

NORTHAMPTONSHIRE OFFICE OF THE POLICE AND CRIME COMMISSIONER

INDEPENDENT AUDIT COMMITTEE

12 March 2014 at 10.00am

Greenwell Room Wootton Hall, Northampton, NN4 0JQ

If you should have any queries in respect of this agenda, please contact John Raisin on 01604 888113

AGENDA

1. Apologies for non-attendance.
2. Notes of the meeting held on 27 November 2013 and matters arising
3. Declarations of personal and prejudicial interests in respect of items on the agenda.
4. Support to the Audit Committee
5. OPCC Transformation Portfolio – General progress report
 - Programme Aspire
 - Programme Estate
6. Internal Audit Strategy
7. External Audit Plan

8. Urgent Business

Such other business by reason of the special circumstances to be specified, the Chairman is of the opinion is of sufficient urgency to warrant consideration. (Members who wish to raise urgent business are requested to inform the Chairman beforehand).

9. Items for which the public be excluded from the meeting:

In respect of the following items the Chair may move the resolution set out below on the grounds that if the public were present it would be likely that exempt information (information regarded as private for the purposes of the Local Government Act 1972) would be disclosed to them:

“That under Section 100A (4) of the Local Government Act 1972, the public be excluded from the meeting for the following items of business on the grounds that if the public were present it would be likely that exempt information under Part 1 of Schedule 12A of the Act of the descriptions against each item would be disclosed to them”.

(a) Exempt Notes of the meeting held on 27
November 2013

PARAGRAPH 1 OF
PART 1 OF SCHEDULE
12A OF THE LOCAL
GOVERNMENT ACT
1972

(b) Force Performance (Crime)

(c) Internal Audit - Progress Report

(d) Audit recommendations- Update Report

(e) Force Risk Register

(f) OPCC Risk Register

The Committee will meet in private with the External and Internal Auditors at the conclusion of the formal business.

IAIN BRITTON

ASSISTANT COMMISSIONER (JUSTICE) & MONITORING OFFICER

Office of the Northamptonshire Police and Crime Commissioner and Northamptonshire Police

Internal Audit Strategy 2013/14 - 2015/16

Presented at the Independent Audit Committee meeting of:

12 March 2014

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1 Developing the Internal Audit Strategy

This document sets out the approach we have taken to develop your internal audit strategy for 2013/14 – 2015/16 and the annual plan for 2014/2015.

1.1 Role of Internal Audit

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

Definition of Internal Audit: Public Sector Internal Audit Standards.

In line with the requirements of the Public Sector Internal Audit Standards (PSIAS), we plan and perform our internal audit work with a view to reviewing and evaluating the risk management, control and governance arrangements that Northamptonshire Police and Crime Commissioner and Northamptonshire Police have in place, focusing in particular on how these arrangements help the organisations to achieve the objectives of the Police and Crime Plan. This is achieved through a risk-based plan of work, agreed with management and approved by the Independent Audit Committee. Our plan is developed to enable us to provide an opinion at year end, which may also be used by the Police and Crime Commissioner and Chief Constable to support their Annual Governance Statement.

1.2 Factors influencing Internal Audit coverage

The organisation's objectives and risk register are the starting point in the development of the audit strategy.

Appendix A reflects the range of potential issues that may affect the organisation, some of which are included on your risk register. These were used to focus our discussions with management regarding assurance priorities and to determine where internal audit input would be most beneficial.

In preparing the strategy and the annual internal audit plan, we met/corresponded with:

- John Raisin – Interim Assistant Commissioner Resources.
- Fiona Davies – Head of Corporate Services.
- Gary Jones – Head of Finance and Asset Management.
- Gill Newton – Chair of the Independent Audit Committee.
- Joint meeting of the Chief Finance Officers for the East Midlands Region.

The key areas / factors are summarised below.

Key areas discussed and their impact on the 2014/15 internal audit plan	
1	Discussions were held around auditing Data Quality and Crime Recording within the Force, however given the work that has been and is planned to be done by HMIC it was agreed not to include at this stage.
2	General discussions were held around the proposed merger with the Fire Service which will identify its own risks in due course but at this stage nothing for inclusion.
3	The issue over the potential move to a new HQ for the Force and Fire Services was discussed and this included the possible usage of the current estate. An audit on Estates is planned for 2014/15 and this will be incorporated into the scope including a review of any possible conflict of interest.
4	Discussions were held around the Aspire Programme with particular emphasis around the proposed use of Volunteers in the future and also around the workforce and succession planning. In addition, there will be changes in skills set required and the appraisal and training programme emanating. These areas have been

	included within the proposed Plan for 2014/15.
5	Mention was made of the changes in complaints handling emanating from the IPCC review, although guidance is not expected for a few months yet. This area to be included for 2014/15 but not until quarter 4 of the year.
6	Through discussion with the Chief Finance Officer of the region it was agreed to include a review of the Efficiency savings plans of the collaborations.

The strategy is set out at Appendix B, with the detailed internal audit plan for 2014/15 set out at Appendix C.

As well as assignments designed to provide assurance or advisory input around specific risks, the strategy includes:

- Planned assurance on core areas of activity;
- Time to follow up previous recommendations and actions to provide the Independent Audit Committee with assurance on the actions taken by management to address previous internal audit recommendations; and
- Audit management, which is used at Head of Internal Audit and Senior Manager level for quality control, client and external audit liaison, preparation of the annual opinion, and attendance at Independent Audit Committee.

2 Assurance Resources

2.1 Your Internal Audit Team

Your internal audit team is led by Patrick Green as Head of Internal Audit.

Your Senior Manager is Suzanne Lane.

We are not aware of any relationships that may affect the independence and objectivity of the team, and which are required to be disclosed under auditing standards.

2.2 Internal Audit Fees

The fee for your internal audit service for 2014/15 is £44,672, based on an input of 128 days.

2.3 Working with other assurance providers

We intend to meet with the External Auditor to avoid duplication of coverage between Internal and External Audit. This will also ensure that External Audit can continue to place their planned level of reliance on our coverage of financial controls.

The Independent Audit Committee is reminded that internal audit is only one source of assurance. Through our plan we do not seek to cover all risks and processes. We will however, seek to work closely with other assurance providers to ensure that duplication is minimised and a suitable breadth of assurance obtained.

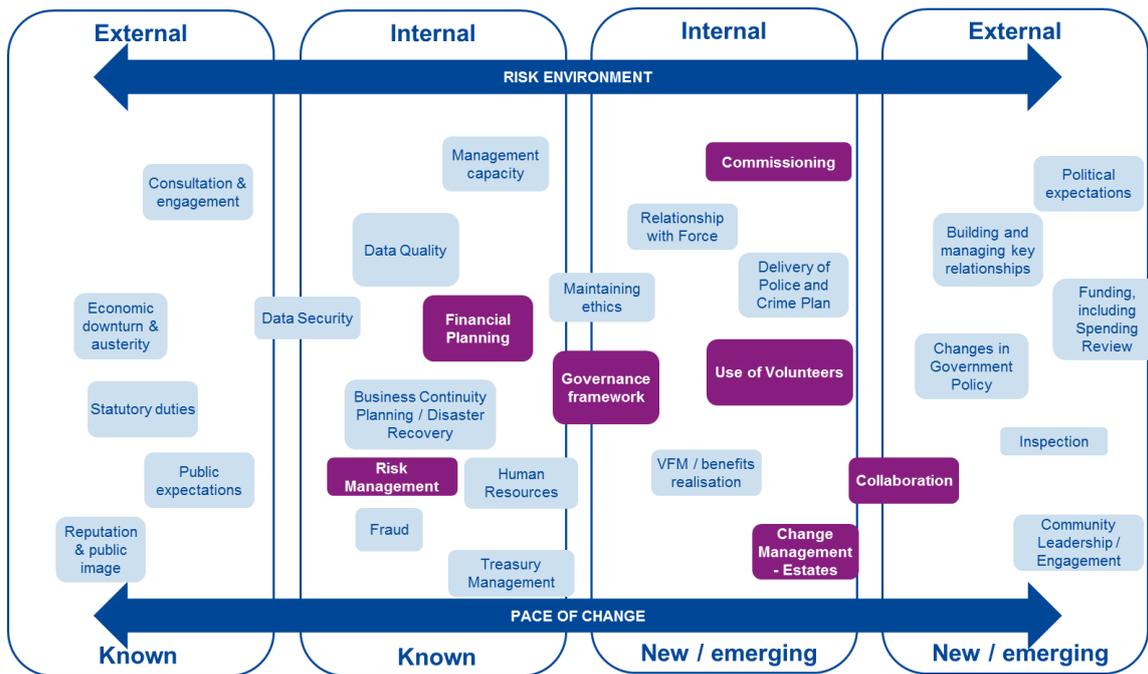
2.4 Considerations for the Independent Audit Committee

- Does the Internal Audit Strategy (Appendix B) cover the organisation's key risks as they are recognised by the Independent Audit Committee?
- Does the internal audit plan for 2014/2015 (Appendix C) reflect the areas that the Independent Audit Committee believes should be covered as priority?
- Is the Independent Audit Committee satisfied that sufficient assurances are being received to monitor the organisation's risk profile effectively, including any emerging issues / key risks (Appendix A) not included in the strategy or annual plan?

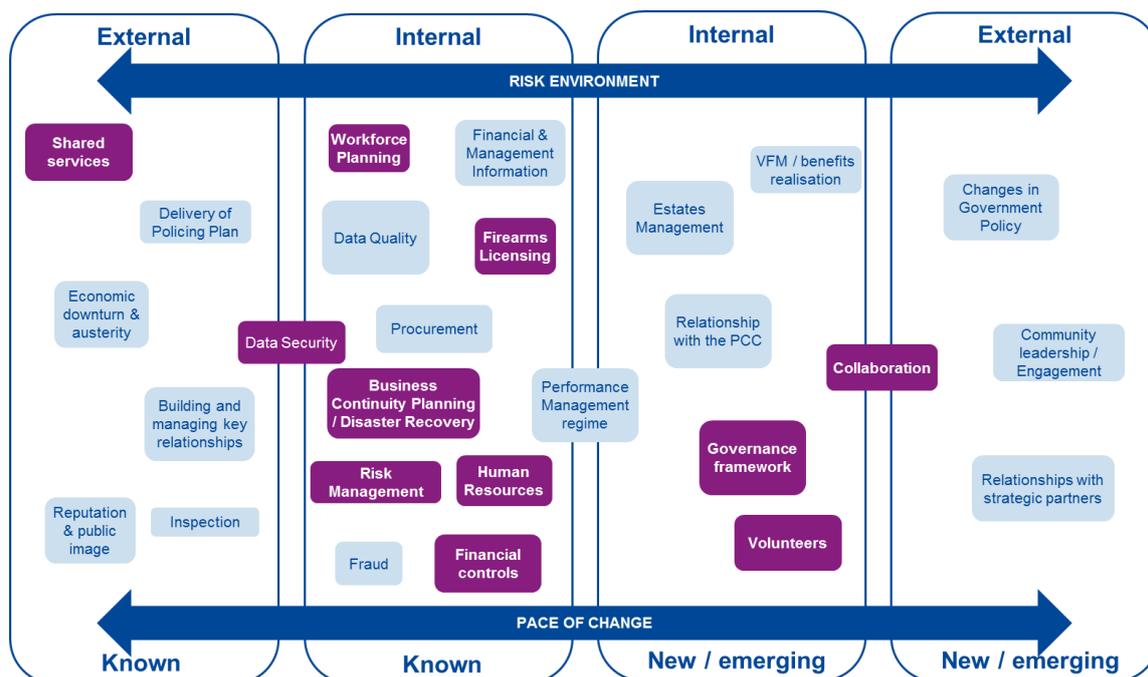
Appendix A: Issues affecting Office of the Northamptonshire Police and Crime Commissioner and Northamptonshire Police

The chart below reflects some of the current issues facing the organisation. Those topics which have been highlighted (in purples) are those where internal audit coverage is planned in the coming year.

Office of the Police and Crime Commissioner



Northamptonshire Police



Appendix B: Internal Audit Strategy 2013/14 – 2015/16

Auditable Area	Risks (residual impact and likelihood scores in brackets)	2013/14	2014/15	2015/16
Risk based reviews				
Change Management Programme	Due to insufficient capacity the Force / ONPCC are unable to deliver all of the programmed changes that are required to fulfil the Police and Crime Plan resulting in a failure to meet operational or financial targets. (Force)	✓		✓
Delivery of the Police and Crime Plan	Delivery of Plan. (OPCC) Doubts re capability to deliver plan. (OPCC) Failure to deliver key outcomes of the Polices and Crime Plan relating to the recruitment of reservists and volunteers and collaboration with other agencies will place increased demand on the Force resulting in reduced performance, budgetary pressure, loss of public confidence and possible adverse publicity. (Force)	✓		
Partnerships Arrangements and Management	A reduction in partnership resources due to budgetary constraints means that the Police increasingly have to perform roles on behalf of partners which is diverting resources away from key policing functions. (Force) Adverse stakeholder feedback particularly from HMIC and internal and external audit. (OPCC)			✓
Medium Term Financial Planning	Budget deficit of £20.22 million over 4 years to 2017-18. (Force) The on-going financial pressures placing additional strain on resources resulting in a reduction in Force performance. (Force) Less funding available, both from public and private sources to enable the force to prepare for growth. (Force) Stable sustainable and deliverable PCC budget and MTFP. (OPCC)		✓	
Human Resources, this could include: <ul style="list-style-type: none"> ▪ Absence Management; ▪ Training and Development; ▪ Workforce Planning; ▪ Appraisals. 	The on-going financial pressures placing additional strain on resources resulting in a reduction in Force performance. (Force)		✓	✓
Data Security	Information Security Breach (Internal or External) (Force)	✓		
Firearms Licensing	Differences in software used the by National Firearms Licensing Management System and		✓	

Auditable Area	Risks (residual impact and likelihood scores in brackets)	2013/14	2014/15	2015/16
	Storm causes addresses to be 'mismatched' meaning that addresses are incorrectly identified as firearms being present, or not present. (Force)			
Business Continuity	Following loss of mains electricity a failure in the power supply contingency system causes a prolonged disruption to force systems, reduction in operational performance, damage to equipment and harm to public confidence. (Force)	✓		

Auditable Area	Outline Scope	2013/2014	2014/2015	2015/2016
Core assurance. Including areas where external audit will place reliance on our work				
Governance	Annual Review of the Governance Arrangements in place.	✓	✓	✓
Risk Management	Annual Review of the Risk Management Arrangements in place.	✓	✓	✓
Collaboration	Annual review of the Collaborations, this will include an element from each of the East Midlands audit plans, the scope of this review and resulting resource required will be agreed each year in collaboration with each OPCC / Force.	✓	✓	✓
Key Financial Controls <ul style="list-style-type: none"> ▪ Budgetary Control ▪ General Ledger ▪ Payroll & Expenses ▪ Income & Debtors ▪ Fixed Assets and Inventory 	To ensure external audit reliance on our work and to provide assurance on compliance with the Financial Regulations. We will work with our colleagues in Cheshire Police to ensure that testing incorporates appropriate sample testing to ensure duplication is minimised and effective use of audit resource.	✓	✓	✓
Other Internal Audit Activity				
Equiniti Pensions Administration	To follow up on the previous review within on pensions administration which provide assurance over the accurate and efficient processing, administration, verification and approval of the pensions calculations and payments.	✓		
Commissioning	Key area of development for the Police and Crime Commissioner as part of the delivery of the Police and Crime Plan.		✓	
Multi Force Shared Services	Review to provide assurance on the contract / project management arrangements for the Multi			✓

Auditable Area	Outline Scope	2013/2014	2014/2015	2015/2016
	Force Shared Service to ensure that this is being effectively monitored and managed.			
IT Audit	IT systems are key to the operation of the organisation, this review will provide assurance on the operation and management of the key systems.	See risk based	✓	✓
Estates Strategy and Management	The Estates Strategy is currently being reviewed within the OPCC and Force, once a revised strategy has been agreed review of the monitoring and completion against the Estates Management Strategy.		✓	
Procurement	The Force uses the Regional Procurement Hub for purchases over £25k and the MFSS for purchases under £25k. This review is to ensure that value for money is obtained through the procurement process.	✓		
Force Control Room Business Continuity	Key area for the Force, review of the Business Continuity arrangements in the Force Control Room.		✓	
Operational Areas	This could include areas such as: <ul style="list-style-type: none"> ▪ Management Information including Data Quality; ▪ Vetting; ▪ Stocks and Stores (clothing / firearms); ▪ Storage and Disposal of Drugs; ▪ Lost and Found Property; ▪ Seized Property. 	✓	✓	✓
Volunteers	With the increase of Volunteers as a result of the Police and Crime Plan the audit would focus on the development of the required policy/procedures and how these are being implemented.		✓	
Follow Up	To meet internal auditing standards and to provide management with on-going assurance regarding implementation of recommendations.	✓	✓	✓
Audit Management	This will include: <ul style="list-style-type: none"> ▪ Annual planning; ▪ Preparation for, and attendance at, Independent Audit Committee meetings; ▪ Regular liaison and progress updates; ▪ Liaison with external audit; ▪ Preparation of the annual internal audit opinion. 	✓	✓	✓

Appendix C: Internal Audit Plan 2014/15

Audit	Internal Audit Coverage	Assurance / Advisory	Sponsor	Days	Timing
Reviews relating to specific risks					
Medium Term Financial Planning	<p><i>The on-going financial pressures placing additional strain on resources resulting in a reduction in Force performance. (Force)</i></p> <p><i>Less funding available, both from public and private sources to enable the force to prepare for growth. (Force)</i></p> <p>The review will encompass the methodology engaged to develop, implement and monitor the MTFP. This will include the linkage to the development and approval of the annual budget for the Force and the OPCC.</p>	Assurance	OPCC & Force	8	Qtr 2
Human Resources – Workforce and Succession Planning	<p><i>The on-going financial pressures placing additional strain on resources resulting in a reduction in Force performance. (Force)</i></p> <p>The audit will encompass:</p> <ul style="list-style-type: none"> • Is there an appropriate strategy (or similar) that looks at the long term workforce requirements (including succession planning). • Identification of the potential changes in workforce skill set that Aspire will require. • Review of appraisals and training emanating from Aspire implementation. 	Assurance	Force	12	Qtr 4
Firearms Licensing	<p><i>Differences in software used the by National Firearms Licensing Management System and Storm causes addresses to be 'mismatched' meaning that addresses are incorrectly identified as firearms being present, or not present. (Force)</i></p> <p>The review will focus on:</p> <ul style="list-style-type: none"> • Firearms Licencing Policy and procedures held that are subject to regular review. • Staff resources and training. • Compliance testing with policy and procedures. 	Assurance	Force	6	Qtr 1
Core assurance					
Governance	The audit for 2014/15 will focus on the area of complaint handling. This will include:	TBC depending on issue of	OPCC	8	Qtr 4

Audit	Internal Audit Coverage	Assurance / Advisory	Sponsor	Days	Timing
	<ul style="list-style-type: none"> Any changes in working practices to meet any new guidelines emanating from changes to the IPCC. Compliance testing against new guidelines. Reporting. 	guidance			
Risk Management	Review of the key areas of Risk Management including the Risk Management Strategy, Risk Register, and Risk Reporting. This will include the arrangement in place within the both the Office of the Police and Crime Commissioner and the Force. The scope of the review is to include the bottom down and top up approach and also the linkage between the Force and OPCC risk registers.	Assurance	OPCC & Force	8	Qtr 2
Collaboration – Efficiency Savings Plans (to be completed as part of a joint review with the East Midlands)	<p>We will undertake a joint review to include each member of the East Midlands Collaboration.</p> <p>A review of the joint efficiency savings plans within the East Midlands to ensure that these are clearly defined, aligned within the Group, monitored for achievement including an assessment of benefits realisation</p>	Assurance	OPCC & Force	5	Qtr 3
Key Financial Controls	<p><u>Budgetary Control</u></p> <ul style="list-style-type: none"> Annual Budget setting process. Budget Monitoring. Budgetary Reporting. <p><u>General Ledger</u></p> <ul style="list-style-type: none"> Access Controls. Journals. Month end closedown and reconciliation process. <p><u>Payroll & Expenses</u></p> <ul style="list-style-type: none"> Starters. Leavers. Changes to contract details. Pensions contributions. Expenses. Payment authorisation & run. Reporting. <p><u>Income & Debtors</u></p> <ul style="list-style-type: none"> Raising and authorisation of invoices. Chasing of outstanding debts. Debt write off. 	Assurance	OPCC & Force	15	Qtr 3

Audit	Internal Audit Coverage	Assurance / Advisory	Sponsor	Days	Timing
	<p><u>Fixed Assets, Inventories</u></p> <ul style="list-style-type: none"> • Maintenance of the asset register; • Internal verification of assets; • Disposals of assets; • Maintenance of inventory registers; <p><u>Treasury Management</u></p> <ul style="list-style-type: none"> • Treasury Management Strategy. • Management of Loan and Investments. <p><i>We will work with our colleagues in Cheshire and ensure that testing incorporates appropriate sample testing so to ensure duplication is minimised and effective use of Internal Audit resource.</i></p>				
Other Internal Audit Activity					
Commissioning	<p>The audit will focus on:</p> <ul style="list-style-type: none"> • Development of an appropriate Commissioning Framework • Identification and evaluation of potential commissioning areas. • Linkage to ensure new commissions are set up to meet any Portfolio Programmes mandates and timescales. • Selection of appropriate partners • Management of commissioning agreements. 	Assurance	OPCC	10	Qtr 4
IT Licenses	<p>The audit focus will be on the appropriateness and management of IT licences and will be a collaborative audit with Nottinghamshire.</p>	Assurance	Force	5	Qtr 2
Estates Strategy & Management	<p>The audit will focus on:</p> <ul style="list-style-type: none"> • Development and approval of an Estates Strategy. • Action plan for implementation of Estates Strategy. • Business case development to include options appraisal, financial implications and costings. • Any conflicts of interest are clearly declared and parties involved are not included in any decision making process. • Current long and short term estate management programmes are reviewed as part of the Strategy and monitored for implementation. 	Assurance	OPCC	8	Qtr 4

Audit	Internal Audit Coverage	Assurance / Advisory	Sponsor	Days	Timing
Force Control Room Business Continuity	The focus will be a review of the IT and working contingency plans for the Force Control Room.	Assurance	Force	8	Qtr 1
Operational Areas	The focus for 2014/15 will be on the management and control of stocks and stores.	Key Controls	Force	10	Qtr 1
Volunteers – Strategy, recruitment and training	<p>The audit will focus on:</p> <ul style="list-style-type: none"> • Development of an appropriate policy and procedures governing the use of volunteers. • Review of the implementation of action plan for recruitment and use of volunteers. • Volunteers are suitably assessed and vetted. • Appropriate training provided. • Areas of work are identified and clear operating instructions issued. • Reporting lines for volunteers are clearly defined. 	Assurance	OPCC & Force	6	Qtr 3
Follow up	To meet internal auditing standards, and to provide assurance on action taken to address recommendations previously agreed by management.	N/A	OPCC & Force	7	Qtr 3
Management	<p>This will include:</p> <ul style="list-style-type: none"> • Annual planning • Preparation for, and attendance at, Independent Audit Committee • Regular liaison and progress updates • Liaison with external audit and other assurance providers • Preparation of the annual opinion 	N/A	N/A	12	N/A
Total				128	

NORTHAMPTONSHIRE POLICE AND CRIME COMMISSION

INDEPENDENT AUDIT COMMITTEE

Agenda No: 2

Notes of meeting held on

27th November 2013

(Excluding Exempt Items)

PRESENT: Mr Schanschieff JP OBE DL (Chairman)
Mrs J Haynes
Ms G Newton CBE
Mr R Wootton

Northamptonshire Police and Crime Commission attendees:

Mr I Britton - Chief Executive and Assistant Commissioner – Justice
Mr J Raisin - Interim Assistant Commissioner – Resources

Northamptonshire Police attendees:

Mr M Jelley - Deputy Chief Constable
Mr G Jones - Head of Finance and Asset Management
Mr R Baldwin - Force Risk and Continuity Advisor

Other attendees:

Mr A Knivett - Observer (Member of Committee from 1/12/2013)
Mr M Pettitt - Observer (Member of Committee from 1/12/2013)
Mr P Green - RSM Tenon
Ms S Lane - RSM Tenon
Mr S Stanyer - KPMG

APOLOGIES

Mr J Neilson - Strategic Resources Manager – Resources
Mrs F Davies - Head of Corporate Services

This document is not a minute of the meeting held on 27 November 2013. It merely records the items presented to the Committee and summarises the presenting officers comments. It does not record the various comments made, points raised and questions asked by the Members of the Committee in respect of each item considered by the Committee at this meeting. It does however record the decisions taken.

MINUTES OF THE MEETING HELD ON 10th September 2013

The draft minutes were approved.

A further request was made that the VFM profiles be circulated. Iain Britton indicated that he would arrange this.

DECLARATIONS OF INTEREST

There were none.

APPOINTMENTS TO THE AUDIT COMMITTEE

Mr Raisin introduced this report which included an outline of the open external recruitment process that had been followed to appoint two new members of the Audit Committee. John Raisin also explained that it had not proved possible to appoint a new Chair through this process. Therefore the Police and Crime Commissioner and the Chief Constable had appointed Ms Gill Newton CBE as Chair until 30 September 2014.

Resolved

The Committee:

- **Note the retirement from the Committee of Mr Simon Schanschieff JP OBE DL on 30 November 2013**
- **Note the appointment of Ms Gill Newton CBE as Chair of the Audit Committee from 1 December 2013 until 30 September 2014**
- **Note the approval of the Police and Crime Commissioner and Chief Constable to increasing the membership of the Audit Committee from four to five members, on a temporary basis, from 1 December 2013 to 31 March 2014**
- **Approve the appointment of Mr Anthony Knivett and Mr Martin Pettitt as Members of the Audit Committee with effect from 1 December 2013 until 30 September 2016**
- **Note the extension of the appointment to the Audit Committee of Ms Gill Newton CBE and Ms Jackie Haynes until 30 September 2014**

Mr Tony Knivett and Mr Martin Pettitt then introduced themselves.

EXTERNAL AUDIT- ANNUAL AUDIT LETTER

Mr Simon Stanyer of KPMG introduced the External Auditor's Annual Audit Letter 2012/13. This confirmed that KPMG had completed their 2012/13 work audit in relation to both the Office of the Police and Crime Commissioner and the Chief Constable. Certificates in respect of the Accounts and the VFM conclusion had now been issued to both organisations.

Resolved

- That the KPMG Annual Audit Letter 2012/13 addressed to the Northamptonshire Police and Crime Commissioner and Northamptonshire Chief Constable be noted

OPCC RISK REGISTER

The OPCC Risk Register had been presented and discussed at the 10 September 2013 meeting of the Committee. The OPCC Risk Register had not been due to be presented at this meeting. In order, however, to help inform the new members of the Committee of the risk issues facing the OPCC the Appendix to the Risk Register report presented to the last meeting was introduced by Mr Iain Britton.

Resolved

- That the report be noted

FORCE PERFORMANCE

The Deputy Chief Constable reported that the significantly improved performance to 31 August 2013 (reported to the 10 September 2013 meeting) had been, overall, further enhanced in the period to 31 October 2013.

Mr Jelley however indicated that challenges remain when the performance of the Northamptonshire Force is considered in a national context. However the ongoing improvements both in the year to date (1 April to 31 October) and the last 12 months meant that the Force was moving noticeably up the national performance rankings.

Resolved

- That the report be noted

PROTOCOL FOR THE PERFORMANCE IMPROVEMENT OF NORTHAMPTONSHIRE POLICE

Mr Iain Britton introduced this Protocol which was presently in draft form. The draft protocol will be consulted upon with the Force.

Resolved

- **That the report be noted**

OPCC TRANSFORMATION PORTFOLIO – PROGRESS REPORT

Mr Iain Britton introduced a report entitled Transformation Portfolio Update Report. An ambitious Police and Crime Plan has been developed to implement the Commissioner's ambition for Northamptonshire to be the safest place in England.

In order to deliver the Police and Crime Plan a Transformation Portfolio incorporating a series of major programmes has been developed. The portfolio includes clear governance arrangements. The benefits of the portfolio will be captured across four categories:

- Financial Savings
- Performance improvements
- Improving the service to victims
- Improving engagement and participation with communities

Resolved

- **That the report be noted**

IMPLEMENTATION OF INTERNAL AND EXTERNAL AUDIT RECOMMENDATIONS

Mr Gary Jones reported that there were no overdue Internal Audit recommendations relating to the Force.

Mr John Raisin reported that in terms of implementing Human Resources policies specific to the Police and Crime Commission work was underway developing these and they would be implemented on 1 April 2014 when the Stage 2 transfer comes into effect. Implementation prior to that date would be impractical.

Resolved

- **That the updates be noted**

INTERNAL AUDIT PROGRESS REPORT

Ms Suzanne Lane presented the Internal Audit Progress report. The main item was the implementation of recommendations relating to the contract with Equiniti (formerly Xafinity). However amendments to the contract were in abeyance pending possible legal proceedings.

Resolved

- **That the report be noted**

EXCLUSION OF THE PRESS AND PUBLIC

“That under Section 100(a) of the Local Government Act 1972 the public will be excluded from the meeting for the following item of business on the grounds that, if the public were present it would be likely that such information under part 1 of Schedule 12a if the Act of the description against each item would be disclosed.”

ITEM

EXEMPT MINUTES OF 10 SEPTEMBER 2013

These were approved

FORCE RISK REGISTER AND MONTHLY SUMMARY REPORT

A report on this issue was received and discussed.

AUDIT REPORT: PROCUREMENT OF INTERNAL AUDIT SERVICES

A report on this issue was received and discussed. The Chief Executive and Assistant Commissioner Justice stated that there would be no further action in respect of this issue.

Agenda Item 4

Independent Joint Audit Committee

12 March 2014

Requirement for Support

The Audit Committee requires support to effectively discharge its duties and ensure good governance. The committee seeks the agreement of the PCC and Chief Constable for provision of this support.

Specification

- Administer and minute meetings
- Liaise with the Chair of the committee to set the meeting dates for each financial year
- Circulate agenda and supporting papers to members at least five working days prior to any meeting
- Prepare minutes and distribute to members and regular attendees of the committee in unapproved format within ten working days of the meeting
- Review actions prior to the meeting and provide updates
- Ensure completed internal audit reports are forwarded to the chair of the committee
- Forward other relevant reports/guidance to the chair of the committee eg HMIC, CIPFA, regional collaboration, MFSS
- Keep the committee aware of topical legal and regulatory issues
- Record the attendance of members
- Support an annual assessment of the committee's performance utilising the CIPFA self-assessment toolkit
- Ensure the Outstanding Audit Recommendations report is updated
- Ensure the terms of reference of the committee are reviewed annually

Gill Newton

Chair, Independent Joint Audit Committee

23rd February 2014



cutting through complexity™

External Audit Plan 2013/14

Northamptonshire Office for the Police and
Crime Commissioner and Northamptonshire
Chief Constable

February 2014



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

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

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Jon Gorrie, the appointed engagement lead to the PCC and CC audits, who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees on 0161 246 4000, or by email to trevor.rees@kpmg.co.uk, who is the national contact partner for all of KPMG's work with the Audit Commission. After this, if you are still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. Put your complaint in writing to the Complaints Unit Manager, Audit Commission, 3rd Floor, Fry Building, 2 Marsham Street, London, SW1P 4DF or by email complaints@audit-commission.gsi.gov.uk. Their telephone number is 0303 444 8330.

This document describes how we will deliver our audit work for The Police and Crime Commissioner for Northamptonshire and the Chief Constable for Northamptonshire

Scope of this report

We are pleased to be appointed as your external auditors for 2013/14. This document supplements our *Audit Fee Letters 2013/14* issued to you in April 2013. It describes how we will deliver our financial statements audit work for both the Police and Crime Commissioner for Northamptonshire and the Chief Constable for Northamptonshire ('the PCC and CC'). It also sets out our approach to value for money (VFM) work for 2013/14.

We are required to satisfy ourselves that your accounts comply with statutory requirements and that proper practices have been observed in compiling them. We use a risk based audit approach.

The audit planning process and risk assessment is an on-going process and the assessment and fees in this plan will be kept under review and updated if necessary.

Statutory responsibilities

Our statutory responsibilities and powers are set out in the *Audit Commission Act 1998* and the Audit Commission's *Code of Audit Practice*.

The *Code of Audit Practice* summarises our responsibilities into two objectives, requiring us to review and report on your:

- *financial statements (including the Annual Governance Statements)*: providing opinions on your accounts; and
- *use of resources*: concluding on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the value for money conclusions).

The Audit Commission's *Statement of Responsibilities of Auditors and Audited Bodies* sets out the respective responsibilities of the auditor and the PCC and CC.

Structure of this report

This report is structured as follows:

- Section 2 includes our headline messages, including any key risks identified this year for the financial statements and Value for Money audits.
- Section 3 describes the approach we take for the audits of the financial statements.
- Section 4 provides further detail on the financial statements audit risks.
- Section 5 explains our approach to VFM work.
- Section 6 provides information on the audit team, our proposed deliverables, the timescales and fees for our work.

Acknowledgements

We would like to take this opportunity to thank officers and the Joint Audit, Risk and Assurance Committee for their continuing help and co-operation throughout our audit work.

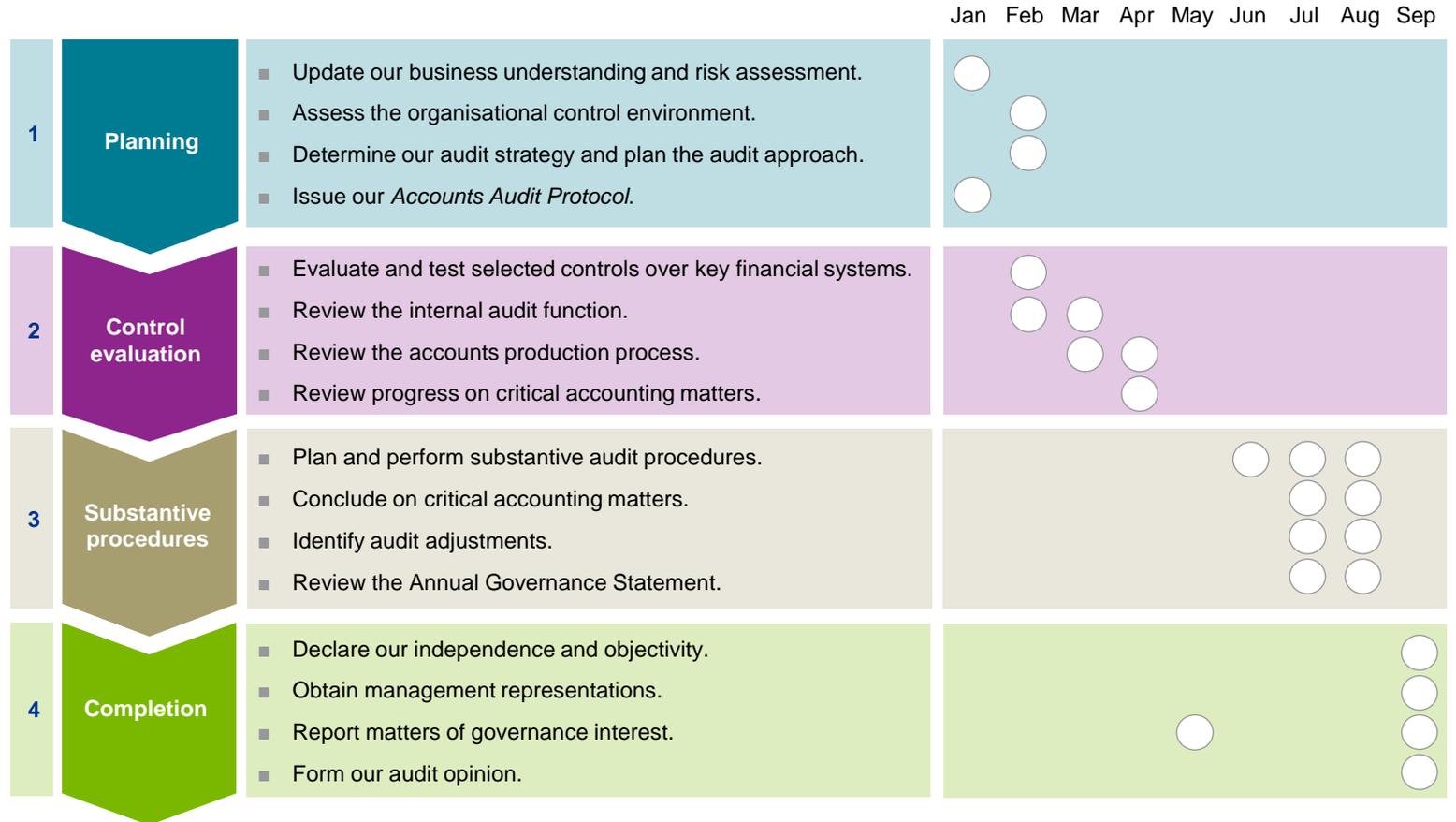
This table summarises the headline messages. The remainder of this report provides further details on each area.

Audit approach	<p>Our overall audit approach is unchanged from last year. Our work is carried out in four stages and the timings for these, and specifically our on site work, have been agreed with the Treasurer and Director of Finance.</p> <p>Our audit strategy and plan remain flexible as risks and issues change throughout the year. We will review the initial assessments presented in this document throughout the year and should any new risks emerge we will evaluate these and respond accordingly.</p>
Key financial statements audit risks	<p>We have completed our initial risk assessments for the financial statements audits and have identified the following significant risks:</p> <ul style="list-style-type: none"> ■ Risk 1 - the format, content and presentation of the financial statements following the creation of PCCs remain an area of focus and risk. In particular, accounts with zero entries for the Office of the Chief Constable using the 'principle and agent' approach used last year are, we understand, not going to be in compliance with clarifying guidance in the form of a LAAP bulletin currently awaited from CIPFA. Changes in accounting treatment are therefore likely. In addition, the potential transfer of staff and assets from the PCC to the CC under the Stage 2 Transfer and the accounting treatment within the 2013/14 financial statements is also unclear. If the transfer has to be accounted for within the 2013/14 accounts this will have a considerable impact on the work involved by the PCC/CC finance teams and the audit team. ■ Risk 2 – during the year the Local Government Pension Scheme for Northamptonshire (the Pension Fund) has undergone a triennial valuation with an effective date of 31 March 2013. The IAS19 figures to be included in the financial statements for 2013/14 will be based on the output of the triennial valuation. 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. <p>These are described in more detail on pages 11 to 12. We will assess the PCC and CC's progress in addressing these risk areas as part of our interim work and conclude this work at year end.</p>
VFM audit approach	<p>At this stage, we have not identified any significant risks to our vfm conclusions. We will update the JARAC of any changes once we have completed our detailed risk assessment.</p>
Audit team, deliverables, timeline and fees	<p>We have refreshed our audit team this year. The Director will remain the same as last year but the Manager and Assistant Manager has now changed. Jon Gorrie will now be supported by Simon Lacey as the Manager and David Schofield as the Assistant Manager. Simon Stanyer will continue to be involved in the audit during the transition arrangements.</p> <p>Our main year end audit is currently planned to commence in July. Upon conclusion of our work we will again present our findings to you in our <i>Report to Those Charged with Governance (ISA 260 Report)</i>.</p> <p>The planned fees for the 2013/14 audit are £20,000 (PCC) and £39,055 (CC) respectively. This is unchanged from the position set out in our <i>Audit Fee Letters 2013/14</i>.</p>

We undertake our work on your financial statements in four key stages during 2014:

- **Planning** (January to February).
- **Control Evaluation** (February to April).
- **Substantive Procedures** (July to August).
- **Completion** (September).

We have summarised the four key stages of our financial statements audit process for you below:



During January and February 2014 we complete our planning work.

We assess the key risks affecting the PCC and CC's financial statements and discuss these with officers.

We assess if there are any weaknesses in respect of central processes, including the PCC and CC's IT systems, that would impact on our audit.

We determine our audit strategy and approach, and agree a protocol for the accounts audit, specifying what evidence we expect from the PCC and CC to support the financial statements.

Our planning work takes place in January and February 2014. This involves the following aspects:

Planning

- Update our business understanding and risk assessment.
- Assess the organisational control environment.
- Determine our audit strategy and plan the audit approach.
- Issue our *Accounts Audit Protocol*.

Business understanding and risk assessment

We update our understanding of the PCC and CC's operations and identify any areas that will require particular attention during our audit of the PCC and CC's financial statements.

We identify the key risks affecting the PCC and CC's financial statements. These are based on our knowledge of the PCC and CC, our sector experience and our ongoing dialogue with PCC and CC staff. The risks identified to date are set out in this document. Our audit strategy and plan will, however, remain flexible as the risks and issues change throughout the year. It is the PCC and CC's responsibility to adequately address these issues. We encourage the PCC and CC to raise any technical issues with us as early as possible so that we can agree the accounting treatment in advance of the audit visit.

We meet with finance officers on a regular basis to consider issues and how they are addressed during the financial year end closedown and accounts preparation.

Organisational control environment

Controls operated at an organisational level often have an impact on controls at an operational level and if there were weaknesses this would impact on our audit.

In particular risk management, internal control and ethics and conduct have implications for our financial statements audit. The scope of the work of your internal auditors also informs our risk assessment.

Audit strategy and approach to materiality

Our audit is performed in accordance with International Standards on Auditing (ISAs) (UK and Ireland). The Engagement Lead sets the overall direction of the audits and decides the nature and extent of audit activities. We design audit procedures in response to the risk that the financial statements are materially misstated. The materiality level is a matter of judgement and is set by the Engagement Lead.

In accordance with ISA 320 'Audit materiality', we plan and perform our audits to provide reasonable assurance that the financial statements are free of material misstatement and give a true and fair view. Information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements.

We will issue our *Accounts Audit Protocol* following completion of our planning work.

Accounts Audit Protocol

At the end of our planning work we will issue our *Accounts Audit Protocol*. This important document sets out our audit approach and timetable. It also summarises the working papers and other evidence we require the PCC and CC to provide during our interim and final accounts visits.

We will be meeting with Head of Finance in March to discuss mutual learning points from the 2012/13 audit. These will be incorporated into our work plan for 2013/14. We will revisit progress against areas identified for development as the audit progresses.

During April 2014 we will complete our interim audit work.

We assess if controls over key financial systems were effective during 2013/14. We work with your internal audit team to avoid duplication.

We work with your finance team to enhance the efficiency of the accounts audit.

Our interim visit on site will be completed during April 2014. During this time we will complete work in the following areas:

Control Evaluation

- Evaluate and test controls over key financial systems identified as part of our risk assessments.
- Review the work undertaken by the internal audit function on controls relevant to our risk assessment.
- Review the accounts production process.
- Review progress on critical accounting matters.

Controls over key financial systems

We update our understanding of the PCC and CC's key financial processes where our risk assessment has identified that these are relevant to our final accounts audit and where we have determined that this is the most efficient audit approach to take. We confirm our understanding by completing walkthroughs for these systems. We then test selected controls that address key risks within these systems. The strength of the control framework informs the substantive testing we complete during our final accounts visit.

Where our audit approach is to undertake controls work on financial systems, we seek to rely on any relevant work internal audit have completed to minimise unnecessary duplication of work. Our audit fee is set on the assumption that we can place reliance on their work. We will discuss a joint working protocol and will meet with the Head of Internal Audit on a regular basis to discuss the principles and timetables for the managed audit process for 2013/14.

Review of internal audit

Where we intend to rely on internal audit's work in respect of the key financial systems identified as part of our risk assessment, auditing standards require us to review aspects of their work. This includes re-performing a sample of tests completed by internal audit. We will provide detailed feedback to the Head of Internal Audit at the end of our interim visit.

Accounts production process

We will assess the PCC and CC's arrangements in preparing for the closedown and accounts preparation.

Critical accounting matters

We will discuss the work completed to address the specific risks we identified at the planning stage. Wherever possible, we seek to review relevant workings and evidence and agree the accounting treatment as part of our interim work.

There were some inconsistencies in police accounting approaches in 2012/13. We will ensure that we maintain early and ongoing dialogue with your finance staff regarding any changes or key decisions that are being considered.

If there are any significant findings arising from our interim work we will present these to the Joint Audit, Risk and Assurance Committee in June 2014.

During July to August 2014 we will be on site for our substantive work.

We complete detailed testing of accounts and disclosures and conclude on critical accounting matters, such as specific risk areas. We then agree any audit adjustments required to the financial statements.

We also review the Annual Governance Statements for consistency with our understanding.

We will present our Joint ISA 260 Report to the Joint Audit, risk and Assurance Committee in September 2014.

Our final accounts visit on site has been provisionally scheduled for the period July to August 2014. During this time, we will complete the following work:

Substantive Procedures

- Plan and perform substantive audit procedures.
- Conclude on critical accounting matters.
- Identify and assess any audit adjustments.
- Review the Annual Governance Statements.

Financial Statements

We will audit the following financial statements:

- The Chief Constable's single entity accounts;
- The Police and Crime Commissioner's single entity accounts; and
- The Police and Crime Commissioner's Group accounts (which consolidate the PCC and CC single entity accounts).

Substantive audit procedures

We complete detailed testing on significant balances and disclosures. The extent of our work is determined by the Engagement Lead based on various factors such as our overall assessment of the PCC and CC's control environments, the effectiveness of controls over individual systems and the management of specific risk factors.

Critical accounting matters

We conclude our testing of the key risk areas as identified at the planning stage and any additional issues that may have emerged since. We will discuss our early findings of the PCC and CC's approach to address the key risk areas with the PCC's Treasurer and the CC's Director of Finance on an ongoing basis, prior to reporting to the Audit Committee in September 2014.

Audit adjustments

During our on site work, we will meet with the PCC's Treasurer and the CC's Director of Finance on a weekly basis to discuss the progress of the audit, any differences found and any other issues emerging.

At the end of our on site work, we will hold a closure meeting, where we will provide a schedule of audit differences and agree a timetable for the completion stage and the accounts sign off.

To comply with auditing standards, we are required to report uncorrected audit differences to the Audit Committee. 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.

Annual Governance Statements

We are also required to satisfy ourselves that the PCC and CC's Annual Governance Statements comply with the applicable framework and is consistent with our understanding of your operations. Our review of the work of internal audit and consideration of your risk management and governance arrangements are key to this.

We report the findings of our final accounts work in our *ISA 260 Report*, which we will issue in September 2014.

In addition to the financial statements, we also audit the PCC's Whole of Government Accounts pack.

We may need to undertake additional work if we receive objections to the accounts from local electors.

We will communicate with you throughout the year, both formally and informally.

Whole of government accounts (WGA)

We are required to review and issue an opinion on the PCC's WGA consolidation to confirm that this is consistent with the PCC's Group financial statements. The audit approach has been agreed with HM Treasury and the National Audit Office. Deadlines for production of the pack and issue of our opinion on the pack have not yet been confirmed.

Elector challenge

The Audit Commission Act 1998 gives electors certain rights. These are:

- the right to inspect the accounts;
- the right to ask the auditor questions about the accounts; and
- the right to object to the accounts.

As a result of these rights, in particular the right to object to the accounts, we may need to undertake additional work to form our decision on the elector's objection. The additional work could range from a small piece of work where we interview an officer and review evidence to form our decision, to a more detailed piece of work, where we have to interview a range of officers, review significant amounts of evidence and seek legal representations on the issues raised.

The costs incurred in responding to specific questions or objections raised by electors is not part of the fee. This work will be charged in accordance with the Audit Commission's fee scales.

Reporting and communication

Reporting is a key part of the audit process, not only in communicating the audit findings for the year, but also in ensuring the audit team is accountable to you in addressing the issues identified as part of the audit strategy. Throughout the year we will communicate with you through meetings with the finance team and the Joint Audit, Risk and Assurance Committee. Our deliverables are included on page 19.

Independence and objectivity confirmation

Professional standards require auditors to communicate to those charged with governance, at least annually, all relationships that may bear on the firm's independence and the objectivity of the audit engagement partner and audit staff. The standards also place requirements on auditors in relation to integrity, objectivity and independence.

The standards define 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case this is the Joint Audit, Risk and Assurance Committee.

KPMG LLP is committed to being and being seen to be independent. APB Ethical Standard 1 Integrity, Objectivity and Independence requires us to communicate to you in writing all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place which, in our professional judgement, may reasonably be thought to bear on KPMG LLP's independence and the objectivity of the Engagement Lead and the audit team.

Appendix 1 provides further detail on auditors' responsibilities regarding independence and objectivity.

Confirmation statement

We confirm that as of the date of this report in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Engagement Lead and audit team is not impaired.

In this section we set out our assessment of the significant risks to the audit of the PCC and CC's financial statements for 2013/14.

For each key risk area we have outlined the impact on our audit plan.

Professional standards require us to consider two standard risks for all organisations. We are not elaborating on these standard risks in this plan but consider them as a matter of course in our audit and will include any findings arising from our work in our *ISA 260 Report*.

- Management override of controls – Management is typically in a powerful position to perpetrate fraud owing to 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. In line with our methodology, we carry 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.
- Fraudulent revenue recognition – We do not consider this to be a significant risk for PCCs and CCs as there are limited incentives and opportunities to manipulate the way income is recognised. We therefore rebut this risk and do not incorporate specific work into our audit plan in this area over and above our standard fraud procedures.

The table below sets out the significant risks we have identified through our planning work that are specific to the audit of the PCC and CC's financial statements for 2013/14.

We will revisit our assessment throughout the year and should any additional risks present themselves we will adjust our audit strategy as necessary.

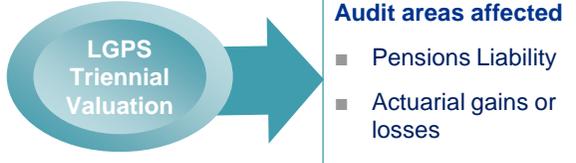
In this section we set out our assessment of the significant risks to the audit of the PCC and CC's financial statements for 2013/14.

For each key risk area we have outlined the impact on our audit plan.

Key audit risks	Impact on audit
<p>The diagram consists of a light blue oval on the left containing the text "Accounting Issues". A large, dark blue arrow points from this oval to a light blue rectangular box on the right. Inside this box, the text "Audit areas affected" is followed by a small square bullet point and the text "Financial statements presentation".</p>	<p>Risk</p> <p>The format, content and presentation of the financial statements following the creation of PCCs remain an area of focus and risk. In particular, accounts with zero entries for the Office of the Chief Constable using the 'principle and agent' approach used last year are, we understand, not going to be in compliance with clarifying guidance in the form of a LAAP bulletin currently awaited from CIPFA. Changes in accounting treatment are therefore likely.</p> <p>In addition, the potential transfer of staff and assets from the PCC to the CC under the Stage 2 Transfer and the accounting treatment within the 2013/14 financial statements is also unclear. If the transfer has to be accounted for within the 2013/14 accounts this will have a considerable impact on the work involved by the PCC/CC finance teams and the audit team.</p> <p>Our audit work</p> <p>As part of our audit, we will continue to work with your finance team to ensure the requirements of the CIPFA LAAP bulletin are interpreted appropriately.</p>

In this section we set out our assessment of the significant risks to the audit of the Authority's financial statements for 2013/14.

For the key risk area we have outlined the impact on our audit plan.

Key audit risks	Impact on audit
 <p>Audit areas affected</p> <ul style="list-style-type: none"> ■ Pensions Liability ■ Actuarial gains or losses 	<p>Risk</p> <p>During the year, the Local Government Pension Scheme for Northamptonshire (the Pension Fund) has undergone a triennial valuation with an effective date of 31 March 2013 in line with the Local Government Pension Scheme (Administration) Regulations 2008. The Authority'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.</p> <p>The IAS19 numbers to be included in the financial statements for 2013/14 will be based on the output of the triennial valuation rolled forward to 31 March 2014. For 2014/15 and 2015/16 the actuary will then roll forward the valuation for accounting purposes based on more limited data.</p> <p>There is a risk that the data provided to the actuary for the valuation exercise is inaccurate and that these inaccuracies affect the actuarial figures in the accounts. Most of the data is provided to the actuary by Northamptonshire County Council who administer the Pension Fund based on information received from Northamptonshire PCC.</p> <p>Our audit work</p> <p>As part of our audit, we will need to agree the data provided to the actuary back to the systems and reports from which it was derived, and test the accuracy of this data.</p> <p>We will liaise with the separate KPMG audit team for the Pension Fund, where this data was provided by the Pension Fund on the Authority's behalf. The Pension Fund may seek to recharge any additional costs arising from this work.</p>

Our approach to VFM work follows guidance provided by the Audit Commission.

Background to approach to VFM work

In meeting their statutory responsibilities relating to economy, efficiency and effectiveness, the Commission's *Code of Audit Practice* requires auditors to:

- plan their work based on consideration of the significant risks of giving a wrong conclusion (audit risk); and
- carry out only as much work as is appropriate to enable them to give a safe VFM conclusion.

As part of this review we will consider:

- your progress in addressing the recommendations included in the Audit Commission's 2012/13 Annual Governance Report;
- any changes to your arrangements in 2013/14; and
- how the PCC and the CC have managed the transition to the new governance arrangements introduced for 2013/14. This will include an assessment of the extent to which new processes are being adhered to.

- we will also consider the plans that have been put in place and that are being developed to address the challenge of balancing financial and operational performance across the organisation.

The Audit Commission has revised the VFM audit methodology for PCCs and CCs in 2013/14, recognising that the two organisations will operate as separate entities for the whole of 2013/14. The methodology for 2012/13 reflected the change in governance arrangements following the election of the PCC in November 2012.

There will be a separate VFM Conclusion for the PCC and the CC.

The approach is structured under two themes, as summarised below.

We have not identified any significant risks at this stage but plan to undertake the following work to reach our conclusion on your arrangements to secure economy, efficiency and effectiveness in your use of resources. We will also review the results of relevant Internal Audit work.

Specified criteria for VFM conclusion	Focus of the criteria	Sub-sections
The organisation has proper arrangements in place for securing financial resilience .	The organisation has robust systems and processes to: <ul style="list-style-type: none"> ■ manage effectively financial risks and opportunities; and ■ secure a stable financial position that enables it to continue to operate for the foreseeable future. 	<ul style="list-style-type: none"> ■ Financial governance ■ Financial planning ■ Financial control
The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness .	The organisation is prioritising its resources within tighter budgets, for example by: <ul style="list-style-type: none"> ■ achieving cost reductions; and ■ improving efficiency and productivity. 	<ul style="list-style-type: none"> ■ Prioritising resources ■ Improving efficiency and productivity

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

Overview of the VFM audit approach

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



Each of these stages are summarised further below.

VFM audit stage	Audit approach
VFM audit risk assessment	<p>We consider the relevance and significance of the potential business risks faced by all PCCs and CCs, and other risks that apply specifically to the PCC and CC. These are the significant operational and financial risks in achieving statutory functions and objectives, which are relevant to auditors' responsibilities under the <i>Code of Audit Practice</i>.</p> <p>In doing so we consider:</p> <ul style="list-style-type: none"> the PCC and CC's own assessment of the risks it faces, and their arrangements to manage and address their risks; information from the Audit Commission's VFM profile tool and financial ratios tool; evidence gained from previous audit work, including the response to that work; and the work of HMIC and other inspectorates and review agencies.

Our VFM audit will draw heavily on other audit work which is relevant to our VFM responsibilities and the results of last year's VFM audit.

We will then form an assessment of residual audit risk to identify if there are any areas where more detailed VFM audit work is required.

VFM audit stage	Audit approach
Linkages with financial statements and other audit work	<p>There is a degree of overlap between the work we do as part of the VFM audit and our financial statements audit. For example, our financial statements audit includes an assessment and testing of the PCC and CC's organisational control environment, including the PCC and CC's financial management and governance arrangements, many aspects of which are relevant to our VFM audit responsibilities.</p> <p>We have always sought to avoid duplication of audit effort by integrating our financial statements and VFM work, and this will continue. We will therefore draw upon relevant aspects of our financial statements audit work to inform the VFM audit.</p>
Assessment of residual audit risk	<p>It is possible that further audit work may be necessary in some areas to ensure sufficient coverage of the two VFM criteria.</p> <p>Such work may involve interviews with relevant officers and /or the review of documents such as policies, plans and minutes. We may also refer to any self assessment the PCC and CC may prepare against the characteristics.</p> <p>To inform any further work we must draw together an assessment of residual audit risk, taking account of the work undertaken already. This will identify those areas requiring further specific audit work to inform the VFM conclusion.</p> <p>At this stage it is not possible to indicate the number or type of residual audit risks that might require additional audit work, and therefore the overall scale of work cannot be easily predicted. If a significant amount of work is necessary then we will need to review the adequacy of our agreed audit fee.</p>
Identification of specific VFM audit work	<p>If we identify residual audit risks, then we will highlight the risks to the PCC and CC and consider the most appropriate audit response in each case, including:</p> <ul style="list-style-type: none"> ■ considering the results of work by the PCC and CC, HMIC and other inspectorates and review agencies; and ■ carrying out local risk-based work to form a view on the adequacy of the PCC and CC's arrangements for securing economy, efficiency and effectiveness in their use of resources.

Where relevant, we may draw upon the range of audit tools and review guides developed by the Audit Commission.

We have completed our initial risk assessment and have not identified any risks to our VFM conclusion at this stage. We will update our assessment at year end.

We will conclude on the results of the VFM audit through our Joint ISA 260 Report.

VFM audit stage	Audit approach
Delivery of local risk based work	<p>Depending on the nature of the residual audit risk identified, we may be able to draw on audit tools and sources of guidance when undertaking specific local risk-based audit work, such as:</p> <ul style="list-style-type: none"> ■ local savings review guides based on selected previous Audit Commission national studies; and ■ update briefings for previous Audit Commission studies. <p>The tools and guides will support our work where we have identified a local risk that is relevant to them. For any residual audit risks that relate to issues not covered by one of these tools, we will develop an appropriate audit approach drawing on the detailed VFM guidance and other sources of information.</p>
Concluding on VFM arrangements	<p>At the conclusion of the VFM audit we will consider the results of the work undertaken and assess the assurance obtained against each of the VFM themes regarding the adequacy of the PCC and CC's arrangements for securing economy, efficiency and effectiveness in the use of resources.</p> <p>If any issues are identified that may be significant to this assessment, and in particular if there are issues that indicate we may need to consider qualifying our VFM conclusion, we will discuss these with management as soon as possible. Such issues will also be considered more widely as part of KPMG's quality control processes, to help ensure the consistency of auditors' decisions.</p>
Reporting	<p>We have completed our initial VFM risk assessment and have not identified any key issues. We will update our assessment throughout the year should any issues present themselves and report against these in our ISA260.</p> <p>We will report on the results of the VFM audit through our <i>ISA 260 Report</i>. This will summarise any specific matters arising, and the basis for our overall conclusion.</p> <p>The key output from the work will be the VFM conclusions (i.e. our opinion on the PCC and CC's arrangements for securing VFM), which form part of our audit reports.</p>

Your audit team has been drawn from our specialist public sector assurance department. Our Director was part of the Northamptonshire PCC and CC audit last year and we have refreshed other members.

Contact details are shown on page 1.

The audit team will be assisted by other KPMG specialists as necessary.



Jon Gorrie
Partner/ Director

“My role is to lead our team and ensure the delivery of high quality external audit opinions. I will be the main point of contact for the Joint Audit, Risk and Assurance Committee, the Police and Crime Commissioner and the Chief Constable



Simon Stanyer
Manager

“I am responsible for the management, review and delivery of the audit and providing quality assurance for any technical accounting areas. I will work closely with John to ensure we add value. I will liaise with the PCC’s Treasurer, the CC’s Director of Finance and Head of Internal Audit..”



Simon Lacey
Manager

“I am responsible for the management, review and delivery of the audit and providing quality assurance for any technical accounting areas. I will work closely with John to ensure we add value. I will liaise with the PCC’s Treasurer, the CC’s Director of Finance and Head of Internal Audit..”



David Schofield
Assistant Manager

““I will be responsible for the on-site delivery of our work. I will liaise with the Finance Managers and will supervise the work of our audit assistants.”

At the end of each stage of our audit we issue certain deliverables, including reports and opinions.

Our key deliverables will be delivered to a high standard and on time.

We will discuss and agree as appropriate each report with the PCC and CC's officers prior to publication.

Deliverable	Purpose	Committee dates
Planning		
External Audit Plan (Joint for PCC and CC)	<ul style="list-style-type: none"> ■ Outlines our audit approach. ■ Identifies areas of audit focus and planned procedures. 	March 2014
Control evaluation (if required)		
Interim Report	<ul style="list-style-type: none"> ■ Details any control and process issues arising ■ Identifies any improvements required prior to the issue of the draft financial statements and the year-end audit. <p><i>Note that if there are no significant weaknesses or improvement areas identified, we will report via the routine progress report to the JARAC</i></p>	May/June 2014
Control evaluation and Substantive procedures		
Report to Those Charged with Governance (ISA 260 Report)	<ul style="list-style-type: none"> ■ Details any control and process issues arising. ■ Details the resolution of key audit issues. ■ Communicates adjusted and unadjusted audit differences. ■ Highlights performance improvement recommendations identified during our audit. ■ Commentary on the PCC and CC's value for money arrangements. 	September 2014
Completion		
Auditor's Reports)	<ul style="list-style-type: none"> ■ Provides opinions on your accounts (including the Annual Governance Statements). ■ Concludes on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the VFM conclusion). 	September 2014
Whole of Government Accounts (PCC only)	<ul style="list-style-type: none"> ■ Provide our opinion on the PCC's WGA pack submission. 	October 2014
Annual Audit Letter (Joint for PCC and CC)	<ul style="list-style-type: none"> ■ Summarises the outcomes and the key issues arising from our audit work for the year. 	November 2014

We will be in continuous dialogue with you throughout the audit.

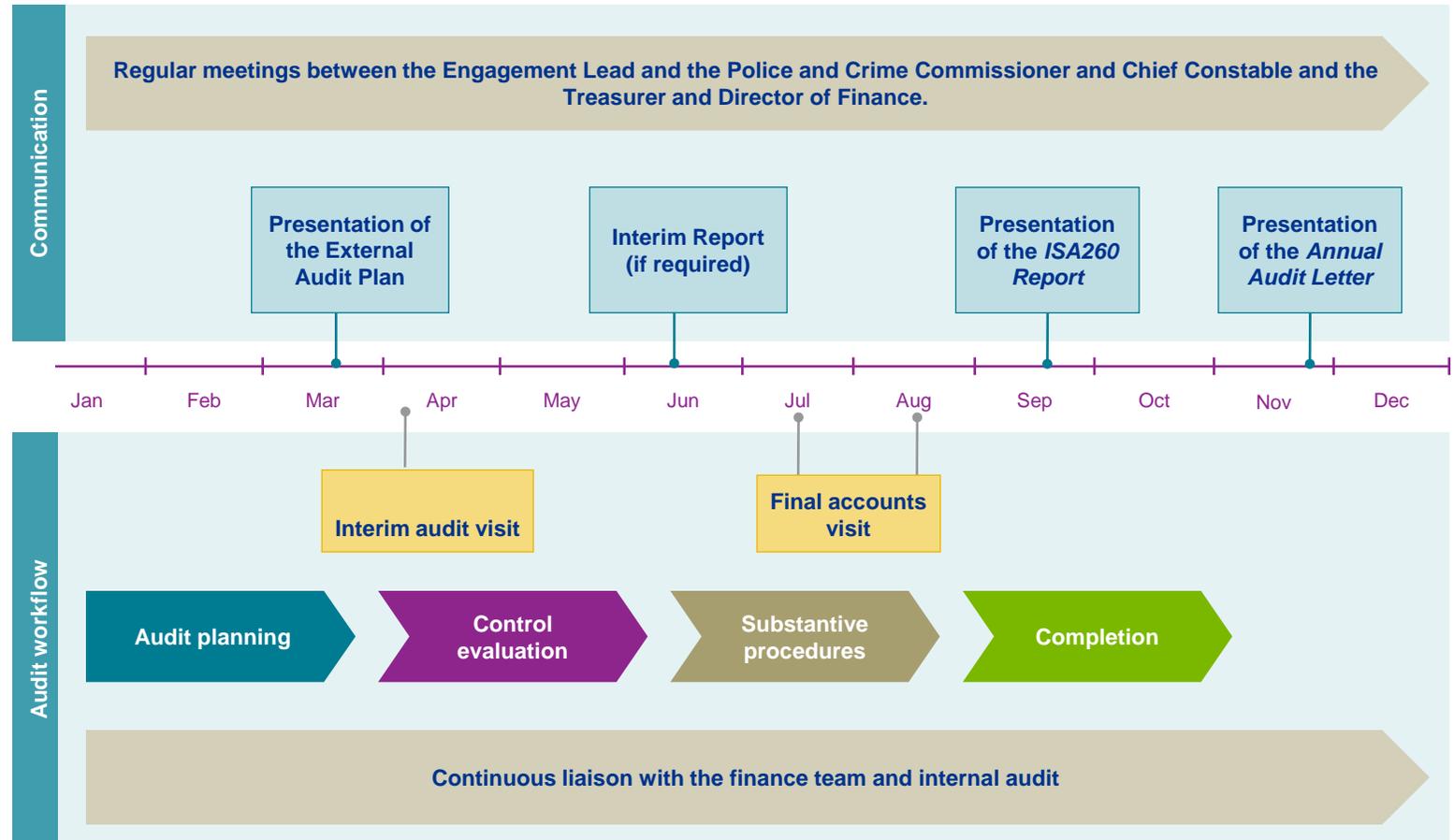
Key formal interactions with the Joint Audit, Risk and Assurance Committee are:

- March – External Audit Plan;
- May/June – Interim Report (if required)
- September – ISA 260 Report;
- November – Annual Audit Letter.

We work with the finance team and internal audit throughout the year.

Our main work on site will be our:

- Interim audit visit during February and March.
- Final accounts audits during July and August.



Key: ● Audit Committee meetings

The total fee for 2013/14 audits of the PCC and CC is £59,055. The fee has not changed from that set out in our Audit Fee Letter 2013/14 issued in April 2013.

Our audit fees remain indicative and based on you meeting our expectations of your support.

Meeting these expectations will help the delivery of our audits within the proposed audit fee.

Audit fee

Our *Audit Fee Letters 2013/14* issued to you in April 2013 first set out our fees for the 2013/14 audit. We have not considered it necessary to make any changes to the agreed fees at this stage.

Element of the audit	2013/14 (planned)	2012/13 (actual)
Police and Crime Commissioner	£20,000	£20,000
Chief Constable	£39,055	£43,500
Total	£59,055	£63,500

Our audit fee includes our work on the VFM conclusion and our audit of the PCC and CC's financial statements. The total fee for 2013/14 is £59,055. This is a reduction of seven percent compared to the 2012/13 fee.

Audit fee assumptions

The fees are based on a number of assumptions, including that you will provide us with complete and materially accurate financial statements, with good quality supporting working papers, within agreed timeframes. It is imperative that you achieve this. If this is not the case and we have to complete more work than was envisaged, we will need to charge additional fees for this work. In setting each fee, we have assumed:

- the level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2012/13;
- you will inform us of any significant developments impacting on our audit;
- you will identify and implement any changes required under the *CIPFA Code of Practice on Local Authority Accounting in the UK 2013/14* within your 2013/14 financial statements;
- you will comply with the expectations set out in our *Accounts Audit Protocol*, including:

- the financial statements are made available for audit in line with the agreed timescales;
- good quality working papers and records will be provided at the start of the final accounts audit;
- requested information will be provided within the agreed timescales;
- prompt responses will be provided to queries and draft reports;
- internal audit meets appropriate professional standards;
- additional work will not be required to address questions or objections raised by local government electors or for special investigations such as those arising from disclosures under the Public Interest Disclosure Act 1998.

Meeting these expectations will help ensure the delivery of our audit within the agreed audit fee.

The Audit Commission requires us to inform you of specific actions you could take to keep the audit fee low. Future audit fees can be kept to a minimum if the PCC and CC achieve an efficient and well-controlled financial closedown and accounts production processes which complies with good practice and appropriately addresses new accounting developments and risk areas.

Changes to the audit plan

Changes to this plan and the audit fee may be necessary if:

- new significant audit risks emerge;
- additional work is required of us by the Audit Commission or other regulators; or
- additional work is required as a result of changes in legislation, professional standards or financial reporting requirements.

If changes to this plan and the audit fees are required, we will discuss and agree these initially with the Treasurer and Director of Finance

This appendix summarises auditors' responsibilities regarding independence and objectivity.

Independence and objectivity

Auditors are required by the Code to:

- carry out their work with independence and objectivity;
- exercise their professional judgement and act independently of both the Commission and the audited body;
- maintain an objective attitude at all times and not act in any way that might give rise to, or be perceived to give rise to, a conflict of interest; and
- resist any improper attempt to influence their judgement in the conduct of the audit.

In addition, the Code specifies that auditors should not carry out work for an audited body that does not relate directly to the discharge of the auditors' functions under the Code. If the PCC and CC invite us to carry out risk-based work in a particular area, which cannot otherwise be justified to support our audit conclusions, it will be clearly differentiated as work carried out under section 35 of the Audit Commission Act 1998.

The Code also states that the Commission issues guidance under its powers to appoint auditors and to determine their terms of appointment. The Standing Guidance for Auditors includes several references to arrangements designed to support and reinforce the requirements relating to independence, which auditors must comply with. These are as follows:

- Auditors and senior members of their staff who are directly involved in the management, supervision or delivery of Commission-related work, and senior members of their audit teams should not take part in political activity.
- No member or employee of the firm should accept or hold an appointment as a member of an audited body whose auditor is, or is proposed to be, from the same firm. In addition, no member or employee of the firm should accept or hold such appointments at related bodies, such as those linked to the audited body through a strategic partnership.

- Auditors and their staff should not be employed in any capacity (whether paid or unpaid) by an audited body or other organisation providing services to an audited body whilst being employed by the firm.
- Firms are expected to comply with the requirements of the Commission's protocols on provision of personal financial or tax advice to certain senior individuals at audited bodies, independence considerations in relation to procurement of services at audited bodies, and area wide internal audit work.
- Auditors appointed by the Commission should not accept engagements which involve commenting on the performance of other Commission auditors on Commission work without first consulting the Commission.
- Auditors are expected to comply with the Commission's policy for the Engagement Lead to be changed on a periodic basis.
- Audit suppliers are required to obtain the Commission's written approval prior to changing any Engagement Lead in respect of each audited body.
- Certain other staff changes or appointments require positive action to be taken by Firms as set out in the Standing Guidance.

Appendix 2: KPMG Audit Quality Framework

We continually focus on delivering a high quality audit.

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

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

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

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

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

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

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

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

Clear standards and robust audit tools: We expect our audit professionals to adhere to the clear standards we set and we provide a range of tools to support them in meeting these expectations. The global rollout of KPMG's eAudit application has significantly enhanced existing audit functionality. eAudit enables KPMG to deliver a highly

technically enabled audit. All of our staff have a searchable data base, Accounting Research Online, that includes all published accounting standards, the KPMG Audit Manual Guidance as well as other relevant sector specific publications, such as the Audit Commission's *Code of Audit Practice*.



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

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

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

We continually focus on delivering a high quality audit.

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

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

Commitment to technical excellence and quality service delivery:

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

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

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

- timely Engagement Lead and manager involvement;
- critical assessment of audit evidence;
- exercise of professional judgment and professional scepticism;
- ongoing mentoring and on the job coaching, supervision and review;
- appropriately supported and documented conclusions;
- if relevant, appropriate involvement of the Engagement Quality Control reviewer (EQC review);
- clear reporting of significant findings;
- insightful, open and honest two-way communication with those charged with governance; and
- client confidentiality, information security and data privacy.

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

Our quality review results

We are able to evidence the quality of our audits through the results of National Audit Office and Audit Commission reviews. The Audit Commission publishes information on the quality of work provided by KPMG (and all other firms) for audits undertaken on behalf of them (<http://www.audit-commission.gov.uk/audit-regime/audit-quality-review-programme/principal-audits/kpmg-audit-quality>).

The latest Annual Regulatory Compliance and Quality Report (issued June 2013) showed that we performed highly against the Audit Commission's criteria. We were one of only two firms to receive a combined audit quality and regulatory compliance rating of green for 2012/13.



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