For Information and Decision	
Public/Non Public*	**Public**
Report to:	**Audit and Scrutiny Panel**
Date of Meeting:	**30 September 2020**
Report of:	**Chief Finance Officer**
Report Author:	**Charlotte Radford**
Other Contacts:	**Helen Henshaw EY**
Agenda Item:	**7**

EXTERNAL AUDIT PLAN 2019-20

1. Purpose of the Report

1.1 To provide members with the proposed External Audit Plan covering the audit of the Accounts for 2019-20.

1.2 This report provides a detailed plan of proposed work.

1.3 This also provides members with details on the proposed audit fee and method statement for delivery of the audit.

2. Recommendations

2.1 Members are requested to consider and approve:

- the External Audit Plan attached at **Appendix A**.
- the proposed audit fees for the PCC and CC. To also note the intention to increase these fees above that awarded in the contract by PSAA.

3. Reasons for Recommendations

3.1 This complies with good governance, financial regulations and audit regulations.

4. Summary of Key Points

4.1 The External Auditor has assessed the required time to complete the audit for the accounts for 2019-20. In light of COVID this has been increased this year.

5. Financial Implications and Budget Provision

5.1 None as a direct result of this report. The External Audit fees for the Force and OPCC accounts have been budgeted for within the OPCC budget.

6. Human Resources Implications

6.1 None

7. Equality Implications

7.1 None

8. Risk Management

8.1 Any change of the financial management system is always identified as a risk. The move to Oracle Fusion is currently under close scrutiny.

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

9.1 None

10. Changes in Legislation or other Legal Considerations

10.1 None

11. Details of outcome of consultation

11.1 Not applicable

12. Appendices

A – External Audit Plan

Police and Crime Commissioner and Chief Constable for Nottinghamshire Police

Audit planning report

18 September 2020

EY
Building a better working world

Private and Confidential

18 September 2020

Police and Crime Commissioner and Chief Constable
Nottinghamshire Police
Nottingham
NG5 6LU

Audit planning report

We are pleased to present our Audit Plan which sets out how we intend to carry out our responsibilities as auditor. Its purpose is to provide the Corporate Soles and the Joint Audit and Scrutiny Panel with a basis to review our summary audit approach and scope for the 2019/20 audit. We are undertaking our work in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the Panel's service expectations.

This plan summarises our initial assessment of the key risks driving the development of an effective audit for the Police and Crime Commissioner (PCC) and Chief Constable (CC), and outlines our planned audit strategy in response to those risks.

This report is intended solely for the information and use of PCC and CC, Joint Audit and Scrutiny panel (JASP) and is not intended to be and should not be used by anyone other than these specified parties.

We welcome the opportunity to discuss this report with you at the upcoming committee meeting as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Helen Henshaw

For and on behalf of Ernst & Young LLP

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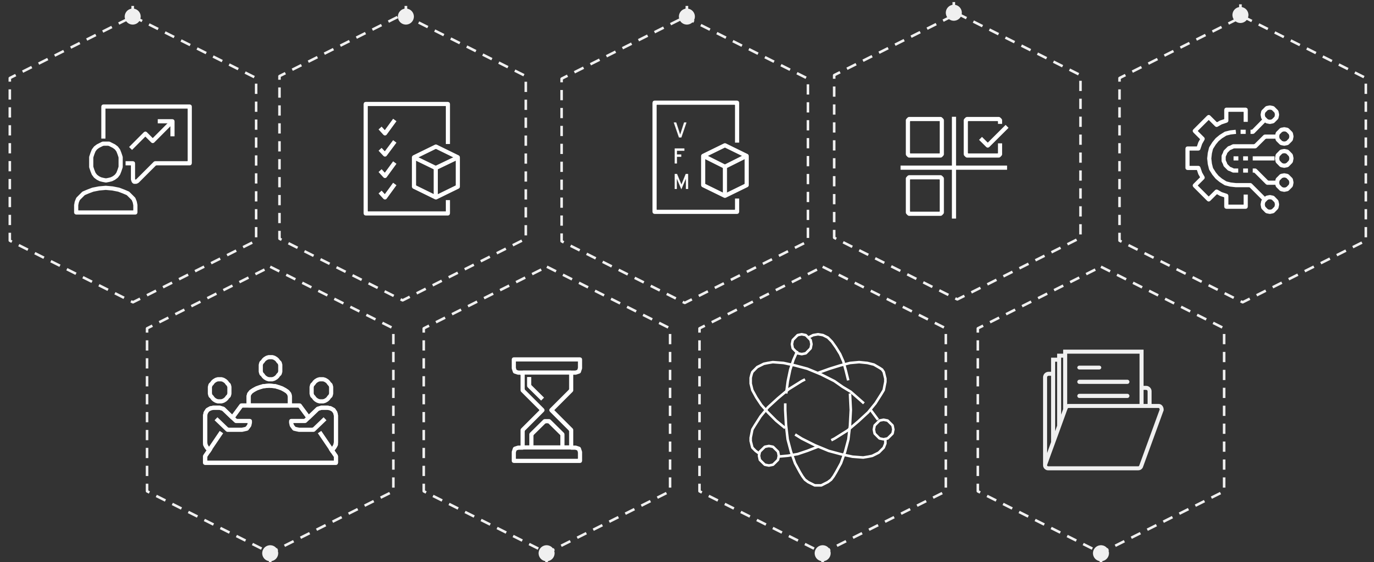


Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (https://www.psaa.co.uk/audit-quality/statement-of-responsibilities/).The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The "Terms of Appointment and further guidance (updated April 2018)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to the Police and Crime Commissioner for Nottinghamshire (PCC) and the Chief Constable of Nottinghamshire Police (CC), Joint Audit and Scrutiny Panel (JASP) and management in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the PCC,CC, JASP and management those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the PCC, CC, JASP and management for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.

01 Overview of our 2019/20 audit strategy

Overview of our 2019/20 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Police and Crime Commissioner (PCC) and Chief Constable (CC) with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Misstatements arising due to fraud or error (PCC& CC)	Fraud risk	No change in risk or focus	As identified in ISA 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that would otherwise appear to be operating effectively.
Risk of fraud in revenue of expenditure recognition: Incorrect capitalization of revenue expenditure (PCC)	Fraud risk	No change in risk or focus	Linking to our fraud risk above we have considered the capitalisation of revenue expenditure on property, plant and equipment as a separate risk, given the extent of the PCC's capital programme. A risk exists that expenditure is inappropriately capitalised in order to inappropriately inflate reported outturn.
Valuation of Property, Plant and Equipment (PCC)	Significant risk	Increase in risk	The fair value of Property, Plant and Equipment (PPE) represent significant balances in the Group's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet. There is a risk that fixed assets may be materially over/under stated.
Valuation of the Police Pension Scheme liability (CC)	Inherent Risk	No change in risk or focus	The estimation of the defined benefit obligations is sensitive to a range of assumptions such as rates of pay and pension inflation, mortality and discount rates. The pension fund valuations separately involve external specialists, to provide these actuarial assumptions. A small movement in these assumptions could have a material impact on the value in the balance sheet.
Valuation of Pension Liabilities – LGPS (PCC & CC)	Inherent Risk	No change in risk or focus	The estimation of the defined benefit obligations is sensitive to a range of assumptions such as rates of pay and pension inflation, mortality and discount rates. The pension fund valuations separately involve external specialists, to provide these actuarial assumptions. A small movement in these assumptions could have a material impact on the value in the balance sheet.

Overview of our 2019/20 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Police and Crime Commissioner (PCC) and Chief Constable (CC) with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Collaborative Arrangements (CC)	Inherent risk	No change in risk or focus	Joint arrangements operate with partners across the East Midlands. There is a risk that the allocation of activity is not correctly recorded in their financial statements.
Private Finance Initiative (PFI) accounting (PCC)	Inherent Risk	Downgraded to Inherent Risk	The PCC has two PFI Schemes, being the provision and maintenance of the Riverside building and the vehicle fleet. Correctly accounting for PFI schemes involves transactions which are derived from operating models for which assumptions and changes need to be updated accurately and reflected in the financial statements. There is a risk that disclosures in the financial statements are not consistent with the assumptions within the PFI operating model. We have downgraded this to inherent risk due to specialist involvement in the prior year audit resulting in a change to accounting policy being applied.

Overview of our 2019/20 audit strategy

Materiality

Planning materiality

Materiality has been set at 2% of the relevant materiality basis as set out in the table below.

Performance materiality

Performance materiality has been set at 50% of materiality, to reflect the high level of errors noted during the prior year audit.

Audit differences

We will report all uncorrected misstatements relating to the primary statements (comprehensive income and expenditure statement, balance sheet, movement in reserves statement, cash flow statement, and pension fund financial statements) greater than a defined level. Other misstatements identified will be communicated to the extent that they merit the attention of the JASP.

Entity	Basis of materiality	Planning materiality	Performance materiality	Audit differences
Group	Gross revenue expenditure (excluding non-distributed costs)	£7.49m	£3.74m	£0.374m
PCC	Gross assets	£2.38m	£1.19m	£0.119m
CC	Gross revenue expenditure (excluding non-distributed costs)	£7.29m	£3.65m	£0.365m
Pension Fund	Benefits payable	£1.45m	£0.73m	£0.072m

Overview of our 2019/20 audit strategy

Audit Timetable

Janet Dawson, the UK Government and Public-Sector Assurance Leader for Ernst & Young LLP wrote to all Chief Financial Officers and Audit Committee Chairs for PSAA audited bodies in February 2020 setting out our views on the sustainability of UK local public audit.

At the end of January 2020, 85 organisations had not yet received their audit opinion on the 2018-2019 financial statements. The factors that have led to this unprecedented position are extensive, impact all audit suppliers in the PSAA contract and need to be considered by public sector finance professionals and Audit Committees. In summary, the types of issues and challenges we have seen include:

- Financial reporting and decision making in local government has become increasingly complex.
- Some local authorities have a shortage of financial reporting skills, capabilities and weaknesses in audit readiness (including keeping pace with technological advancement in data management and processing for audit).
- There has been a significant increase in the specialised skills, time and cost required by auditors to address regulatory expectations.
- Public sector auditing has become less attractive as a profession, especially due to the compressed timetable, regulatory pressure and greater compliance requirements. This has contributed to higher attrition rates in our profession over the past year and the shortage of specialist public sector audit staff.

To ensure we deliver the best quality audits, the PSAA, NAO and Local Public Audit Stakeholder forum were informed that we would be scheduling a number of 2019/20 external audits for completion after the initial 31st July 2020 publication deadline. The Nottinghamshire Police audit was scheduled to commence (and has commenced) in August 2020.

In light of the COVID-19 pandemic, changes to the reporting timetables for local authority annual accounts have been released, pushing delivery deadlines back. The target publication date for 31 March 2020 audited accounts is now 30 November 2020.

We are working with management to achieve this revised target date. This will require sufficient dedicated and timely resource being provided by management to respond appropriately and promptly to audit information requests and queries.

Overview of our 2019/20 audit strategy

Audit scope

This Audit Plan covers the work that we plan to perform to provide you with:

- Our audit opinion on whether the financial statements of the PCC (and Group) and CC for Nottinghamshire give a true and fair view of the financial position as at 31 March 2020 and of the income and expenditure for the year then ended; and

- Our conclusion on the PCC and CC's arrangements to secure economy, efficiency and effectiveness.

We will also review and report to the National Audit Office (NAO), to the extent and in the form required by them, on the PCC's and CC's Whole of Government Accounts return.

Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

When planning the audit we take into account several key inputs:

- Strategic, operational and financial risks relevant to the financial statements;
- Developments in financial reporting and auditing standards;
- The quality of systems and processes;
- Changes in the business and regulatory environment; and,
- Management's views on all of the above.

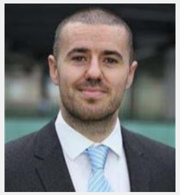
By considering these inputs, our audit is focused on the areas that matter and our feedback is more likely to be relevant to the PCC and CC.

Taking the above into account, and as articulated in this audit plan, our professional responsibilities require us to independently assess the risks associated with providing an audit opinion and undertake appropriate procedures in response to that. Our Terms of Appointment with PSAA allow them to vary the fee dependent on "the auditors assessment of risk and the work needed to meet their professional responsibilities". PSAA are aware that the setting of scale fees has not kept pace with the changing requirements of external audit with increased focus on, for example, the valuations of land and buildings, the auditing of groups, the valuation of pension obligations, the introduction of new accounting standards such as IFRS 9 and 15 in recent years as well as the expansion of factors impacting the value for money conclusion. Therefore to the extent any of these or any other risks are relevant in the context of the PCC and CC for Nottinghamshire audit, we will discuss these with management as to the impact on the scale fee.

Audit team changes

Key changes to our team.

Engagement Partner - Helen Henshaw
Helen has over twenty years of audit experience working for EY with significant experience across both the public and private sector. Helen will take over the Engagement Lead role from Neil Harris.



Gary Morris – Manager
Gary Morris has significant experience in public sector audit, and is taking over managing the audit from Chris Hewitt.

02 Audit risks

Our response to significant risks

Misstatements due to fraud or error (PCC & CC)

What is the risk?	What will we do?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.
 	
As identified in ISA (UK) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.
 	
In undertaking our fraud risk assessment we have not identified any specific risks for inclusion in our audit plan at this stage. We will continue to monitor this and provide you with an update as required.
	We will;
	▸ Identify fraud risks during the planning stages.
	▸ Inquire of management about risks of fraud and the controls put in place to address those risks.
	▸ Understand the oversight given by those charged with governance of management's processes over fraud.
	▸ Consider the effectiveness of management's controls designed to address the risk of fraud.
	▸ Determine an appropriate strategy to address those identified risks of fraud.
	▸ Performing mandatory procedures regardless of specifically identified fraud risks, including:
	    ▸ testing of journal entries and other adjustments in the preparation of the financial statements;
	    ▸ assessing accounting estimates for evidence of management bias; and
	    ▸ evaluating the business rationale for significant unusual transactions.

Our response to significant risks (continued)

Risk of fraud in revenue and expenditure recognition

- Incorrect capitalisation of Revenue Expenditure (PCC)

What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

As identified in ISA (UK) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.

Misstatements that occur in relation to this risk may impact the following significant accounts:

Valuation of PPE (specifically in relation to PPE additions) and completeness of expenditure since incorrectly capitalised expenditure will mean that the expenditure figure in the CIES is not complete.

What will we do?

As part of our walkthrough procedures we will evaluate the controls in relation to processes around the capitalisation of PPE.

We will also obtain an understanding of management's criteria for capitalisation of expenditure and of review whether these are appropriate.

For capital expenditure incurred in 2019/20, we will undertake additional procedures to address the specific risk we have identified, which will focus around Increased sample testing additions to property, plant and equipment.

We will ensure that all additions that we randomly select for testing have been correctly classified as capital and included at the correct value in order to ensure that fixed assets are not materially overstated as a result of inappropriate capitalisation of revenue expenditure.

Our response to significant risks (continued)

Valuation of Property, Plant and Equipment (PCC)	What is the risk?	What will we do?
	The fair value of Property, Plant and Equipment including assets held for sale, represent significant balances in the Group and PCC sole accounts and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet. This has been assessed as a significant risk in this financial year due to errors noted in the previous year coupled with the impact of Covid-19 on the valuation of assets on 31-03-2020. Misstatements that occur in relation to this risk may impact the following significant accounts: Property, Plant and Equipment, and Assets held for Sale since changes in asset values will affect the balances of these accounts at year end. We do not believe that this significant risk of material misstatement impacts investment property valuation as the level of investment property held is so low.	We will: ▸ Consider the work performed by the PCC's valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work; ▸ Sample test key asset information used by the valuers in performing their valuation (e.g. floor plans to support valuations based on price per square metre); ▸ Consider the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code for PPE. We also consider if there are any specific changes to assets that have occurred and that these have been communicated to the valuer; ▸ Review assets not subject to valuation in 2019/20 to confirm that the remaining asset base is not materially misstated; ▸ Use EY valuation specialists to review a sample of asset valuations and the underlying assumptions and valuation basis used; ▸ Consider changes to useful economic lives as a result of the most recent valuation; and ▸ Test accounting entries have been correctly processed in the financial statements.

Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

What is the risk/area of focus?	Our audit approach (Local Government Scheme)	Our audit approach (Police Pension Scheme)
Pension Liability Valuation The Local Authority Accounting Code of Practice and IAS19 require extensive disclosures within the financial statements regarding membership of the Local Government Pension Scheme administered by Nottinghamshire County Council and membership of the Police Pension Scheme administered and underwritten by HM Government. The pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the balance sheet. Accounting for the schemes involve significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates. The impact of Covid-19 on the financial markets and values of securities could have a material impact on the pension fund which holds most value in securities and other investments.	We will: • Update our documentation of management's processes and controls over pension expenditure and deduction of employer and employee contributions; • Liaise with the auditors of Nottinghamshire Pension Fund, to obtain assurances over the information supplied to the actuary in relation to Nottinghamshire Police; • Review the work of the Local Government actuary (Hymans Robertson LLP) and the Police Pension actuary including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by Public Sector Auditor Appointments for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team to ensure they are in our expected range; • Review and test the accounting entries and disclosures made within the PCC and CC's financial statements to ensure consistency with the IAS 19 entries in both actuarial reports; and • Review the process of quantifying the effect of equalisation by the pension fund, including from detailed and 'granular' calculations of the actuaries.	We will: ▸ Understand how the CC is considering the impact of McCloud and Sargeant on the financial statements arising from the employment tribunals, any resulting consultations and other pronouncements from government on restitution. ▸ Assess the work of the actuary (GAD) including the assumptions they have used by relying on the work of PwC - Consulting Actuaries commissioned by the National Audit Office for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team; ▸ Understand and consider the PwC report for how your actuary has treated the impact of McCloud and Sargeant in calculating the IAS 19 liability and for any impact on the triennial revaluation; ▸ Review and test the accounting entries and disclosures made within the financial statements in relation to IAS19; ▸ Gain assurance over data that has been provided to the actuaries; ▸ Test a sample of lump sums and pension payments for new police pensioners; ▸ Complete a predictive analytical review for both the pensions payroll and employees and employers pension contributions; and ▸ Assess management's arrangements to reconcile the active and pensioner membership numbers.

Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

What is the risk/area of focus?	What will we do?
Collaborative Arrangements (CC) Joint arrangements operate with partners across the East Midlands. Given the volume of transactions being accounted for across the various forces that participate in the joint arrangements and their value, we consider there to be a risk associated with the accuracy of the information being reported and accounted for (i.e. the measurement/valuation, completeness and presentation and disclosure of balances included in the financial statements	In order to address the risk we will: ▸ Review the underlying allocation of expenditure in the Authority's own accounts against agreements in place; and ▸ Seek further assurance from external auditors at the other Police Authorities where required over any significant stream of expenditure not controlled by Nottinghamshire.
Private Finance Initiative (PFI) accounting (PCC) The PCC has two PFI Schemes, being the provision and maintenance of the Riverside building and of the vehicle fleet. Correctly accounting for PFI schemes involves transactions which are derived from operating models for which assumptions and changes need to be updated accurately and reflected in the financial statements. There is a risk that disclosures in the financial statements are not consistent with the assumptions within the PFI operating model.	In order to address the risk we will: ▸ Review the consistency of the accounting transactions and disclosures with the PFI model ▸ Review the PFI model for consistency with the model applied in the prior period.

Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

What is the risk/area of focus?	What will we do?
Going Concern Compliance with ISA 570 This auditing standard has been revised in response to enforcement cases and well-publicised corporate failures where the auditor's report failed to highlight concerns about the prospects of entities which collapsed shortly after. The revised standard is effective for audits of financial statements for periods commencing on or after 15 December 2019, which will be the audit of the 2020/21 financial statements. The revised standard increases the work we are required to perform when assessing whether the entity is a going concern. It means UK auditors will follow significantly stronger requirements than those required by current international standards; and we have therefore judged it appropriate to bring this to the attention of the Audit Committee. The CIPFA Guidance Notes for Practitioners 2019/20 accounts states 'The concept of a going concern assumes that an authority's functions and services will continue in operational existence for the foreseeable future. The provisions in the Code in respect of going concern reporting requirements reflect the economic and statutory environment in which local authorities operate. These provisions confirm that, as authorities cannot be created or dissolved without statutory prescription, they must prepare their financial statements on a going concern basis of accounting.' 'If an authority were in financial difficulty, the prospects are thus that alternative arrangements might be made by central government either for the continuation of the services it provides or for assistance with the recovery of a deficit over more than one financial year. As a result of this, it would not therefore be appropriate for local authority financial statements to be provided on anything other than a going concern basis.'	The revised standard requires: ▸ auditor's challenge of management's identification of events or conditions impacting going concern, more specific requirements to test management's resulting assessment of going concern, an evaluation of the supporting evidence obtained which includes consideration of the risk of management bias; ▸ greater work for us to challenge management's assessment of going concern, thoroughly test the adequacy of the supporting evidence we obtained and evaluate the risk of management bias. Our challenge will be made based on our knowledge of the Authority obtained through our audit, which will include additional specific risk assessment considerations which go beyond the current requirements; ▸ improved transparency with a new reporting requirement for public interest entities, listed and large private companies to provide a clear, positive conclusion on whether management's assessment is appropriate, and to set out the work we have done in this respect. While the PCC and CC are not one of the three entity types listed, we will ensure compliance with any updated reporting requirements; ▸ a stand back requirement to consider all of the evidence obtained, whether corroborative or contradictory, when we draw our conclusions on going concern; and ▸ necessary consideration regarding the appropriateness of financial statement disclosures around going concern. The revised standard extends requirements to report to regulators where we have concerns about going concern. We will discuss the detailed implications of the new standard with finance staff during 2019/20 ahead of its application for 2020/21.

Other areas of audit focus (continued)

Impact of Covid-19

The ongoing disruption to daily life and the economy as a result of the Covid-19 virus will have a pervasive impact upon the financial statements. Understandably, the priority for the PCC and CC to date has been to ensure the safety of staff and the delivery of business critical activities. However, the financial statements will need to reflect the impact of Covid-19 on the PCC and CC's financial position and performance. Due to the significant uncertainty about the duration and extent of disruption, at this stage we have not identified specific risks related to Covid-19, but wish to highlight the wide range of ways in which it could impact the financial statements. These may include, but not be limited to:

- **Going concern** – management's assessment of whether the PCC and CC is a going concern will need to consider the impact of the current conditions on the Council's future performance. Additional narrative disclosure will be required, including on the future principal risks and uncertainties, including the impact on operations for 2020/21 and beyond.
- **Revenue recognition** – there may be an impact on income collection if businesses and residents are unable to work and earn income due to the lockdown and restriction of movement due to COVID-19.
- **Tangible assets** – there may be impairment of tangible assets if future service potential is reduced by the economic impact of the virus. The PCC and CC may also have already incurred capital costs on projects where the economic case has fundamentally changed.
- **Pensions** – volatility in the financial markets is likely to have a significant impact on pension assets, and therefore net liabilities.
- **Receivables** – there may be an increase in amounts written off as irrecoverable and impairment of year-end balances due to the increased number of businesses and residents unable to meet their financial obligations.
- **Holiday and sickness pay** – the change in working patterns may result in year-end staff pay accruals which are noticeably different to prior years.
- **Government support** – any Covid-19 specific government support is likely to be a new transaction stream and may require development of new accounting policies and treatments.
- **Annual Governance Statement**– the widespread use of home working is likely to change the way internal controls operate. The Annual Governance Statement will need to capture how the control environment has changed during the period and what steps were taken to maintain a robust control environment during the disruption. This will also need to be considered in the context of internal audit's ability to issue their Head of Internal Audit opinion for the year, depending on the ability to complete the remainder of the internal audit programme.

In addition to the impact on the financial statements themselves, the disruption caused by Covid-19 may impact on management's ability to service the external audit requirements in a timely manner. For example, it may be more difficult than usual to access the supporting documentation necessary to support our audit procedures. There will be additional audit procedures we have to perform to respond to the additional risks caused by the factors noted above.

03 Value for Money Risks

Value for Money

Background

We are required to consider whether the PCC and CC have put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. This is known as our value for money conclusion.

For 2019/20 this is based on the overall evaluation criterion:

"In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people"

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- Take informed decisions;
- Deploy resources in a sustainable manner; and
- Work with partners and other third parties.

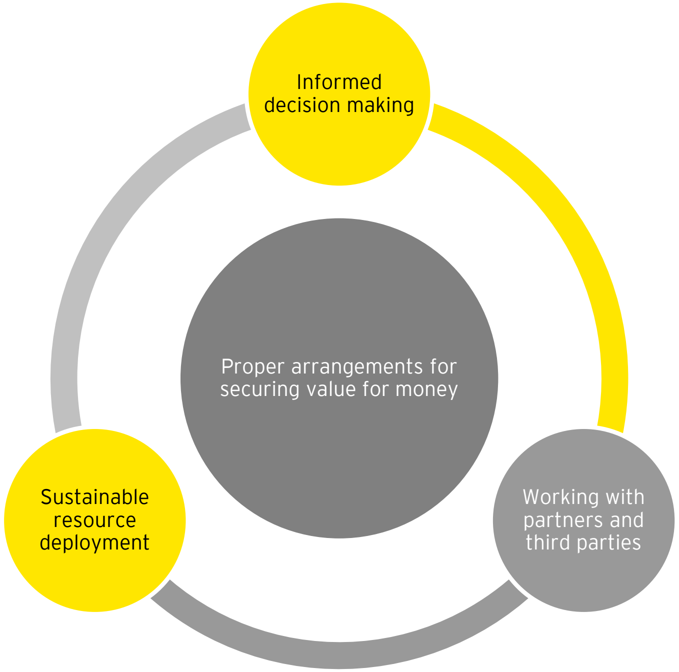
In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

We are only required to determine whether there are any risks that we consider significant, which the Code of Audit Practice defines as:

"A matter is significant if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public"

Our risk assessment supports the planning of sufficient work to enable us to deliver a safe conclusion on arrangements to secure value for money and enables us to determine the nature and extent of further work that may be required. If we do not identify any significant risks there is no requirement to carry out further work. We consider business and operational risks insofar as they relate to proper arrangements at both sector and organisation-specific level. In 2019/20 this has included consideration of the steps taken by Nottinghamshire Police to consider the impact of both COVID-19 and Brexit on its future service provision, medium-term financing and investment values. Although the precise impact cannot yet be modelled, we anticipate that Authorities will be carrying out scenario planning and that COVID-19 and Brexit and their impact may feature on operational risk registers.

Our risk assessment has therefore considered both the potential financial impact of the issues we have identified, and also the likelihood that the issue will be of interest to local taxpayers, the Government and other stakeholders. This has resulted in the identification of the significant risks noted on the following pages which we view as relevant to our value for money conclusion.



Value for Money Risks

What arrangements does the risk affect?	What is the significant value for money risk?	What will we do?
Multi-Force Shared Services (MFSS) The Multi-Force Shared Services (MFSS) provides transactional back office services to Cheshire, Nottinghamshire and Northamptonshire Police and the Civil Nuclear Authority. The adequacy of arrangements for governance and risk management of MFSS and specifically the implementation of Project Fusion have been raised as Value for Money significant risks in prior years – resulting in 'except for' conclusions.	**Take informed decisions** **Deploy resources in a sustainable manner** **Working with partners and other third parties**	We will follow-up on our prior year except for qualification on the governance arrangements for MFSS and the implementation of Project Fusion. We will seek to understand whether the Force has put in place a collaboration strategy or other mechanisms to provide legitimacy, structure, governance and a clear direction of travel to the work of both PCC, Management, JASP Members, the wider public and stakeholders. We will review the completeness of the risk register maintained in respect of MFSS and the arrangements in place to address the risks identified.
Joint Headquarters with Nottinghamshire Fire In September 2018 and February 2019, Members approved the development of a business case for a joint Fire and Police Headquarters at Sherwood Lodge, Arnold through a Limited Liability Partnership (LLP) for a joint headquarters site. The total estimated costs for the redevelopment of Sherwood Lodge is circa £18.5m, of which Nottinghamshire Police is to contribute £14.8m over the next three years according to it's capital programme. In progressing significant projects there are risks around the arrangements for governance and coming to an informed decision.	**Take informed decisions** Acting in the public interest, through demonstrating and applying the principles and values of sound governance	We plan to review: • The considerations undertaken in relation to the taxation and legal guidance relating to the governance delivery options for the joint headquarters arrangements. • The effectiveness of the decision making framework including decision making in partnerships, the information provided to decision makers and the robustness of data quality. • The extent to which the impact of the joint headquarters project is reflected in the MTFP.
Management of contracts to ensure value for money in the provision of core services used in operational policing We are aware that the CC is in the process of making a significant decision in respect of one existing contract over operational police matters.	**Take informed decisions** Deploy resources in a sustainable manner	We plan to review: • The arrangements in place for measuring the performance of this contract and ensuring that it is delivered in accordance with defined contractual outcomes.

Value for Money Risks

What arrangements does the risk affect?	What is the significant value for money risk?	What will we do?
Arrangements for financial reporting There is currently an indication of weaknesses in the structure, continuity and ability of the finance function within the authority. This is evidenced by the fact that the senior accountant position is currently held by a contractor and has been so for over 12 months. This gives rise to a significant risk in respect of the quality, reliability, and accuracy of financial information on which key judgements and decisions are being made.	**Take informed decisions** **Deploy resources in a suitable manner**	We plan to review: • Management's plans to address the issues with the resourcing of the finance team; and • Evidence as to whether the authority provides timely support, information and responses to external and internal auditors and properly considers audit findings and recommendations.
Securing financial resilience In common with other Police bodies, the PCC and CC is facing significant financial pressures in the medium term. Although the PCC and CC forecast to breakeven for 2019/20, following the confirmation of the 2020/21 funding settlement and assuming no increase in precept the PCC and CC are forecasting deficits in the medium term. Given the uncertainty of the funding settlement post 2020/21 and the financial pressures set out above, we have considered this to be a significant area of focus in forming our value for money conclusion.	**Deploy resources in a sustainable manner.** Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions	We plan to review: ▸ the MTFS including the adequacy of any major assumptions; ▸ how the organisation has monitored progress of strategic delivery plans; ▸ how the PCC and CC has considered the impact of the Local Government settlement on the MTFS; and ▸ the adequacy of plans that have been developed to identify future savings and the level of reported savings delivered in year.

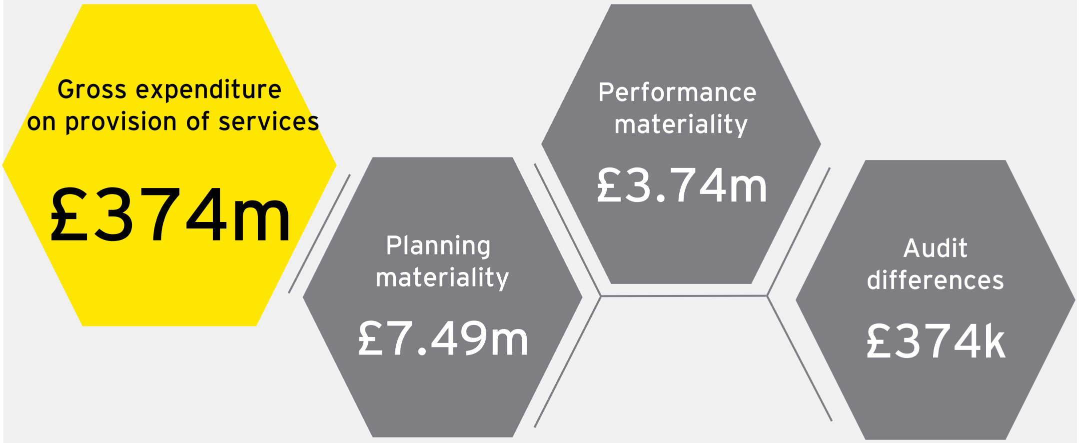
04 Audit materiality

Materiality

Materiality

For planning purposes, materiality for the Group, PCC and CC Single Entity for 2019/20 has been set at £7.49m, £2.38m & £7.29m respectively. This represents 2% of the Group and CC Single Entity's 2019/20 draft gross expenditure on provision of services (excluding non-distributed costs). Materiality for the PCC Single Entity has been set at 2% of the PCC Single Entity's prior year gross assets. Materiality for the Police Pension Fund has been set at 2% of the draft 2019/20 benefits payable of the Police Pension Fund. It will be reassessed throughout the audit process.

We have provided supplemental information about audit materiality in Appendix D.



We request that the PCC and CC confirm their understanding of, and agreement to, these materiality and reporting levels.

Key definitions

Planning materiality – the amount over which we anticipate misstatements would influence the economic decisions of a user of the financial statements.

Performance materiality – the amount we use to determine the extent of our audit procedures. We have set performance materiality for the Group, PCC and CC Single Entity Accounts & Police Pension Fund at £3.74m, £1.19m, £3.65m & £0.726m which represents 50% of planning materiality.

Audit difference threshold – we propose that misstatements identified below this threshold are deemed clearly trivial. The same threshold for misstatements is used for component reporting. We will report to you all uncorrected misstatements over this amount relating to the comprehensive income and expenditure statement, balance sheet and the police pension fund financial statements that have an effect on income or that relate to other comprehensive income.

Other uncorrected misstatements, such as reclassifications and misstatements in the cashflow statement and movement in reserves statement or disclosures, and corrected misstatements will be communicated to the extent that they merit the attention of the JASP, or are important from a qualitative perspective.

Specific materiality – We set specific level of materiality for related party transactions and members' allowances. For officers remuneration including exit packages we will apply materiality of £5,000 in line with bandings. This reflects our understanding that an amount less than our materiality would influence the economic decisions of users of the financial statements in relation to these disclosures.

05 Scope of our audit

Our Audit Process and Strategy

Objective and Scope of our Audit scoping

Under the Code of Audit Practice our principal objectives are to review and report on the PCC and CC's financial statements and arrangements for securing economy, efficiency and effectiveness in their use of resources to the extent required by the relevant legislation and the requirements of the Code.

We issue an audit report that covers:

1. **Financial statement audit**

Our objective is to form an opinion on the financial statements under International Standards on Auditing (UK and Ireland).

We also perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline below the procedures we will undertake during the course of our audit.

Procedures required by standards
- Addressing the risk of fraud and error;
- Significant disclosures included in the financial statements;
- Entity-wide controls;
- Reading other information contained in the financial statements and reporting whether it is inconsistent with our understanding and the financial statements; and
- Auditor independence.

Procedures required by the Code
- Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Annual Governance; and
- Reviewing and reporting on the Whole of Government Accounts return, in line with the instructions issued by the NAO

2. Arrangements for securing economy, efficiency and effectiveness (value for money)

We are required to consider whether the PCC and CC has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on their use of resources.

Our Audit Process and Strategy (continued)

Audit Process Overview

Our audit involves:

- Identifying and understanding the key processes and internal controls; and
- Substantive tests of detail of transactions and amounts.

For 2019/20 we plan to follow a substantive approach to the audit as we have concluded this is the most efficient way to obtain the level of audit assurance required to conclude that the financial statements are not materially misstated.

Analytics:
We will use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular journal entries. These tools:

- Help identify specific exceptions and anomalies which can then be subject to more traditional substantive audit tests; and
- Give greater likelihood of identifying errors than random sampling techniques.

We will report the findings from our process and analytics work, including any significant weaknesses or inefficiencies identified and recommendations for improvement, to management and the Joint Independent Audit Committee.

Internal audit:
We will meet with the Head of Internal Audit, and review internal audit plans and the results of their work. We will reflect the findings from these reports, together with reports from any other work completed in the year, in our detailed audit plan, where they raise issues that could have an impact on the financial statements.

Group audit team involvement in component audits

The same audit team will work on the CC, PCC and group and Police Pension Fund accounts. We will work from the same location to audit the accounts.

Scoping the group audit

Group scoping

Our audit strategy for performing an audit of an entity with multiple locations is risk based. We identify components as:

1. **Significant components:** A component is significant when it is likely to include risks of material misstatement of the group financial statements, either because of its relative financial size to the group (quantitative criteria), or because of its specific nature or circumstances (qualitative criteria). We generally assign significant components a full or specific scope given their importance to the financial statements.
2. **Not significant components:** The number of additional components and extent of procedures performed depended primarily on: evidence from significant components, the effectiveness of group wide controls and the results of analytical procedures.

Our preliminary audit scoping has identified 2 significant components and 0 non-significant components.

Scoping by entity and scope definitions

2 — **Full scope:** locations where a full audit is performed to the materiality levels assigned by the Group audit team for purposes of the consolidated audit. Procedures performed at full scope locations support an interoffice conclusion on the reporting package. These may not be sufficient to issue a stand-alone audit opinion on the local statutory financial statements because of the materiality used and any additional procedures required to comply with local laws and regulations. This scope is relevant to the PCC and CC as single entities.

Group audit team involvement in component audits

Auditing standards require us to be involved in the work of our component teams.

The same EY audit team will audit both the Group, PCC and CC financials statements.

06 Audit team

Use of specialists

When auditing key judgements, we are often required to rely on the input and advice provided by specialists who have qualifications and expertise not possessed by the core audit team. The areas where either EY or third party specialists may provide input for the current year audit are:

Area	Specialists
Valuation of Land and Buildings	EY Real Estates Team
Pensions disclosure	EY Pensions Advisory Team

In accordance with Auditing Standards, we will evaluate each specialist's professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work.

We also consider the work performed by the specialist in light of our knowledge of the PCC and CC's business and processes and our assessment of audit risk in the particular area. For example, we would typically perform the following procedures:

- Analyse source data and make inquiries as to the procedures used by the specialist to establish whether the source data is relevant and reliable;
- Assess the reasonableness of the assumptions and methods used;
- Consider the appropriateness of the timing of when the specialist carried out the work; and
- Assess whether the substance of the specialist's findings are properly reflected in the financial statements.

07 Audit timeline

Audit timeline

Timetable of communication and deliverables

Timeline

Below is a timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 2019/20.

From time to time matters may arise that require immediate communication with the PCC and CC and we will discuss them with the JASP Chair as appropriate. We will also provide updates on corporate governance and regulatory matters as necessary.

Audit phase	Timetable	Audit committee timetable	Deliverables
Planning: Risk assessment and setting of scopes.	June 2020		
Walkthrough of key systems and processes	June 2020		
Year end audit: Audit Completion procedures	September – October 2020	September JASP.	Audit Planning Report
Conclusion	November 2020	November JASP	Audit Results Report Audit opinions and completion certificates Annual Audit Letter

08 Independence

Introduction

The FRC Ethical Standard and ISA (UK) 260 "Communication of audit matters with those charged with governance", requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our integrity, objectivity and independence. The Ethical Standard, as revised in June 2016, requires that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

Required communications	
Planning stage	**Final stage**
▶ The principal threats, if any, to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between the you, your affiliates and directors and us; ▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review; ▶ The overall assessment of threats and safeguards; ▶ Information about the general policies and process within EY to maintain objectivity and independence. ▶ Where EY has determined it is appropriate to apply more restrictive independence rules than permitted under the Ethical Standard [note: additional wording should be included in the communication reflecting the client specific situation]	▶ In order for you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed; ▶ Details of non-audit services provided and the fees charged in relation thereto; ▶ Written confirmation that the firm and each covered person is independent and, if applicable, that any non-EY firms used in the group audit or external experts used have confirmed their independence to us; ▶ Written confirmation that all covered persons are independent; ▶ Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy; ▶ Details of any contingent fee arrangements for non-audit services provided by us or our network firms; and ▶ An opportunity to discuss auditor independence issues.

In addition, during the course of the audit, we are required to communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place, for example, when accepting an engagement to provide non-audit services.

We also provide information on any contingent fee arrangements , the amounts of any future services that have been contracted, and details of any written proposal to provide non-audit services that has been submitted;

We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period, analysed in appropriate categories, are disclosed.

Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including the principal threats, if any. We have adopted the safeguards noted below to mitigate these threats along with the reasons why they are considered to be effective. However we will only perform non –audit services if the service has been pre-approved in accordance with your policy.

Overall Assessment

Overall, we consider that the safeguards that have been adopted appropriately mitigate the principal threats identified and we therefore confirm that EY is independent and the objectivity and independence of Helen Henshaw, your audit engagement associate partner and the audit engagement team have not been compromised.

Self interest threats

A self interest threat arises when EY has financial or other interests in the PCC and/or CC. Examples include where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with you. At the time of writing, there are no long outstanding fees.

We believe that it is appropriate for us to undertake permissible non-audit services and we will comply with the policies that you have approved.

None of the services are prohibited under the FRC's ES or the National Audit Office's Auditor Guidance Note 01 and the services have been approved in accordance with your policy on pre-approval. The ratio of non audit fees to audits fees is not permitted to exceed 70%.

At the time of writing, the current ratio of non-audit fees to audit fees is approximately nil. No additional safeguards are required.

A self interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to you. We confirm that no member of our audit engagement team, including those from other service lines, has objectives or is rewarded in relation to sales to you, in compliance with Ethical Standard part 4.

There are no other self interest threats at the date of this report.

Self review threats

Self review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements.

There are no self review threats at the date of this report.

Relationships, services and related threats and safeguards

Management threats
Partners and employees of EY are prohibited from taking decisions on behalf of management of the PCC and/or CC Management threats may also arise during the provision of a non-audit service in relation to which management is required to make judgements or decision based on that work. There are no management threats at the date of this report.

Other threats
Other threats, such as advocacy, familiarity or intimidation, may arise. There are no other threats at the date of this report.

New UK Independence Standards

The Financial Reporting Council (FRC) published the Revised Ethical Standard 2019 in December and it will apply to accounting periods starting on or after 15 March 2020. A key change in the new Ethical Standard will be a general prohibition on the provision of non-audit services by the auditor (and its network) which will apply to UK Public Interest Entities (PIEs). A narrow list of permitted services will continue to be allowed.

Summary of key changes

- Extraterritorial application of the FRC Ethical Standard to UK PIE and its worldwide affiliates
- A general prohibition on the provision of non-audit services by the auditor (or its network) to a UK PIE, its UK parent and worldwide subsidiaries
- A narrow list of permitted services where closely related to the audit and/or required by law or regulation
- Absolute prohibition on the following relationships applicable to UK PIE and its affiliates including material significant investees/investors:
    - Tax advocacy services
    - Remuneration advisory services
    - Internal audit services
    - Secondment/loan staff arrangements
- An absolute prohibition on contingent fees.
- Requirement to meet the higher standard for business relationships i.e. business relationships between the audit firm and the audit client will only be permitted if it is inconsequential.
- Permitted services required by law or regulation will not be subject to the 70% fee cap.
- Grandfathering will apply for otherwise prohibited non-audit services that are open at 15 March 2020 such that the engagement may continue until completed in accordance with the original engagement terms.
- A requirement for the auditor to notify the Audit Committee where the audit fee might compromise perceived independence and the appropriate safeguards.
- A requirement to report to the audit committee details of any breaches of the Ethical Standard and any actions taken by the firm to address any threats to independence. A requirement for non-network component firm whose work is used in the group audit engagement to comply with the same independence standard as the group auditor. Our current understanding is that the requirement to follow UK independence rules is limited to the component firm issuing the audit report and not to its network. This is subject to clarification with the FRC.

Next Steps

We will continue to monitor and assess all ongoing and proposed non-audit services and relationships to ensure they are permitted under FRC Revised Ethical Standard 2016 which will continue to apply until 31 March 2020 as well as the recently released FRC Revised Ethical Standard 2019 which will be effective from 1 April 2020.

We are aware that the PCC and CC for Nottinghamshire do not class as Public Interest Entities however we will continue to monitor the revised standards to ensure that EY continue to remain compliant with all FRC Standards.

Other communications

EY Transparency Report 2019
Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained. Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year ended 1 July 2018 and can be found here: https://www.ey.com/en_uk/who-we-are/transparency-report-2019

09 Appendices

Appendix A

Fees

Public Sector Audit Appointments Ltd (PSAA) has published the fee scale for the audit of the 2019/20 accounts of opted-in principal local government and police bodies.

This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the requirements of the Code of Audit Practice and supporting guidance published by the National Audit Office, the financial reporting requirements set out in the Code of Practice on Local Authority Accounting published by CIPFA/LASAAC, and the professional standards applicable to auditors' work.

A breakdown of our fees is shown in the table below.

	2019/20	2018/19
	£	£
PCC Fee	27,119	27.119
CC Fee	11,550	11,550
Total audit fees (PSAA Scale Fee)	38,669	38,669
Scale Fee Variations (SFV)	TBC (**Note1**)	TBC (**Note 2**)
Total audit fees including SFVs	TBC	TBC

All fees exclude VAT

(**Note 1**) Scale Fee Variation for 2018/19 is yet to be finalised and discussed with management.

(**Note 2**) For 2019/20, the scale fee will be impacted by a range of factors (see pages 40 and 41). The specific issues we have identified at the planning stage which will impact on the fee include the additional work that will be required because we have had to set performance materiality at a low level reflecting the quantity and value of audit errors in the prior year audit, to address the value for money risk identified, to reflect the need to use valuation specialists to address the significant risk in respect of PPE valuation, and the various additional procedures and testing which will be required as a consequence of C-19.

The actual amounts cannot be quantified at this stage and will be based on the actual audit effort incurred. We will report the final levels to you upon conclusion of our work and agreement with management.

The scale fee presented is based on the following assumptions:

- Officers meeting the agreed timetable of deliverables;
- Our accounts opinion and value for money conclusion being unqualified;
- Appropriate quality of documentation is provided; and
- The PCC and CC have an effective control environment.

If any of the above assumptions prove to be unfounded, we will seek a variation to the agreed fee. This will be discussed with management in advance.

Fees for the auditor's consideration of correspondence from the public and formal objections will be charged in addition to the scale fee.

Appendix A

Fees

We do not believe the existing scale fees provide a clear link with both a public sector organization's risk and complexity. For an organization such as the PCC and CC the extent of audit procedures now required mean it will take 1000-1100 hours to complete a quality audit. A commercial benchmark for this size of external audit would be in the region of £92,000.

Summary of key factors

1. **Status of sector.** Financial reporting and decision making in local government has become increasingly complex, for example from the growth in commercialisation, speculative ventures and investments. This has also brought increasing risk about the financial sustainability / going concern of bodies given the current status of the sector.

    - To address this risk our procedures now entail higher samples sizes of transactions, the need to increase our use of analytics data to test more transactions at a greater level of depth. This requires a continual investment in our data analytics tools and audit technology to enhance audit quality. This also has an impact on local government with the need to also keep pace with technological advancement in data management and processing for audit.

2. **Audit of estimates.** There has been a significant increase in the focus on areas of the financial statements where judgemental estimates are made. This is to address regulatory expectations from FRC reviews on the extent of audit procedures performed in areas such as the valuation of land and buildings and pension assets and liabilities.

    - To address these findings, our required procedures now entail higher samples sizes, increased requirements for corroborative evidence to support the assumptions and use of our internal specialists.

3. **Regulatory environment.** Other pressures come from the changing regulatory landscape and audit market dynamics:

    - Parliamentary select committee reports, the Brydon and Kingman reviews, plus within the public sector the Redmond review and the new NAO Code of Audit practice are all shaping the future of Local Audit. These regulatory pressures all have a focus on audit quality and what is required of external auditors.

    - This means continual investment in our audit quality infrastructure in response to these regulatory reviews, the increasing fines for not meeting the requirements plus changes in auditing and accounting standards. As a firm our compliance costs have now doubled as a proportion of revenue in the last five years. The regulatory lens on Local Audit specifically, is greater. We are three times more likely to be reviewed by a quality regulator than other audits, again increasing our compliance costs of being within this market.

Appendix A

Fees

Summary of key factors (cont'd)

4. As a result Public sector auditing has become less attractive as a profession, especially due to the compressed timetable, regulatory pressure and greater compliance requirements. This has contributed to higher attrition rates in our profession over the past year and the shortage of specialist public sector audit staff and multidisciplinary teams (for example valuation, pensions, tax and accounting) during the compressed timetables.

    - We need to invest over a five to ten-year cycle to recruit, train and develop a sustainable specialist team of public sector audit staff. We and other firms in the sector face intense competition for the best people, with appropriate public sector skills, as a result of a shrinking resource pool. We need to remunerate our people appropriately to maintain the attractiveness of the profession, provide the highest performing audit teams and protect audit quality.

    - We acknowledge that local authorities are also facing challenges to recruit and retain staff with the necessary financial reporting skills and capabilities. This though also exacerbates the challenge for external audits, as where there are shortages it impacts on the ability to deliver on a timely basis.

Next steps

- The current scale fee for Nottinghamshire PCC and CC is £38,669.
- In light of recent communication from PSAA, we will need to quantify the impact of the above to be able to accurately re-assess what the baseline fee is for the council should be in the current environment. Once this is done we will be able to discuss at a more detailed level with you.

Appendix B

Required communications with the PCC and CC

We have detailed the communications that we must provide to the PCC and CC**.**

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Terms of engagement	Confirmation by the PCC and CC of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified. When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team	Audit planning report (September 2020)
Significant findings from the audit	▸ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▸ Significant difficulties, if any, encountered during the audit ▸ Significant matters, if any, arising from the audit that were discussed with management ▸ Written representations that we are seeking ▸ Expected modifications to the audit report ▸ Other matters if any, significant to the oversight of the financial reporting process	Audit results report (estimated November 2020)

Required communications with the PCC and CC (continued)

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Going concern	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: ▸ Whether the events or conditions constitute a material uncertainty ▸ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▸ The adequacy of related disclosures in the financial statements	Audit results report (estimated November 2020)
Misstatements	▸ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation ▸ The effect of uncorrected misstatements related to prior periods ▸ A request that any uncorrected misstatement be corrected ▸ Corrected misstatements that are significant ▸ Material misstatements corrected by management	Audit results report (estimated November 2020)
Fraud	▸ Enquiries of the PCC and CC to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▸ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▸ A discussion of any other matters related to fraud	Audit results report (estimated November 2020)
Related parties	▸ Significant matters arising during the audit in connection with the entity's related parties including, when applicable: ▸ Non-disclosure by management ▸ Inappropriate authorisation and approval of transactions ▸ Disagreement over disclosures ▸ Non-compliance with laws and regulations ▸ Difficulty in identifying the party that ultimately controls the entity	Audit results report (estimated November 2020)

Appendix B

Required communications with the PCC and CC (continued)

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Independence	Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: ▸ The principal threats ▸ Safeguards adopted and their effectiveness ▸ An overall assessment of threats and safeguards ▸ Information about the general policies and process within the firm to maintain objectivity and independence	Audit Planning Report (September 2020) and Audit Results Report (estimated November 2020)
External confirmations	▸ Management's refusal for us to request confirmations ▸ Inability to obtain relevant and reliable audit evidence from other procedures	Audit results report (estimated November 2020)
Consideration of laws and regulations	▸ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off ▸ Enquiry of the PCC and CC into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the PCC and CC may be aware of	Audit results report (estimated November 2020)
Internal controls	▸ Significant deficiencies in internal controls identified during the audit	Management letter/audit results report (estimated November 2020)

Required communications with the PCC and CC (continued)

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Representations	Written representations we are requesting from management and/or those charged with governance	Audit results report (estimated November 2020)
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit results report (estimated November 2020)
Auditors report	▶ Key audit matters that we will include in our auditor's report ▶ Any circumstances identified that affect the form and content of our auditor's report	Audit results report (estimated November 2020)
Fee Reporting	▶ Breakdown of fee information when the audit plan is agreed ▶ Breakdown of fee information at the completion of the audit ▶ Any non-audit work	Audit planning report (September 2020) Audit results report (estimated November 2020)

Appendix C

Additional audit information

Other required procedures during the course of the audit

In addition to the key areas of audit focus outlined in section 2, we have to perform other procedures as required by auditing, ethical and independence standards and other regulations. We outline the procedures below that we will undertake during the course of our audit.

Our responsibilities required by auditing standards	▸ Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. ▸ Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control. ▸ Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management. ▸ Concluding on the appropriateness of management's use of the going concern basis of accounting. ▸ Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation. ▸ Obtaining sufficient appropriate audit evidence regarding the financial information of the entities or activities within the Group to express an opinion on the consolidated financial statements. Reading other information contained in the financial statements, the JASP reporting appropriately addresses matters communicated by us to the JASP and reporting whether it is materially inconsistent with our understanding and the financial statements; and ▸ Maintaining auditor independence.

Purpose and evaluation of materiality

For the purposes of determining whether the accounts are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements. Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We would be happy to discuss with you your expectations regarding our detection of misstatements in the financial statements.

Materiality determines:

- The locations at which we conduct audit procedures to support the opinion given on the Group financial statements; and
- The level of work performed on individual account balances and financial statement disclosures.

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all of the circumstances that may ultimately influence our judgement about materiality. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the accounts, including the total effect of the audit misstatements we identify, and our evaluation of materiality at that date.