <b>Availability and quality of supporting working papers</b> | <p>Our <i>Accounts Audit Protocol</i>, which we issued in February 2014 and discussed with key members of the finance team, set out our working paper requirements for the audit.</p> <p>Not all working papers were available at the start of the audit. We were provided with no working papers to support grant income, borrowings or investments and these had to be requested. We also had to request additional working papers for property, plant and equipment, payroll and debtors. In addition the overall quality of working papers provided was variable.</p> <p>We will work with your officers to ensure there is clearer communication and understanding of what we require.</p> |

| Element                          | Commentary   |
|----------------------------------|--|
| <b>Response to audit queries</b> | Officers resolved the majority of audit queries in a reasonable time. In some cases, however, we experienced delays, specifically where staff who prepared the working papers were not available during the audit. A number of finance staff were on annual leave for some of the 3 week audit visit. We received very short notice of this planned leave. |
| <b>Group audit</b>               | <p>To gain assurance over the PCC's group accounts, we placed reliance on work completed on the single entity financial statements of the PCC and the CC.</p> <p>There are no specific matters to report pertaining to the group audit.</p>  |

We have made a recommendation in respect of the PCC and the CC's working papers which is included in Appendix 1.

**There was a temporary gap in up to date assurance from the regular review of monthly bank reconciliations. This situation has not recurred since.**

**Appropriate action has been taken in response to prior year recommendations.**

**Additional findings in respect of key financial systems**

Formal monthly bank reconciliations were not completed for April, May, June or July 2013. This was due to a staff changeover. Bank reconciliations were subsequently resumed in August 2013 and found to be completed on a timely basis and reviewed each month since then. We have not made any recommendation in respect of this matter.

**Prior year recommendations**

There were two recommendations in last year's ISA 260 report, one in respect of obtaining declarations of interest forms from senior management and audit and scrutiny panel members; the other in respect of granting access to finance IT systems for new starters and removing leavers.

We are pleased to report that appropriate action has been taken in respect of both recommendations.

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

**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 of Nottinghamshire for the year ended 31 March 2014, we confirm that there were no relationships between KPMG LLP and the Police and Crime Commissioner for Nottinghamshire and the Chief Constable of Nottinghamshire, their senior officers and management and their 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 Audit Commission's requirements in relation to independence and objectivity.

We have provided a detailed declaration in Appendix 3 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 templates to the Responsible Finance Officers for presentation to the PCC and the CC. We require a signed copy of these management representations before we issue our audit opinions.

### Other matters

ISA 260 requires us to communicate to those charged with governance 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 relating to the audit of the 2013/14 financial statements for the PCC and the CC.

**Our VFM arrangements conclusion considers how the PCC and the CC secure financial resilience and challenges how they secure economy, efficiency and effectiveness.**

**We have still to complete our work on VFM. We anticipate that this will conclude that the PCC and the CC have made proper arrangements to secure economy, efficiency and effectiveness in their use of resources.**

**We will provide an update when we present this report to the Joint Audit and Scrutiny Panel on 23 September 2014.**

#### Background

Auditors are required to give their statutory VFM arrangements conclusion based on two criteria specified by the Audit Commission. These consider whether the PCC and the CC have proper arrangements in place for:

- securing financial resilience: looking at the financial governance, financial planning and financial control processes at both the PCC and the CC; and
- challenging how the PCC and the CC secure economy, efficiency and effectiveness: looking at how they prioritise resources and improve efficiency and productivity.

We follow a risk based approach to target audit effort on the areas of greatest audit risk. We consider the arrangements put in place by the PCC and the CC to mitigate these risks and plan our work accordingly.

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



#### Work completed

We performed a risk assessment earlier in the year and have reviewed this throughout the year.

We identified a single specific risk to our VFM arrangements conclusion although concluded we did not need to complete any additional detailed work.

#### Conclusion

We have still to complete our work on VFM, however we expect to conclude that the PCC and CC have made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

| VFM criterion                                  | Met |    |
|--|-----|----|
|  | PCC | CC |
| Securing financial resilience                  | ✓   | ✓  |
| Securing economy, efficiency and effectiveness | ✓   | ✓  |



**We have identified a single specific VFM risk.**

**We are satisfied that external or internal scrutiny provides sufficient assurance that the current arrangements in relation to these risk areas at the PCC and the CC are adequate.**


### Work completed

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

- assessed the key business risks affecting the PCC and the CC which are relevant to our VFM arrangements conclusion; and
- identified any specific audit risks for our VFM arrangements conclusion, taking account of work undertaken in previous years or as part of our financial statements audit.

### Key findings

Below we set out the findings in respect of those areas where we identified an audit risk for our VFM arrangements conclusion.

| Key VFM risk  | Risk description and link to VFM arrangements conclusion   | Assessment   |
|---|--|--|
|  | <p>Nottinghamshire have recently lost the employment tribunal brought against them and four other forces by the Police Superintendents Association of England and Wales. This challenged the legality of their decision to force nearly 100 officers with more than 30 years service to retire. An appeal has been lodged.</p> | <p>The PCC is currently appealing the decision of the employment tribunal. The potential financial exposure should the appeal be unsuccessful will depend on the individual circumstances of the officers involved.</p> <p>The PCC's reserves strategy includes the current employment tribunals relating to A19 as one of the significant risks that have been considered, and that will be kept under review.</p> <p>The PCC is also considering an application to the Home Office for special grant, should the appeal not be upheld.</p> |

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

The PCC and the 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   |      |   |   |  |
|---|------|---|---|--|
| <b>1</b> <b>Priority one:</b> 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. |      | <b>2</b> <b>Priority two:</b> 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. |   | <b>3</b> <b>Priority three:</b> 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 | Relevant body   | Issue and recommendation  | Management response / responsible officer / due date   |
| 1   | 3    | PCC and CC  | <b>Quality and availability of working papers</b><br>Some working papers were not provided at the start of the audit; we experienced some delays due to staff leave which we were not notified of on a timely basis.<br>We will work with your officers to ensure there is clearer communication and understanding of what we require.<br><b>Recommendation</b><br>The finance team should ensure: <ul style="list-style-type: none"> <li>• Availability of the working papers specified in the PBC schedule prior to the start of the audit;</li> <li>• Availability of key staff during the audit process; and</li> <li>• Appropriate peer review of working papers prior to handover.</li> </ul> | Discussed and agreed in principle by the Chief Finance Officer and the Assistant Chief Officer (Resources).<br>A detailed response will be reported to the Audit and Scrutiny Panel after a feedback meeting with the auditors.                      |

**The Code of Audit Practice requires us to exercise our professional judgement and act independently of the Commission, the PCC for Nottinghamshire and the CC of Nottinghamshire.**

### Requirements

Auditors appointed by the Audit Commission 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 Audit Commission's *Standing Guidance for Local Government Auditors* ('Audit Commission 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. Audit Commission 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 Joint Independent Audit Committee.

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.

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

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 for the financial year ending 31 March 2014 for the PCC for Nottinghamshire and the CC of Nottinghamshire, we confirm that there were no relationships between KPMG LLP and the PCC for Nottinghamshire and the CC of Nottinghamshire, their senior officers and management and their 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 Audit Commission's requirements in relation to independence and objectivity.



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