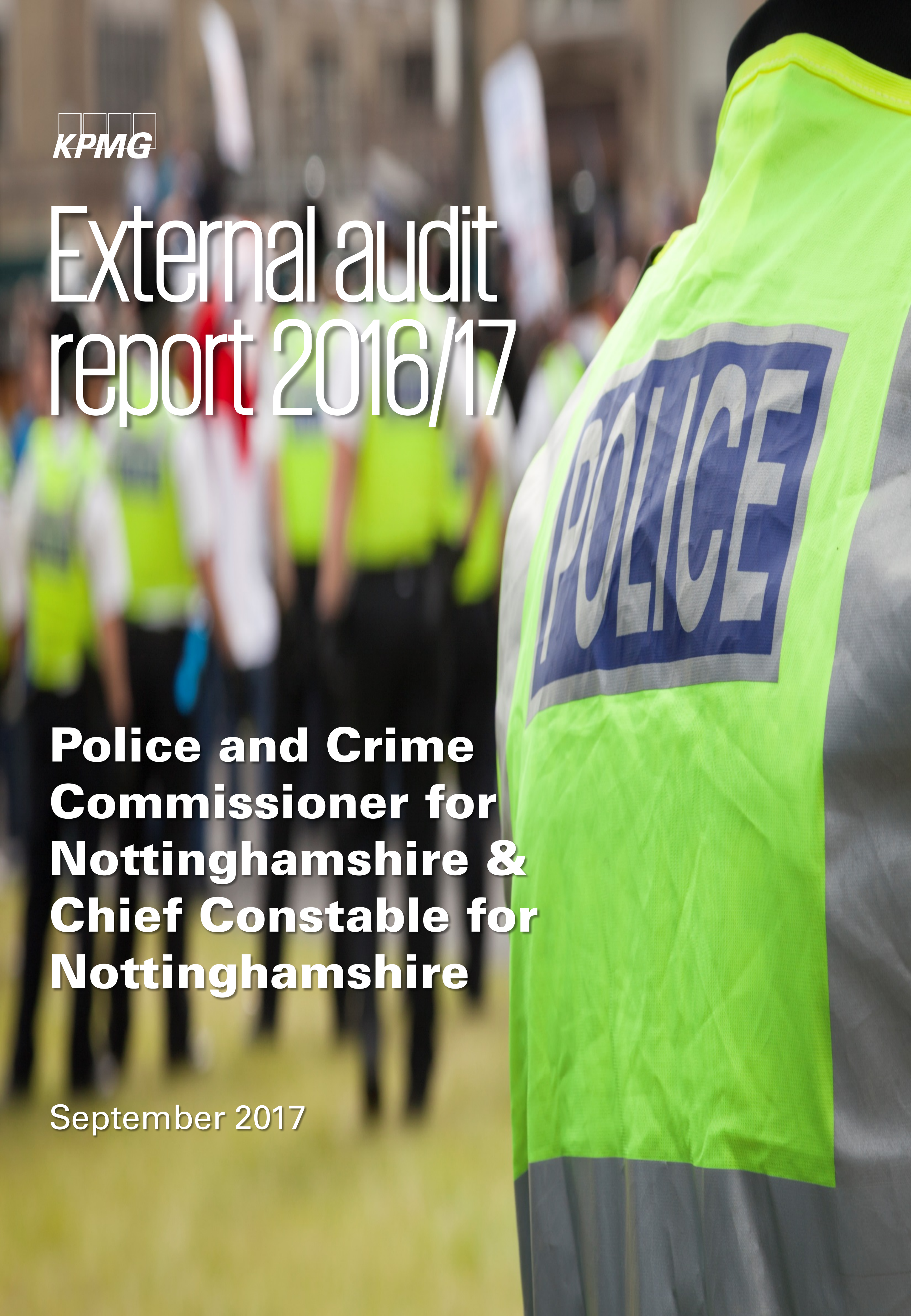


KPMG

External audit report 2016/17

Police and Crime Commissioner for Nottinghamshire & Chief Constable for Nottinghamshire

September 2017

Summary for Joint Audit and Scrutiny Panel.

Financial statements

This document summarises the key findings in relation to our 2016-17 external audit at the Police and Crime Commissioner for Nottinghamshire ('the PCC') and the Chief Constable for Nottinghamshire ('the CC').

This report focusses on our on-site work which was completed in August and September 2017 on the PCC and CC's significant risk areas, as well as other areas of your financial statements. Our findings are summarised on pages 6 – 12.

Subject to the necessary assurances being received from the auditors of the LGPS pension scheme, completion of the WGA and the final review of the audit changes and audit work we anticipate issuing unqualified audit opinions on the PCC and CC's financial statements before the deadline of 30 September.

The 2016-17 audit has proved particularly challenging. We have identified numerous issues with the draft statements this year, particularly around code compliance and the adequacy of working papers and version control. As a result we have requested numerous changes to be made since the initial draft and within the 4 subsequent drafts as follows:

- The initial draft was completed on a Group basis only and therefore not code compliant. Our opinion is given on the Authority (the PCC). PCC costs have now been included either on the main statements (CIES, Balance Sheet and Cash Flow) or within the notes (EFA and MIRS) to ensure code compliance.
- Applicable notes have now been analysed to show both the PCC and Group element. This was not done originally other than for creditors.
- Missing notes have now been added to the draft including cash and cash equivalents, financial instruments, short and long term borrowing, adjustments between funding and accounting basis note, movement in reserve notes for unusable reserves and some pension notes.
- All notes now cast and agree to main statements and include all relevant information. We found a number of notes where the Big Red Button (BRB) functionality had not been turned on and this resulted in the notes not casting as all information from BRB had not been pulled through into the note. These notes included cash and cash equivalents, Property Plant and Equipment (PPE) and Joint Collaboration.
- PCC figures plus CC figures now equal the Group accounts (and most rounding issues have now been eliminated).
- 2015/16 figures originally missing in the first draft set of accounts are now included within the CIES comparative data.

Summary for Joint Audit and Scrutiny Panel (cont.)

Financial statements

- Notes have also now been cross referenced to main statements and bracket descriptions for gains/losses etc have now been added to the accounts to make them clearer.
- The Group narrative statement has been updated so that figures now match the accounts.
- Officers earning over £50k and the JCO CIES have been amended to agree to working papers provided to the auditors.
- The CC narrative statement has been amended to show the risk identified from last years HMIC PEEL review and the CC AGS updated to include a missing 2015/16 risk omitted in error.

A key issue this year as reported in prior years has been the lack of internal senior review of the accounts and the working papers. The lack of internal review was apparent from the outset of the audit. The first draft provided had missing information, casting and rounding errors, consistency issues, missing notes, and did not contain any PCC information, therefore making it non code compliant.

Whilst trying to progress with the audit we found discrepancies between the statements and corresponding notes as well as between working papers and the information within BRB – sometimes due to functionality within BRB not being switched on but often due to version changes not being updated within both the working paper and the accounts/BRB. In addition working papers did not always follow our PBC. In some cases we were not provided with working papers as notes had not been produced. In other instances we found staff had updated their working papers but the audit team were not provided with the updated version.

Client review was not completed within BRB this year due to time constraints and has not been completed in full or on a timely basis outside of the BRB which resulted in many of the issues already highlighted not being picked up internally and amended prior to the first draft being issued for audit. This led to significant time delays and frustrations as progression was slow and we often were left with more questions than answers.

Coupled with this was the fact that this year the audit was highly reliant on one member of staff who was on annual leave or working from home (but contactable) for a significant part of the two week audit visit.

The use of the CIPFA BRB model also adds another layer of complexity to the audit in that the group accounts are mapped by CIPFA code and we therefore have to ensure that the CIPFA code mapping of the financial ledger is complete and accurate and seems sensible.

Summary for Joint Audit and Scrutiny Panel (cont.)

Financial statements Based on our work, we have raised five recommendations. Details on our recommendations can be found in Appendix 1.
We are now in the completion stage of the audit and anticipate issuing our completion certificate and Annual Audit letter by 30 September 2017.

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

See further details on page 18.

Acknowledgements Notwithstanding the issues encountered during the audit we would nevertheless like to thank officers for their continued help and co-operation throughout our audit work.

We ask the Joint Audit and Scrutiny Panel to note this report.

The key contacts in relation to our audit are:

Andrew Cardoza
Director
KPMG LLP (UK)

+44 (0)121 232 3869
andrew.cardoza@kpmg.co.uk

Anita Pipes
Assistant Manager
KPMG LLP (UK)

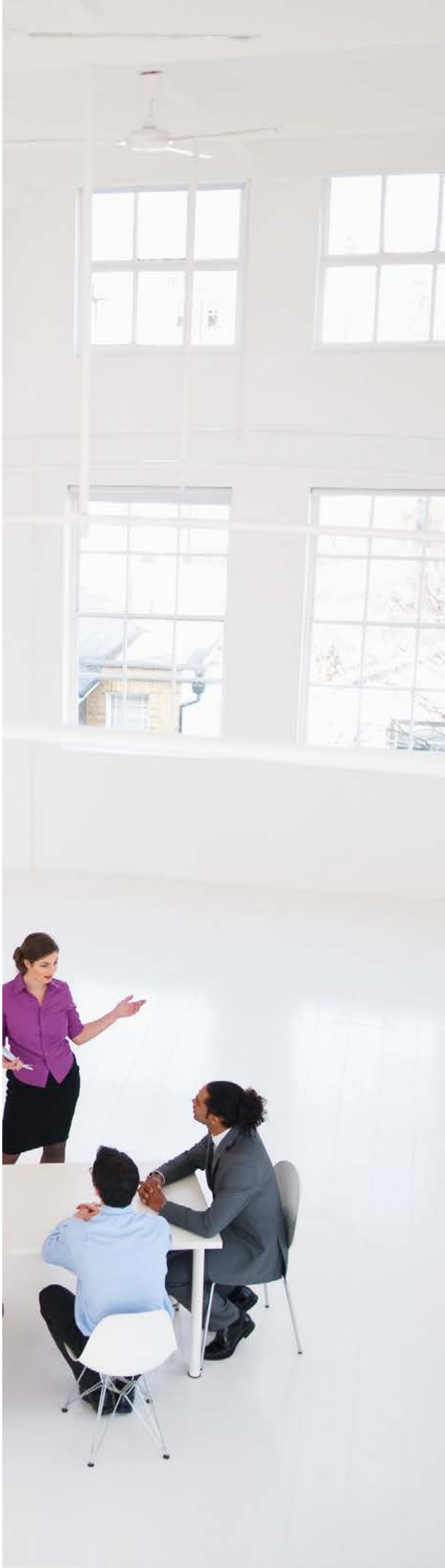
+44 (0)115 945 4481
anita.pipes@kpmg.co.uk

Contents

Section one

Financial Statements

We anticipate issuing unqualified audit opinions on Nottinghamshire PCC and CC's 2016/17 financial statements by 30 September 2017. We also anticipate reporting that your Annual Governance Statement complies with the guidance issued by CIPFA/SOLACE (*'Delivering Good Governance in Local Government'*) published in April 2016, although this work has yet to be undertaken.



Significant audit risks

Our *External Audit Plan 2016/17* sets out our assessment of Nottinghamshire PCC and CC's significant audit risks. We have completed our testing in these areas and set out our evaluation following our work:

Significant audit risks	Work performed
1. Significant changes in the pension liability due to LGPS Triennial Valuation	**Why is this a risk?** During the year, the Local Government Pension Scheme for Nottinghamshire Police and Crime Commissioner and Nottinghamshire Chief Constable (the Pension Fund) has undergone a triennial valuation with an effective date of 31 March 2016 in line with the Local Government Pension Scheme (Administration) Regulations 2013. The PCC and CC's share 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. The pension liability numbers to be included in the financial statements for 2016/17 will be based on the output of the triennial valuation rolled forward to 31 March 2017. For 2017/18 and 2018/19 the actuary will then roll forward the valuation for accounting purposes based on more limited data. There is a risk that the data provided to the actuary for the valuation exercise is inaccurate and that these inaccuracies 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. **Our work to address this risk** We have reviewed the process used to submit payroll data to the Pension Fund and tested the year-end submission process and other year-end controls, including the appointment of an independent actuary to confirm the appropriateness of the actuarial assumptions used by your actuary. We found no issues to note. We have also substantively agreed the total figures submitted to the actuary to the ledger and again identified no issues in relation to the LGPS or to the Police Pension scheme. We have engaged with your Pension Fund auditors to gain assurance over the pension figures.

Significant audit risks

Our *External Audit Plan 2016/17* sets out our assessment of Nottinghamshire PCC and CC's significant audit risks. We have completed our testing in these areas and set out our evaluation following our work:

Significant audit risks	Work performed
2 Disclosures associated with retrospective restatement of CIES, EFA and MiRS	**Why is this a risk?** CIPFA has introduced changes to the 2016/17 Local Government Accounting Code (Code): The new Code includes a small number of important changes on the previous year's reporting requirements. The changes include new formats and reporting requirements for the Comprehensive Income and Expenditure Statement and the Movement in Reserves Statement, and the introduction of a new Expenditure and Funding Analysis as a result of CIPFA's 'Telling the Story' review of the presentation of local authority financial statements. — Allowing local authorities to report on the same basis as they are organised by removing the requirement for the Service Reporting Code of Practice (SeRCOP) to be applied to the Comprehensive Income and Expenditure Statement (CIES); and — Introducing an Expenditure and Funding Analysis (EFA) which provides a direct reconciliation between the way local authorities are funded and prepare their budget and the CIES. This analysis is supported by a streamlined Movement in Reserves Statement (MiRS). The PCC and CC were required to make a retrospective restatement of their CIES (cost of services) and the MiRS. New disclosure requirements and restatement of accounts require compliance with relevant guidance and correct application of applicable accounting standards. **Our work to address this risk** We had originally planned to carry out this work during our interim visit in order for us to feed back any findings ahead of our final audit. We were unable to do this due to staffing constraints at the time. The initial draft provided for audit did not include a CIES, EFA or MIRS for the PCC. The relevant statements and notes were not provided until after the main audit visit and have subsequently been audited. For the restatement, we have obtained an understanding of the methodology used to prepare the revised statements. We have also agreed figures disclosed to the PCC and CC's general ledger. As part of our work we have reviewed both the 2016-2017 figures and also checked the 2015-16 restatements, ensuring all changes can be tracked and agreed to the prior year statements.

Significant audit risks

Our *External Audit Plan 2016/17* sets out our assessment of Nottinghamshire PCC and CC's significant audit risks. We have completed our testing in these areas and set out our evaluation following our work:

Significant audit risks	Work performed
3 Generation of the Accounts and the introduction of the CIPFA Model (Big Red Button)	**Why is this a risk?** This year the PCC and CC used the CIPFA model (commonly known as the Big Red Button) to produce their accounts for the first time. With any new system there is a risk of error as it is introduced for the first time. There may also be an impact on the format of the accounts and working papers produced. The quality of the working papers produced has proved challenging the last couple of years and this change may further impact on the working papers produced and their compatability with our working paper request (PBC). This impact is not yet known. **Our work to address this risk** We originally hoped the introduction of the CIPFA model would ease the audit process this year but found the opposite occurred. The draft accounts produced were not code compliant in that they had been produced on a group basis rather than on a PCC and Group basis. A number of expected notes were missing and applicable notes did not split the component parts into the PCC and Group elements. We had hoped that the introduction of this model would reduce the number of rounding/cross casting errors but these have still occurred and in some cases increased. BRB also added another layer of complexity in that we had to ensure the mapping of the Trial Balance to CIPFA codes (on which the Group accounts are produced) was complete, accurate and reasonable. Again this mapping was not required in prior year audits. The model also highlighted a number of teething problems such as the main statements not being cross referenced to corresponding notes and brackets not being shown around narrative descriptions of gains/losses. This year the review function within the BRB was not used due to the late timing of implementing the model. This review function needs to be used next year and all working papers need to be updated in line with BRB so that version control problems do not re-occur. The BRB model was also not set up to show the PCC costs as a separate entity. This function needs to be built into the model for 2017-18.

Significant audit risks

Our *External Audit Plan 2016/17* sets out our assessment of Nottinghamshire PCC and CC's significant audit risks. We have completed our testing in these areas and set out our evaluation following our work:

Significant audit risks	Work performed
4 Introduction of a new Payroll system.	**Why is this a risk?** A review of Internal Audit reports has identified that there was a planned change to the payroll system from January 2017. We were required to update our understanding of the system pre and post this change and update our risk assessment and testing accordingly. **Our work to address this risk** We reviewed the payroll process both pre and post the Oracle change as part of our controls testing at the interim audit. This included ensuring that the controls in operation post the change enabled us to place reliance on the data being produced by the system for the 2016/17 financial accounts.

Considerations required by professional standards

Fraud risk of revenue recognition

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 2016/17* we reported that we do not consider this to be a significant risk for PCC's/CC's 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.

Management override of controls

Professional standards require us to communicate the fraud risk from management override of controls as significant because 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.

Our audit methodology incorporates the risk of management override as a default significant risk. 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.

Other areas of audit focus

We identified one area of audit focus. This is not considered a significant risk as it is less likely to give rise to a material error. Nonetheless this is an area of importance where we would carry out substantive audit procedures to ensure that there is no risk of material misstatement.

Other areas of audit focus	Our work to address the areas
1. Assurance over Regional Collaboration Accounts and Transactions	**Background** The level of collaborative work with other forces across the East Midlands has increased significantly over the past few years, with the prior year accounts including some £6m of expenditure in relation to these arrangements. 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. **What we have done** We obtained an Annual Governance Statement giving assurance over the East Midlands Police Collaboration lead accounts. We obtained all lead force accounts and checked these in full to ensure the Nottinghamshire Police proportion was correctly consolidated within the financial statements and within note 7.6 to the 2016/17 accounts. We found that the Joint Operations CIES had not been produced correctly and did not reflect the lead force accounts provided. This note has now been updated to show the gross income and expenditure relating to Nottinghamshire Police and is therefore comparable to the working papers and to the prior year statements.

Proposed opinion and audit differences

Subject to the necessary assurances being received from the auditors of the LGPS pension scheme, completion of the WGA and the additional work required in confirming the accuracy of audit changes and review, we anticipate issuing an unqualified audit opinion on the PCC and CC's 2016/17 financial statements by 30 September 2017.

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 materiality (see Appendix 3 for more information on materiality) level for this year's audit was set at £3.3 million. Audit differences below £0.160 million are not considered significant.

Our audit identified no material audit differences.

Overall there was no impact on the General Fund as a result of audit adjustments.

We identified one audit difference on the officers earning over £50k note. Here the working paper provided to support the note was correct but the formula within the note adding up the staff involved had not been changed from the prior year which resulted in the number of staff total being understated. This has been changed. There is no impact on any main financial statements as a result of this correction.

The JCO CIES note was also updated to show the gross figures.

A large number of presentational changes have been made to the main statements and applicable notes to ensure code compliance. PCC information has had to be split out within all the main statements. Relevant notes have also had to be reanalysed to show the PCC/Group split. A number of additional notes missing from the original draft have been added to the final statements and other notes have been changed to ensure they cast and cross cast with the main statements. These changes are material in nature but have not resulted in material changes to the bottom line figures within the main statements of the accounts – simply adding in material information that was originally missing due to the lack of review and version control internally. These changes are listed in more detail within Appendix 2 but included the following:

- Inclusion of PCC accounts within the main statements as per code requirements.
- Splitting PCC information and Group information out on applicable notes as per code requirements
- Inclusion of a number of notes that were initially missing (unusable reserves, adjustments between accounting and funding basis, short and long term borrowing, cash and cash equivalents and some financial instrument and pension notes)
- Numerous adjustments to ensure the consistency of information within the CIES, EFA and notes in the Group and CC statements.
- Adding missing lines to some notes which had been incorrectly removed due to the BRB functionality not being switched on (notes 5.1,5,5 and 6.3)
- Adding in the 2015-16 expenditure within the EFA which was originally shown as zero .
- Removing references to the HRA from the EFA
- Adding cross references and brackets within the main statements.

Proposed opinion and audit differences

- Grossing up the JCO CIES which were not produced on comparable basis year on year.
- Updating the senior officers earning over £50,000 note so that it agrees to the working papers provided.
- Identifying spelling errors, incorrect note or year references.
- Ensuring the Narrative Report was consistent with the accounts and included a note to explain it did not contain JCO and pension information.
- Adding missing information from the CC AGS and narrative statement.

The PCC and CC have addressed these issues and we are still ensuring all changes have been processed correctly.

Annual governance statement

We have reviewed the PCC and CC's 2016/17 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.

A small number of changes was required to the CC AGS and narrative statements. These were as follows:

— Adding in a missing 2015/16 risk that was ommited in error; and

— Including the findings of the prior year HMIC PEEL findings as a current year risk.

We also requested a breakdown of force expenditure by type but this was not added this year. We suggest it is added next year to ensure more comprehensive reporting.

Narrative report

We have reviewed the PCC and CC's 2016/17 Narrative Reports and have confirmed that they are materially consistent with the financial statements and our understanding of both the PCC and CC.

Changes were required to be made to the financial performance figures within the Group/PCC report so that they did comply with the accounts, cast and were consistent with the information on page 10. Figures were changed on 3 occasions between receiving the initial draft and the final draft set of 2016/17 accounts.

We have noted that the Narrative Reports do not fully comply with the Code requirements in that both financial and non-financial performance indicators are expected and required.

We have recommended that further work is undertaken in future years to ensure that the Narrative Reports are in line with the Code and best practice as set out by the Accounting Standards Board.

This is something that we are raising with all audited bodies this year.

Accounts production and audit process

Our audit standards (*ISA 260*) require us to communicate our views on the significant qualitative aspects of the PCC and CC's accounting practices and financial reporting.

We also assessed the PCC and CC's process for preparing the accounts and its support for an efficient audit. The efficient production of the financial statements and good-quality working papers are critical to meeting the tighter deadlines.

The PCC and CC have recognised the additional pressures which the earlier closedown in 2017/18 will bring.

Accounting practices and financial reporting

Due to the introduction and timing of the new CIPFA model this year the force could not achieve an earlier deadline. We have been engaging with the officers of the PCC and CC in the period leading up to the year end in order to proactively address issues as they emerge.

Completeness of draft accounts

We received a set of Chief Constable draft accounts on 30 June 2017, the statutory deadline day. We received the Group accounts on the 3 July 2017. We subsequently found the draft accounts were missing several of the required statements and notes in accordance with the requirements of the code. As a result of this we received a further four Group drafts and changes within drafts.

Quality of supporting working papers

We issued our Interim *Accounts Audit Protocol 2016/17* ("Prepared by Client" request) in January 2017, and our Final version in May 2017 which outlines our documentation request. This helps the PCC and CC to provide audit evidence in line with our expectations. This was further supplemented by a specific pensions request to address the significant risk in relation to the triennial revaluation.

We found that the working papers provided this year had improved in some areas but that further improvement is required to ensure we receive everything on our PBC, we are not just directed to the BRB system and that we receive the latest version of working papers. We also hope that the review function of BRB will be utilised next year to help overcome version control problems encountered this year.

Response to audit queries

Where possible Officers dealt with our audit queries as soon as possible. Other inquiries/sample requests were not always met within two working days of inquiry, in line with our expectations.

Prior year recommendations

As part of our audit we are required to follow up the PCC and CC's progress in addressing the recommendations in last year's ISA 260 report.

The PCC and CC have only partly implemented the recommendation on improving the financial statements and working papers.

Controls over key financial systems

We have tested controls as part of our focus on significant audit risks and other parts of your key financial systems on which we rely as part of our audit. The strength of the control framework informs the substantive testing we complete during our final accounts visit. Based on the work performed, we are satisfied that the controls are performing effectively. We are able to place reliance on the PCC and CC's control framework.

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 2016/17 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 2017, 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 4 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 Chief Finance Officers for presentation to the PCC and CC. We require signed copies of your 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 or our previous reports relating to the audit of the PCC and CC's 2016/17 financial statements.

Section two

Value for money

Our 2016/17 VFM conclusion considers whether Nottinghamshire PCC and CC had proper arrangements to ensure they took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

We have concluded that Nottinghamshire PCC and CC have made proper arrangements to ensure they took properly-informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

VFM conclusion

The Local Audit and Accountability Act 2014 requires auditors of local government bodies to be satisfied that Nottinghamshire PCC and CC 'have made proper arrangements for securing economy, efficiency and effectiveness in their 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.'

Our VFM conclusion considers whether the PCC and CC had proper arrangements to ensure they 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.

1 Identification of significant VFM risks (if any)

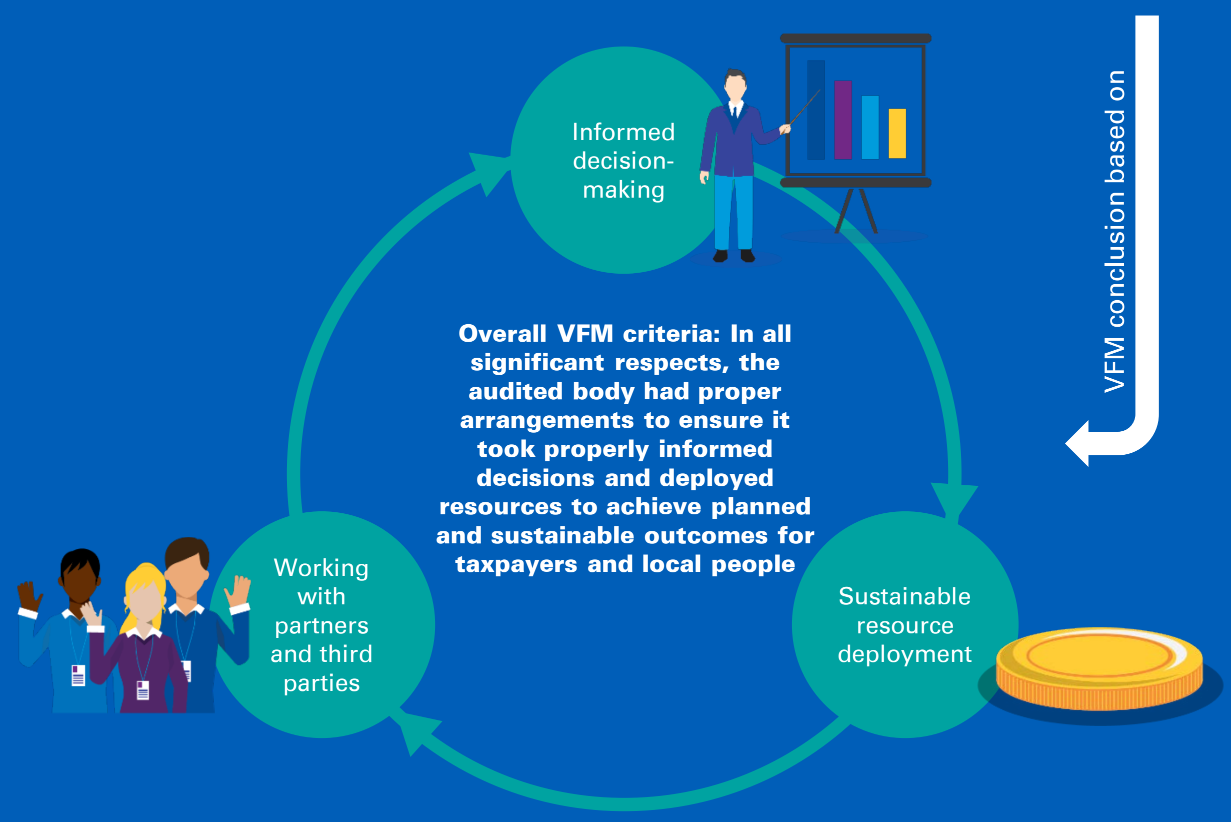
- VFM audit risk assessment
- Financial statements and other audit work

2 Continually re-assess potential VFM risks

- Assessment of work by other review agencies
- Specific local risk-based work

3 VFM conclusion

- **Conclude on arrangements to secure VFM**



The table below summarises our assessment of the individual VFM risk identified against the three sub-criteria. This directly feeds into the overall VFM criteria and our value for money opinion.

VFM assessment summary			
VFM risk	**Informed decision-making**	**Sustainable resource deployment**	**Working with partners and third parties**
Financial resilience in the local and national economy	✓	✓	✓
Overall summary	✓	✓	✓

In consideration of the above, we have concluded that in 2016/17, Nottinghamshire PCC and CC have made proper arrangements to ensure they took properly-informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

Further details on the work done and our assessment is provided on the following page.

Significant VFM risks

We have identified a single significant VFM risk. In all cases we are satisfied that external or internal scrutiny provides sufficient assurance that Nottinghamshire PCC and CC's current arrangements in relation to this risk area is adequate.

Significant VFM risks	Work performed
1. Financial resilience and delivery of the medium term financial plan	**Why is this a risk?** Nottinghamshire Police along with all forces have significant budget savings to deliver over the coming years and plans are in place to achieve these savings. The PCC needs to manage its savings plans to secure longer term financial and operational sustainability. **Summary of our work** All police bodies have been affected by reductions in central funding and the PCC and CC have responded well to these pressures this year, with levels of service provision being maintained whilst demonstrating good performance in the identification and delivery of savings. Against this backdrop the PCC has managed to spend less then its budget in 2016/17 which enabled a contribution to reserves to be made and leaves Nottinghamshire Police with a more prudent level of reserves than in 2015/16. Moving forward the PCC and CC will need to ensure they develop and monitor all saving plans effectively so that any future use of reserves to bridge budget shortfalls is minimised and to strengthen the long term reserve position of the force. We have assessed the arrangements put in place by the PCC and CC to maintain its record of meeting efficiency savings to address national funding changes, by relying on our accounts audit work where relevant, underpinned by a review of the PCC and CC's budget setting process, financial management processes, and discussions with the senior management team.

Appendices

Key issues and recommendations

Our audit work on the PCC and CC's 2016/17 financial statements has identified 5 issues. We have listed these issues in this appendix together with our recommendation which we have agreed with Management. We have also included Management's response to this recommendation.

The PCC and CC should closely monitor progress in addressing the risks, including the implementation of our recommendations. We will formally follow up this recommendations next year.

The issue and recommendation have been given a priority rating, which is explained below.

High priority	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.
Medium priority	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.
Low priority	Issues that would, if corrected, improve internal control in general but are not vital to the overall system. These are generally issues of good practice that we feel would benefit if introduced.

High priority

1. Code Compliance

Our review of the accounts this year identified that the PCC/Group accounts presented for audit were not code compliant. Our opinion is given on the authority (the PCC). In 2016-17 the split of PCC costs was not correctly applied in the main statements or all applicable notes. As a result the following information had to be added to the PCC/Group accounts:

- PCC CIES;
- Split of PCC costs on the Balance Sheet, Cash Flow and EFA;
- Notes added to show the PCC element of the MIRS; and
- Split of PCC costs within relevant notes.

Our testing also identified a number of notes that were missing from the accounts. These included notes on the unusable reserves, adjustments for accounting and funding basis, cash and cash equivalents, short term and long term borrowing and some financial instrument and pension notes.

The accounting standards issued not adopted note was also not updated correctly.

These omissions should have been identified from the correct completion of CIPFA's Code Disclosure Checklist.

Recommendation

The PCC and CC should ensure that the draft provided for audit in 2017/18 are fully code compliant and include all relevant statements and notes.

Sufficient time and resource should be devoted to the accurate completion of CIPFA's Code Disclosure Checklist, with any uncertainties over answers being investigated more thoroughly.

The CIPFA BRB model should be updated to enable the PCC costs to be fully identifiable and mapped from 2017/18.

Management Response

Owner

Deadline

High priority

2. Management Review of the Draft Statement of Accounts

The initial draft accounts provided for audit contained numerous errors and had not been subject to a timely or robust management review prior to audit which would have identified these problems. This recommendation was also made last year. Issues identified included:

- Inconsistencies between figures in the Group accounts and CC accounts and between key statements;
- Casting errors and rounding errors within notes;
- No cross references to key notes within the main statements;
- Reference to the HRA instead of General Fund in the EFA headings;
- No prior year CC expenditure shown in the EFA; and
- BRB functionality not turned on in all cases.

Recommendation

The PCC and CC should ensure that an appropriate, timely and robust level of review is put in place over the draft accounts next year particularly given the earlier deadline. This review should include the following checks:

- Agreeing PY figures agree to signed 16-17 accounts;
- Ensuring all statements and notes cast and cross cast;
- Ensuring all figures within main statements are consistent and do not contain rounding errors;
- Ensuring all notes agree to the main statements;
- Ensuring the PCC plus CC equals the Group;
- Ensuring all cross references are included in the main statements;
- Ensuring all brackets are included;
- Ensuring financial figures within the narrative agree to working papers; and
- Ensuring the big red button functionality is turned on for all notes.

Management Response

Owner

Deadline

High priority	**3. Management Review of Working Papers and version control** Our testing this year identified that working papers were once again not subject to a thorough management review. This led to delays and additional work. The impact of this included: Not all working papers requested on our PBC being provided – such as the working papers to support the narrative statement performance indicators and staff information or working papers for the MIRS. The internal review function within BRB not being used this year due to timing issues. Being provided with the wrong version of a working paper. We found that the working trial balance showed the net cost of services for the Group to be £209 million rather than £203 million due to an error in the formula. A formula error was also found on the staff earning over £50,000 working paper and we were not provided with the latest version working paper for senior officer pay. **Recommendation** All working papers should be subject to a full and timely independent review. The review function for the CIPFA BRB should be utilised next year ensuring all work within the model is checked. Working papers provided outside of the model should also be reviewed for accuracy and to ensure that the figures agree to the draft provided for audit and have not been superceded by another version. All working papers requested on the PBC should be supplied. All changes made to this years accounts should be updated in the CIPFA model so that next year all prior year figures will be brought forward correctly.	**Management Response** **Owner** **Deadline**
High priority	**4. Staff Availability** This year the audit was heavily reliant on one member of staff. During the two week audit period the staff member was often on leave or working from home which led to delays in progressing with audit queries. **Recommendation** Given the much earlier close down next year and the time pressures this will bring it is essential that all key finance staff are available during the 2 week audit period which will be in June and that leave/working from home is not allowed during this two week window.	**Management Response** **Owner** **Deadline**

Medium priority

5. Audit Advert and Publication of Accounts

This year we identified that he accounts were advertised for 29 working days instead of the required 30.

In addition we were provided with the Chief Constable statements by the required deadline of the 30th June but not the PCC/Group statements.

Recommendation

The PCC and CC should ensure that the audit advert follows the recommendations provided to you in our letter and is provided to us to check prior to publication on the website.

Both statements of accounts will need to be published by the required earlier deadline next year and audit evidence provided to us to enable us to prove this.

Management Response

Owner

Deadline

Audit differences

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.

Disclosure errors

Our audit identified two errors in relation to other disclosures. These have been discussed with management and amended in the Group and CC statement of accounts in full:

Note 7.1. Senior officer remuneration over £50k. Total amended from 168 to 278 staff as per the supporting working papers. Note the working paper provided to us was correct but the formula within the working paper had not been updated from the prior year meaning all staff were not added in correctly.

Note 7.6 Joint Operation CIES – now amended to show the Gross income and expenditure position for 2016/17 so that this is comparable with the 2015/16 audited note and the working papers provided for audit.

Unadjusted audit differences

We confirm that there are no uncorrected misstatements above our triviality limit of £160,000.

Adjusted numerical audit differences impacting disclosure notes

There were no significant numerical audit differences impacting on the disclosure notes identified by our audit of the Police and Crime Commissioner for Nottinghamshire and the Chief Constable for Nottinghamshire's financial statements for the year ended 31 March 2017. However there were changes within notes and new notes added at our request which did not affect the bottom line as follows:

Main Statements

- A PCC CIES was added at our request to ensure code compliance. This statement should only include the PCC costs but the CC and Group have been included for additional clarity at the S151 officers request.
- The Balance Sheet and Cash Flow were amended to include a PCC column as well as a Group column to ensure code compliance.
- Rather than a separate EFA being produced for the PCC this year the other income and expenditure was split out on the EFA group statement to show the PCC and CC elements.
- The MIRS statement could not be amended to show the PCC information. Instead a reference was added referring to note 4.4 and 4.5 where the PCC expenditure could be found.
- All incorrect references to the HRA were changed to the GF on the EFA
- All brackets were added to the main statement explanations as these were initially missing
- All cross references to notes were added to the main statements as these were initially missing.
- All rounding, consistency errors between main statements were updated over the various drafts (numerous times).

Audit differences (cont.)

Accounting Policies

- The accounting Standards Issues, not adopted note on page 42 was updated to show the 2 new changes to the code applicable in 2016-17 even though they are not applicable to the police pension funds.

New Notes added

- 4.3 – unusable reserves. This note was originally missing from the draft statements.
- 4.4 – unusable reserves note added to show breakdown of PCC and CC as required on the MIRS.
- 4.5 - adjustments between accounting and funding basis. This note had been ommitted in error.
- 5.7 - short term borrowing – ommitted in error.
- 5.10 - long term borrowing – ommitted in error.
- 6.1 - cash and cash equivalents – ommitted in error.
- 7.4 - financial instruments – narrative and table added on page 76.
- Pensions – tables on pages 85 and 86 added in from actuarial report as they were included in 2015/16.

Amended Notes

- Note 3.1 – amended to show split of PCC costs.
- Note 3.1 – now updated to cast correctly and to show the PCC/CC split although the analysis should ideally show the costs by type for the CC as this is the more material figure.
- Note 3.3 – income now re-categorised correctly.
- Note 3.6 – amended to show split of other income and expenditure by PCC and CC. Some small rounding changes made.
- Note 3.7 – amended to show the split of costs by PCC and CC. Some figures updated and amended. Additional table added to show a further breakdown of other expenditure for further clarity.
- Note 4.1 – roundings identified and amended so that table casts correctly.
- Note 5.1 - cost and Valuation 2016-17 and 2015-16. BRB functionality had not been switched on correctly and the reclassification and transfer line had originally been omitted from first draft meaning the table did not cast correctly. The depreciation table was also amended sot that it cast correctly. Some small roundings still exist.
- Note 5.3 – minor changes made to ensure table casts correctly.
- Note 5.5 – 2015/16 total was overstated by £20,000. Now amended.
- Note 5.9 - small rounding changes made to ensure note casts correctly.

Audit differences (cont.)

- 5.11 - operating leases – minor amendments made to ensure notes cast.
- 5.12 – narrative updated to remove incorrect reference to note 18.1 and small rounding amendment made to ensure the table casts.
- 6.2 – total amended in first table so it now casts. Brackets corrected on the increase/decrease in creditors/debtors.
- Note 6.3 – amended so it now casts correctly. Repayment of finance lease liability of £317k now added to repayment of short term and long term borrowing so table casts correctly (due to BRB functionality not being switched on initially)
- Note 7.1 - Senior Officer Remuneration: The Internal working paper was updated and this led to some changes within the senior officer pay table from the initial draft.
- Note 7.1 - exit packages. Incorrect entry for 2015/6 in the £100-£150k band removed from both sets of accounts.
- Note 7.6 - JCO CIES updated to show Gross expenditure and income as per working papers and to be comparable with the prior year.
- 7.1 - the Internal working paper was updated and not provided to us. This led to some changes within the senior officer pay table from the initial draft.

Narrative Statement

PCC

- Numerous changes were made to page 9 to ensure the figures agreed to the period 12 financial position and to ensure consistency with page 10 data. A reference was also added to show that the pension and joint operation adjustments were not included (so that the reader of the accounts can understand why the figures do not agree to the main statements).

CC

- Reference to the 2016 PEEL report was initially ommitted. This has now been added.

AGS (CC only)

- A 2015-16 recommendation omitted in error was added.

Materiality and reporting of audit differences

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 2016/17, presented to you in January 2017.

Materiality for the PCC and CC's accounts was set at £3.3 million which equates to around 1.5 percent of 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 £0.160 million.

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.

Declaration of independence and objectivity

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

> *"The auditor should carry out their work with integrity, objectivity and independence, and in accordance with the ethical framework applicable to auditors, including the ethical standards for auditors set by the Financial Reporting Council, and any additional requirements set out by the auditor's recognised supervisory body, or any other body charged with oversight of the auditor's independence. The auditor should be, and should be seen to be, impartial and independent. Accordingly, the auditor should not carry out any other work for an audited body if that work would impair their independence in carrying out any of their statutory duties, or might reasonably be perceived as doing so."*

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 LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP Audit Partners and staff annually confirm their compliance with our Ethics and Independence Manual including in particular that they have no prohibited shareholdings.

Our Ethics and Independence Manual is fully consistent with the requirements of the Ethical Standards issued by the UK Auditing Practices Board. As a result we have underlying safeguards in place to maintain independence through: Instilling professional values, Communications, Internal accountability, Risk management and Independent reviews.

We would be happy to discuss any of these aspects of our procedures in more detail.

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 2017, 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.

Audit fees

Audit fees

As communicated to you in our External Audit Plan 2016/17, our scale fee for the audits are:

— Police and Crime Commissioner: **£35,220** plus VAT *(£35,220 in 2015/16)*; and

— Chief Constable: **£15,000** plus VAT *(£15,000 in 2015/16).*

However, we will be proposing an additional fee due to additional work undertaken in relation to the CIES restatement and due to the numerous errors identified within the draft accounts which led to additional time being spent on the audit. We will discuss these fees with the Chief Finance Officers and this will also be subject to PSAA determination/approval.