

**NORTHAMPTONSHIRE OFFICE OF THE POLICE AND CRIME COMMISSIONER  
INDEPENDENT AUDIT COMMITTEE**

**19<sup>th</sup> March 2013 at 10.30am**

**Greenwell Room, Wootton Hall, Northampton, NN4 0JQ**

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If you should have any queries in respect of this agenda, please contact Stuart McCartney on 03000 111 222 Ext 346665

**AGENDA**

1. Apologies, if any, for non-attendance.
2. Minutes of meeting held on 29<sup>th</sup> November 2012
3. Declaration of personal and prejudicial interests in respect of items on the agenda.
4. Independent Audit Committee member Code of Conduct
5. NOPCC Risk Management
6. External Audit Plan 2012/13
7. Internal Audit progress 2012/13
5. **Urgent Business** – Such other business involving exempt information which, 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).

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”.

**ITEM**

**DESCRIPTION OF  
EXEMPTION**

- |  |   |
|--|---|
| 1. Minutes of meeting held on 29 <sup>th</sup> November 2012 | PARAGRAPH 1 OF<br>PART 1 OF<br>SCHEDULE 12A OF<br>THE LOCAL<br>GOVERNMENT ACT<br>1972 |
| 2. Injury Award overpayments (verbal update)                 | PARAGRAPH 1 OF<br>PART 1 OF<br>SCHEDULE 12A OF<br>THE LOCAL<br>GOVERNMENT ACT<br>1972 |

3. Force Risk Register

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

IAIN BRITTON  
ASSISTANT COMMISSIONER (JUSTICE) & MONITORING OFFICER

# NORTHAMPTONSHIRE POLICE AND CRIME COMMISSION

## INDEPENDENT AUDIT COMMITTEE

Agenda No: 2

29<sup>TH</sup> November 2012

(Excluding Exempt Items)

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

Northamptonshire Police and Crime Commission attendees:

Mrs D Roe - Chief Executive  
Mr J Raisin - Interim Assistant Commissioner – Resources  
Mrs J McCaul - Members' Services and Committees Coordinator

Northamptonshire Police attendees:

Mr A Frost - Assistant Chief Constable  
Mrs F Davies - Head of Corporate Services  
Mr G Jones - Head of Finance and Asset Management  
Mr A Henson - Occupational Health Team

Other attendees:

Mrs A Ward - RSM Tenon  
Mr P Green - RSM Tenon  
Mr S Stanyer - KPMG  
Mr J Gorrie - KPMG

### **01/12 APOLOGIES**

An apology for absence was received from Deputy Chief Constable Davenport.

### **02/12 ELECTION OF CHAIR**

Ms G Newton CBE proposed and Mr R Wootton seconded that Mr S Schanschieff JP OBE DL be election Chair of the Committee. Mr S Schanschieff JP OBE DL took the Chair.

### **RESOLVED:-**

**That Mr S Schanschiff JP OBE DL be elected Chair of the Interim Independent Audit Committee.**

### **03/12 DECLARATION OF INTERESTS**

There were none.

### **04/12 INDEPENDENT AUDIT COMMITTEE STATEMENT OF PURPOSE AND TERMS OF REFERENCE**

The Chief Executive submitted the draft Statement of Purpose and Terms of Reference for the Independent Audit Committee. She advised that the Police and Crime Commissioner had agreed to the interim arrangements proposed by the Resources Committee and he would be reviewing them in March 2013.

Members discussed the Statement of Purpose and Terms of Reference and agreed that the second point on the Corporate Governance and Regulatory Framework was too general and it should specifically refer to "audit related issues". It was also suggested that a specific reference to Value for Money related issues should be included.

Consideration was then given to the power of the Committee to make decisions and it was noted that this was part of the overall governance issues being considered by the Police and Crime Commissioner.

Another key issue was the need to ensure that the Independent Members of the audit committee have sufficient knowledge of the workings of the Police Force and its developments in order that they are in a position to carry out their role effectively

#### **RESOLVED:-**

**That the Statement of Purpose and Terms of Reference be agreed subject to:-**

- (a) The inclusion of the specific reference to Value for Money related issues;**
- (b) The second point on the Corporate Governance and Regulatory Framework being amended to read "audit related issues".**
- (c) Consideration of the decision making powers of the Committee in the context of the overall Police and Crime Commission governance arrangements.**
- (d) Consideration of how gaps in the knowledge of Members will be addressed to ensure they are well formed to enable them to undertake their role effectively.**

### **05/12 INDEPENDENT AUDIT COMMITTEE MEMBER CODE OF CONDUCT**

The Chief Executive submitted the draft Independent Audit Committee member Code of Conduct.

Members considered the draft Code of Conduct and requested further information in relation to the “regulations made by the Secretary of State”.

**RESOLVED:-**

- 1. That the Chief Executive provide Members with further information in relation to the Secretary of State Regulations;**
- 2. That the Code of Conduct be reconsidered when the above information has been received.**

**06/12 INTERNAL AUDIT PROGRESS 2012-2013**

The Interim Chief Finance Officer submitted a report updating the Committee on the internal audit progress against the plan, with a summary of the recommendations made by RSM Tenon for the audit that had been finalised.

Mrs A Ward, RSM Tenon presented the report advising that one audit had been completed since the last meeting on the Police Authority Resources Committee. This was in the area of Estates Management and Substantial Assurance had been received, there being only one “Merits Attention” recommendation.

Mrs Haynes suggested that it was important to carry out an audit relating to the transition from Police Authority to the Police and Crime Commissioner, given the level of risk identified in the transition risk register and to present a report at the next meeting.

It was also noted that the audit taking place at Cheshire Constabulary in respect of the financial matters relating to the Multi-Force Shared Service was going well.

Mr P Green suggested that RSM Tenon meet with the Chief Executive, and the Force and Northampton Police and Crime Commission Section 151 Officers to review the internal audit plan, including the allocation of the remaining audit days for 2012/2013.

**RESOLVED :-**

- 1. That the progress of internal audit against the plan be noted;**
- 2. That the Action Plan at Appendix 2 be approved;**
- 3. That an audit report is prepared in relation to the transition from the Police Authority and the Police and Crime commissioner**
- 4. That the Chief Executive and the Force and Police and Crime Commission Section 151 Officers meet with RSM Tenon to review the internal audit plan for 2012-2013 and to allocate the remaining audit days for 2012/2013.**

**07/12 ANNUAL AUDIT LETTER 2011/2012**

The Interim Chief Finance Officer submitted a report in relation to the Annual Audit Letter 2011/2012.

Mr S Stanyer, KPMG, presented the report which summarised the work the external auditors had undertaken over the previous 12 months. He advised that KPMG had issued unqualified opinions in relation to the Financial Statements and the VFM Conclusion, and there were no audit adjustments or significant issues identified.

The one issue raised by KPMG was that there was a need to consider whether the savings that were being achieved were at the cost of performance. The Assistant Chief Constable advised that the Force was recruiting and by 31<sup>st</sup> March 2012 it would be back up to establishment. Currently, 18 PCSOs were in training and there had been seven transferees recruited during October 2012 with a second tranche of transferees being recruited in January 2013. It was noted that it took up to 12 months for new recruits to begin to contribute to performance.

**RESOLVED:-**

**That the overall assessment of Northamptonshire Police Authority during 2011/2012 be noted.**

**08/12 NORTHAMPTONSHIRE POLICE AND CRIME COMMISSION RISK REGISTER**

The Chief Executive submitted a report in relation to the Northamptonshire Police and Crime Commission Risk Register. She presented the Risk Register advising that it was purely a first draft and she invited Members comments in respect thereof.

Members discussed the Risk Register and it was suggested that the risk relating to the promotion of the Police and Crime Commissioner role should specifically refer to the need to clarify the difference between the roles of Police and Crime Commissioner and Chief Constable and what their responsibilities were.

Reference was then made to risk 5a "Ensure our policing recognises equality and engages effectively with diverse communities" and it was suggested that this risk may best be allocated to another Assistant Police and Crime Commissioner, rather than the Section 151 Officer. The Chief Executive suggested that the names allocated to all of the risks would need to be reviewed once the staffing structure of the Police and Crime Commission had been agreed.

Members then discussed risk 6b "Regional Collaboration and shared business services does not deliver VFM" and questioned whether its classification as a Low risk was correct. The Head of Corporate Services advised that the Force Risk Register included a risk in respect of performance but there was not a risk relating to the financial aspects of these arrangements.

It was then noted that risk 6a referred to Value for Money being scrutinised by the Independent Audit Committee as discussed earlier in the meeting.

**RESOLVED:-**

- 1. That risk 2a "Develop and Promote the Role of the Police and Crime Commissioner" should specifically refer to the need to clarify to the**

- public the difference in the roles of the Police and Crime Commissioner and Chief Constable and what their responsibilities are;
2. That the Northamptonshire Office of the Police and Crime Commissioner Risk Register be noted;
  3. That the Northamptonshire Police and Crime Commission Risk Register and the Force Risk Register be submitted to the Independent Audit Committee every six months in March and September each year.
  4. That, once the structure of the Police and Crime Commission is in place, the names allocated to each risk be reviewed.

#### **09/12 MATTERS OF URGENCY**

There were none.

#### **10/12 EXCLUSION OF THE PUBLIC AND PRESS**

“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**

#### **DESCRIPTION OF EXEMPTION**

- |    |                                  |             |
|----|----------------------------------|-------------|
| 1. | Injury Awards Overpayment Update | Paragraph 1 |
|----|----------------------------------|-------------|

#### **RESUME OF CONFIDENTIAL ITEM**

1. The Committee considered a report providing an update in relation to the overpayment of Injury Awards and recovery of overpayments.

## **NORTHAMPTONSHIRE OFFICE OF THE POLICE AND CRIME COMMISSIONER**

### **CODE OF CONDUCT**

#### **Members of the Independent Audit Committee**

##### **1. Introduction**

This Code of Conduct applies to members of the Independent Audit Committee (IAC) for the Northamptonshire Office of the Police and Crime Commissioner.

##### **2. Principles**

As a member of the IAC I shall have regard to the following principles, and the standards of behaviour expected in respect thereof.

- selflessness
- integrity
- objectivity
- accountability
- openness
- Honesty
- leadership.

Accordingly, when I act in my capacity as a member of the IAC –

1) I will act solely in the public interest and will never improperly confer an advantage or disadvantage on any person or act to gain financial or other material benefits for myself, my family, a friend or close associate.

2) I will not place myself under a financial or other obligation to outside individuals or organisations that might seek to influence me in the performance of my official duties.

3) When carrying out my public duties I will make all decisions based on merit.

4) I am accountable for my decisions to the public and I will co-operate fully with whatever scrutiny is appropriate to my office.

5) I will be as open as possible about my decisions and actions and the decisions and actions of the IAC and will be prepared to give reasons for those decisions and actions.

6) I will declare any private interests that relate to my public duties and will take steps to resolve any conflicts arising in a way that protects the public interest, including registering and declaring interests in a manner conforming with the procedures set out in section 3 below.



7) I will, when using or authorising the use by others of the resources of the Elected Local Policing Body, ensure that such resources are not used improperly for political purposes (including party political purposes) and I will have regard to the provisions of the Elected Local Policing Bodies (Specified Information) Order 2011.

8) I will promote and support high standards of conduct when serving in your public post, in particular as characterised by the above requirements, by leadership and example.

### **3. Registering and Declaring Interests**

1) I will, within 28 days of taking up my position as a member of IAC, notify the Monitoring Officer of any disclosable interests as defined by regulations made by the Secretary of State, where the interest is mine, or that of any Related Parties. Related Parties being my partner, my business partner, a close family member, a friend or any other person in relation to any other business interest of mine.

2) I will disclose any interest to any meeting of the Committee at which I am present, where I have a disclosable interest in any matter being considered and where the matter is not a 'sensitive interest'

3) Following any disclosure of an interest not on the Register of Disclosable Interests or the subject of pending notification, I will notify the Monitoring Officer of the interest within 28 days beginning with the date of disclosure.

4) Unless dispensation has been granted by the Monitoring Officer, I will not participate in any discussion on, vote on, or discharge any function related to any matter in which I have an interest as defined by regulations made by the Secretary of State. Additionally, I will observe the restrictions placed on my involvement in matters where I have an interest.

I agree to abide by the provisions detailed of this Code of Conduct and in the Schedule of Disclosable Interests.

Signed..... Member of the Independent Audit Committee

Date.....

<sup>1</sup>A 'sensitive interest' is described in s.32 of the Localism Act 2011 as .an interest, the nature of which is such that the member and the monitoring officer consider that disclosure of the details of the interest could lead to the member or a person connected with the member, being subject to violence or intimidation. Where such an interest is entered in the register of disclosable interests, copies of the register that are made available for inspection, and any published version of the register, must not include details of the interest (but may state that the member has an interest the details of which are withheld under this section).



## **NORTHAMPTONSHIRE POLICE AND CRIME COMMISSIONER**

### **Report to the Audit Committee**

**19<sup>th</sup> March 2013**

### **Report of the Assistant Commissioner Resources**

## **RISK MANAGEMENT BY THE OFFICE OF THE POLICE AND CRIME COMMISSIONER**

### **RECOMMENDATIONS**

The Audit Committee is RECOMMENDED to note the proposals to develop Risk and Opportunity Management as set out in this report, and on which its views are invited.

\* \* \* \* \*

### **1 BACKGROUND**

- 1.1 Risks are threats to the success and the achievement of the objectives of the Police Commissioner.
- 1.2 Risk and Opportunity Management [ROM] is a structured systematic approach to managing risks which also identifies and thus encourages the exploitation of opportunities to achieve success more quickly, more efficiently and comprehensively.
- 1.3 The key features of such an approach include:
  - key assumptions
  - capability
  - risk indicators
  - risk appetite
  - mitigating actions

- contingency plans

The Police and Crime Plan sets out the Commissioner's programme and highest priority objectives:

- Victims of crime at the heart of the criminal justice system
- Violence and drug crime eradicated
- People safer and more secure
- Adults and young people engaged active citizens

1.4 These are still relatively early days for the Office of the Police Commissioner. Most [but by no means all] of his programme is currently delivered through the Force under the command and control of the Chief Constable.

1.5 It is therefore essential the Commissioner is assured the Chief Constable has in put in place the appropriate governance and capability, and is working to a reasonable range of assumptions, enabling him to deliver the relevant parts of the Commissioner's Police and Crime Plan.

1.6 Similar assurances will be required from other key partners as appropriate.

1.7 Risk and Opportunity Management [ROM] is a key part of providing that assurance.

1.8 Elsewhere on this agenda is the latest report on the Force Risk Register.

1.9 This report sets out the approach the Commissioner intends to develop over the coming months for Risk and Opportunity Management.

## **2 A PROPOSED APPROACH TO RISK AND OPPORTUNITY MANAGEMENT FOR THE POLICE AND CRIME COMMISSION**

2.1 The Commissioner's Police and Crime Plan is predicated by a series of key assumptions. It is essential to ensure these assumptions remain valid as time passes; and if not, to change the assumptions and amend strategic plans accordingly.

2.2 A starting point for the proposed Risk and Opportunity Management framework will therefore be the explicit articulation of key assumptions.

2.3 At this stage these assumptions are likely to include:

- Police Commissioners are 'going concerns' until at least 2016 and probably for two terms – i.e. to 2020;

- For Northamptonshire, funding deficits as set out in the Budget and Medium Term Financial Plan 2013- 2018 to the Police and Crime Panel in February 2013; i.e. an anticipated shortfall of some £9m by 2015-16 rising to some £16m in 2017-18.
- 2.4 The second key feature of the proposed ROM framework will assess the capabilities that are in place across the Office of the Commissioner, the Force and other partners and suppliers to deliver the Police and Crime Plan.
- 2.5 Capabilities include:
- governance arrangements to track delivery and to authorise any necessary changes
  - plans to deliver agreed outcomes and targets
- 2.6 It is proposed the high level PCC Risk Register will set out risks related to these capabilities.
- 2.7 The PCC has established the new 'Transformation and Delivery Board' which will oversee the delivery of the Police and Crime Plan and ensure alignment of the Medium Term Financial Plan. It will be a small group chaired by the Commissioner and attended by the Chief Constable and the Deputy Chief Constable.
- 2.8 The first meeting of that Board will be 2<sup>nd</sup> April 2013 and it will review early drafts of key delivery plans.
- 2.9 At a lower level separate individual risk registers for key projects and activities will be developed which will also set out capabilities in terms of:
- People
  - Financial and other resources such as management information
  - Processes
- 2.10 Risk indicators will be developed for each risk. These are data and intelligence that are systematically tracked against agreed thresholds that would indicate the degree of possibility that any given risk might crystallise.
- 2.11 These thresholds are closely linked to the concept of 'risk appetite' – proposals for which will also be developed.
- 2.12 For each agreed risk it will also be appropriate to set out mitigating actions to reduce the level of risk, and contingency plans to be deployed should the risk crystallise.

### **3 CONCLUSION**

- 3.1 This report has outlined an approach to ROM for the Police and Crime Commission which would be complementary to the existing ROM arrangements for the Force.
- 3.2 Significant work is required over the coming months to implement these proposals, on which the Committee's views are invited.

**JOHN RAISIN**  
**Assistant Commissioner Resources**

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**Author:** John Neilson – Strategic Resources Manager  
**Background Papers:** None



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# External Audit Plan 2012/13

Office of Northamptonshire Police and Crime  
Commissioner

and

The Chief Constable of Northamptonshire  
Police

March 2013



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

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

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Jon Gorrie, the appointed engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees on 0161 246 4000, or by email to [trevor.rees@kpmg.co.uk](mailto:trevor.rees@kpmg.co.uk), who is the national contact partner for all of KPMG's work with the Audit Commission. After this, if you are still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. Put your complaint in writing to the Complaints Unit Manager, Audit Commission, Westward House, Lime Kiln Close, Stoke Gifford, Bristol, BS34 8SR or by email to [complaints@audit-commission.gov.uk](mailto:complaints@audit-commission.gov.uk). Their telephone number is 0844 798 3131, textphone (minicom) 020 7630 0421.

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

### Scope of this report

We are pleased to be appointed as your external auditors for 2012/13. This document supplements our *Audit Fee Letter 2012/13* issued to you in February 2013. It describes how we will deliver our financial statements audit work for both the Northamptonshire Police and Crime Commissioner ('the PCC') and the Chief Constable of Northamptonshire ('the CC'). Together, the two bodies form the PCC and CC Group ('the Group'). This report also sets out our approach to value for money (VFM) work for 2012/13.

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*, the *Local Government Act 1999* 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 Statement):* providing an opinion 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 conclusion).

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

We will provide a separate audit opinion and value for money conclusion for both the PCC and CC financial statements.

### Structure of this report

This report is structured as follows:

- Section 2 includes our headline messages, focusing on the key risks identified this year for the financial statements audit.
- Section 3 describes the approach we take for the audit 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.



We have identified one key risk that we will focus on during the audit of the 2012/13 financial statements.

This is described in more detail on page 10.

The remainder of this document provides information on our:

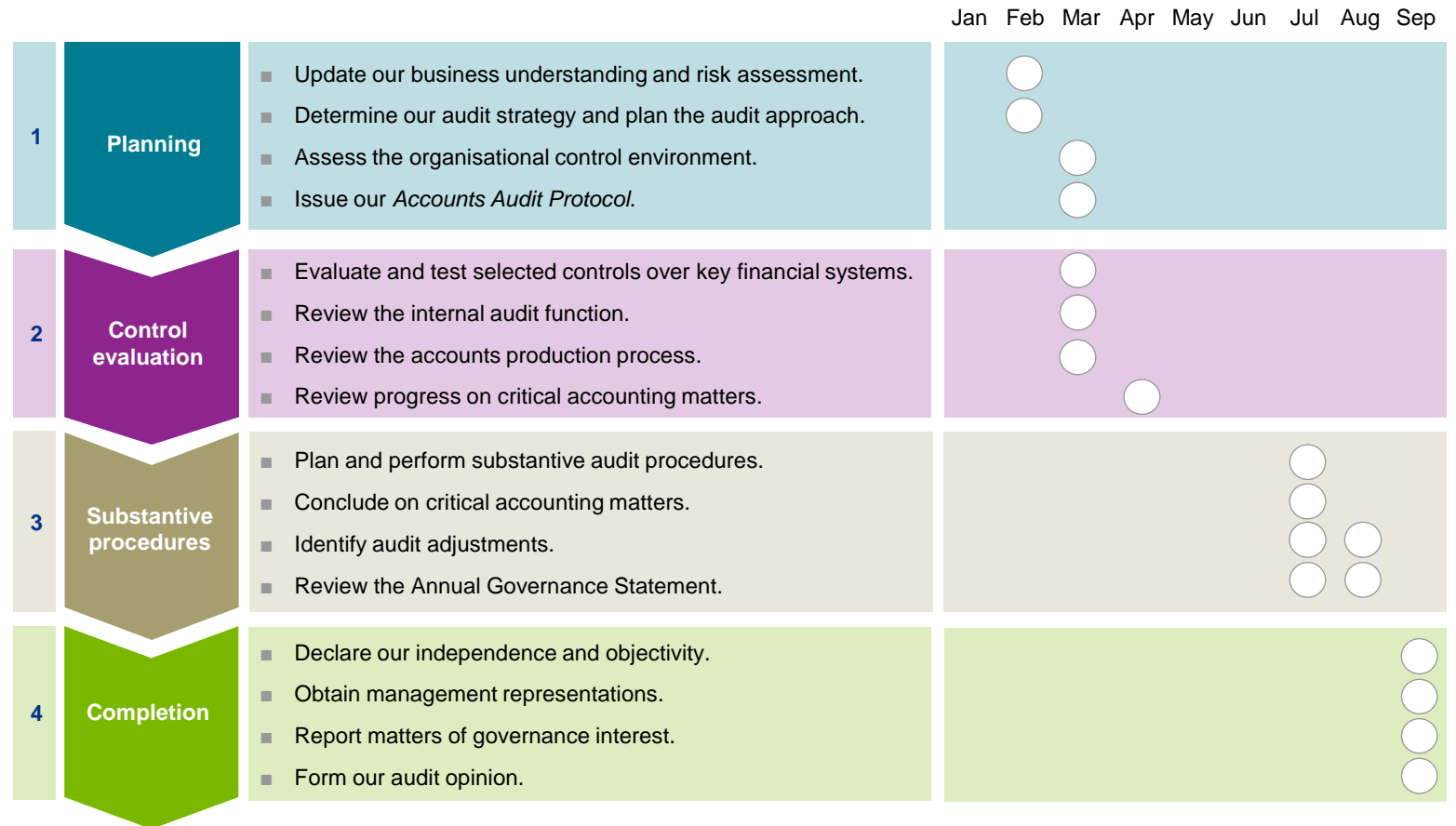
- approach to the audit of the financial statements;
- approach to VFM work; and
- audit team, proposed deliverables, timescales and fees for our work.

Area	Risk	Audit work
<b>Transition to Police and Crime Commissioner accounts</b>	<p>This is the first year that the new PCC and CC accounts will be applicable. There is ongoing debate as to exactly what this will entail and how the final accounts will look.</p> <p>The PCC and CC must also ensure that arrangements are in place to produce financial statements under group accounting requirements for the 2012/13 financial year, which is a change from previous periods.</p>	<p>We will review the accounts for compliance with group accounting requirements and other technical accounting guidance. We will also consider whether there is sufficient and appropriate disclosure.</p>

We undertake our work on your financial statements in four key stages during 2013:

- **Planning** (January to February).
- **Control Evaluation** (March 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 February and March 2013 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 February and March 2013. 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 operations, and identify any areas that will require particular attention during our audit of the financial statements.

We identify the key risks affecting the financial statements. These are based on our knowledge of the PCC and CC, our sector experience and our ongoing dialogue with key finance 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 you 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.

The PCC and CC relies on information technology (IT) to support both financial reporting and internal control processes. In order to satisfy ourselves that we can rely on the use of IT, we test controls over access to systems and data, system changes, system development and computer operations. Whilst we undertake some general IT controls work, we also focus on testing the specific applications and reports that are pivotal to the production of the financial statements.

### Audit strategy and approach

The Engagement Lead sets the overall direction of the audit 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.

### Group audit

We have been appointed as auditors for both the PCC and CC. We will ensure that our work programme is sufficient to meet the requirements of both the PCC and CC and the Group audit.

### 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.

During March 2013 we will complete our interim audit work.

We assess if controls over key financial systems were effective during 2012/13. 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 2013. 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 assessment.
- 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.

Appendix 1 illustrates how we determine the most effective balance of internal controls and substantive audit testing.

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 2012/13.

### 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 year end financial 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.

**During July to August 2013 we will be on site for our substantive accounts 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 *ISA 260 Report to the Audit Committee* in September 2013.**

Our final accounts visit on site has been provisionally scheduled for the period July to August 2013. 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

### 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 environment, 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 PCC's Treasurer and the CC's Director of Finance on an ongoing basis, prior to reporting to the Audit Committee in September 2013.

### 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 to Audit Committee in September 2013.

**In addition to the financial statements, we also audit the 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 your WGA consolidation to confirm that this is consistent with your financial statements. The audit approach has been agreed with HM Treasury and the National Audit Office.

### 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 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 are 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 17.

### Use of off-shore audit resources

During our audit work we may make use of our KPMG Global Services (KGS Audit) team in India to undertake certain basic audit tasks and functions. Use of this 'off-shore' team is one of many initiatives we employ to deliver a cost-effective audit service for our clients. Although based in India, the KGS Audit team works closely with our local audit teams to undertake certain audit procedures remotely. We have provided our UK teams with guidance on the types of audit procedures and other tasks that it is suitable and permissible to use KGS Audit for - we do not use KGS Audit for any audit procedures that involve access to personal, confidential or sensitive information. Audit tasks are then allocated by our UK-based engagement teams to dedicated teams in India, allowing local staff to control what work KGS Audit undertakes and what information is accessed. They operate to our same quality standards and all work undertaken by KGS Audit is reviewed by the UK team.

The KGS Audit team operates in a paperless environment and we apply robust processes to control how data is accessed and used:

- all work is conducted electronically;
- all data files are maintained on servers in the UK with restricted access and only viewed on screen in India. These servers are governed by established KPMG IT controls;
- policy and technology restrictions are in place to protect data, for example locked down USB ports, no external emailing, no printing;
- KGS Audit staff are based in an office with restricted access and security; and
- the team members adhere to global KPMG ethics and independence standards, along with requirements governing the non-disclosure of client information.

**Our independence and objectivity responsibilities under the Code are summarised in Appendix 2. We confirm our audit team's independence and objectivity is not impaired.**

**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, 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.

**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 outline the impact of the key audit risks on our audit plan.

We will provide an update on how the PCC and CC is managing these risks in our *Interim Audit Report*.

Key audit risk	Impact on audit
 <p><b>Transition to PCC arrangements</b></p> <p><b>Audit areas affected</b></p> <ul style="list-style-type: none"> <li>Financial statements presentation</li> </ul>	<p><b>Risk</b></p> <p>The PCC and CC will be required to produce financial statements under group accounting requirements for the 2012/13 financial year, which is a change from previous periods.</p> <p>Although there is some national guidance available on the preparation of the accounts under the new arrangements this is still evolving and requires a considerable amount of local decisions to be made. It is important that a clear trail is maintained to justify the decisions made.</p> <p><b>Our audit work</b></p> <p>We will review the accounts and consider the accounting treatment and whether there is sufficient and appropriate disclosure. We will also review the accounts for compliance with group accounting requirements and other technical accounting guidance.</p> <p>We will take a risk based approach to testing significant account balances identified during the course of our audit.</p>



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

### Background to approach to VFM work

We will issue two VFM conclusions – one for the PCC and one for the CC.

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.

To provide stability for auditors and audited bodies, the Audit Commission has kept the VFM audit methodology unchanged from last year. For 2012/13 the scope of work on value for money at the PCC and CC is limited to:

- reviewing the Annual Governance Statement (AGS);
- reviewing the results of the work of other relevant regulatory bodies or inspectorates, to consider whether there is any impact on our responsibilities for example HMIC; and
- other risk-based work as appropriate or any work mandated by the Audit Commission.

As part of this review we will consider:

- your progress in addressing the recommendations included in the Audit Commission's 2011/12 Annual Governance Report; and
- any changes to your arrangements in 2012/13.
- how the PCC and the CC have managed the transition to the new governance arrangements introduced for 2012/13. 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.

We will report the results of the VFM audit in our report to those charged with governance. The key output from the work will be the PCC and CC VFM conclusions (i.e. our opinion on the PCC's and CC's arrangements for securing value for money) which forms part of our audit report.

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.

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
<b>VFM audit risk assessment</b>	<p>We consider the relevance and significance of the potential business risks faced by all Police and Crime Commissioners and Chief Constables, and other risks that apply specifically in Northamptonshire. 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"> <li>■ the Authority's own assessment of the risks it faces, and its arrangements to manage and address its risks;</li> <li>■ information from the Audit Commission's financial ratios tool and HMIC's Value for Money profiles</li> <li>■ evidence gained from previous audit work, including the response to that work; and</li> <li>■ the work of the Audit Commission, other inspectorates and review agencies, notably HMIC.</li> </ul>

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 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 risk areas.</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 risk to the PCC and CC and consider the most appropriate audit response in each case, including:</p> <ul style="list-style-type: none"> <li>■ considering the results of work by the PCC and CC, the Audit Commission, other inspectorates and review agencies; and</li> <li>■ 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 its use of resources.</li> </ul>

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

We will report on the results of the VFM audit through our *Interim Audit Report* and our *Report to those charged with governance*.

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"> <li>■ local savings review guides based on selected previous Audit Commission national studies; and</li> <li>■ update briefings for previous Audit Commission studies.</li> </ul> <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 will report on the results of the VFM audit through our <i>Interim Audit Report</i> and our <i>Report to those charged with governance</i>. These reports will summarise our progress in delivering the VFM audit, the results of the risk assessment and any specific matters arising, and the basis for our overall conclusion.</p> <p>The key output from the work will be the VFM conclusion (i.e. our opinion on the PCC and CC's arrangements for securing VFM), which forms part of our audit report.</p>

Your audit team has been drawn from our specialist public sector assurance department. Our Director and Assistant Manager were both part of the Northamptonshire Police Authority audit last year. Contact details are shown on page 1.

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



Jon Gorrie  
**Director**

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



Simon Stanyer  
**Manager**

“I am responsible for the management, review and delivery of the whole audit and providing quality assurance for any technical accounting areas. I will work closely with Jon to ensure we add value. I will liaise with the PCC’s Chief Finance Officer, the CC’s Head of Corporate Services and the Head of Internal Audit.



Chris Rowley  
**Assistant Manager**

“I will be responsible for the on-site delivery of our work. I will liaise with the Head of Finance and the Internal Audit Manager. I will also supervise the work of our audit assistants.”

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

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

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

Deliverable	Purpose	Committee dates
<b>Planning</b>		
<b>External Audit Plan</b>	<ul style="list-style-type: none"> <li>■ Outline audit approach.</li> <li>■ Identify areas of audit focus and planned procedures.</li> </ul>	<b>March 2013</b>
<b>Substantive procedures</b>		
<b>Report to Those Charged with Governance (ISA 260 Report)</b>	<ul style="list-style-type: none"> <li>■ Details the resolution of key audit issues.</li> <li>■ Communication of adjusted and unadjusted audit differences.</li> <li>■ Performance improvement recommendations identified during our audit.</li> <li>■ Commentary on the PCC and CC's value for money arrangements.</li> </ul>	<b>September 2013</b>
<b>Completion</b>		
<b>Auditor's report</b>	<ul style="list-style-type: none"> <li>■ Providing an opinion on the PCC and CC's accounts (including the Annual Governance Statement).</li> <li>■ Concluding on the PCC and CC's arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the VFM conclusion).</li> </ul>	<b>September 2013</b>
<b>Annual Audit Letter</b>	<ul style="list-style-type: none"> <li>■ Summarises the outcomes and the key issues arising from our audit work for the year.</li> </ul>	<b>November 2013</b>

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

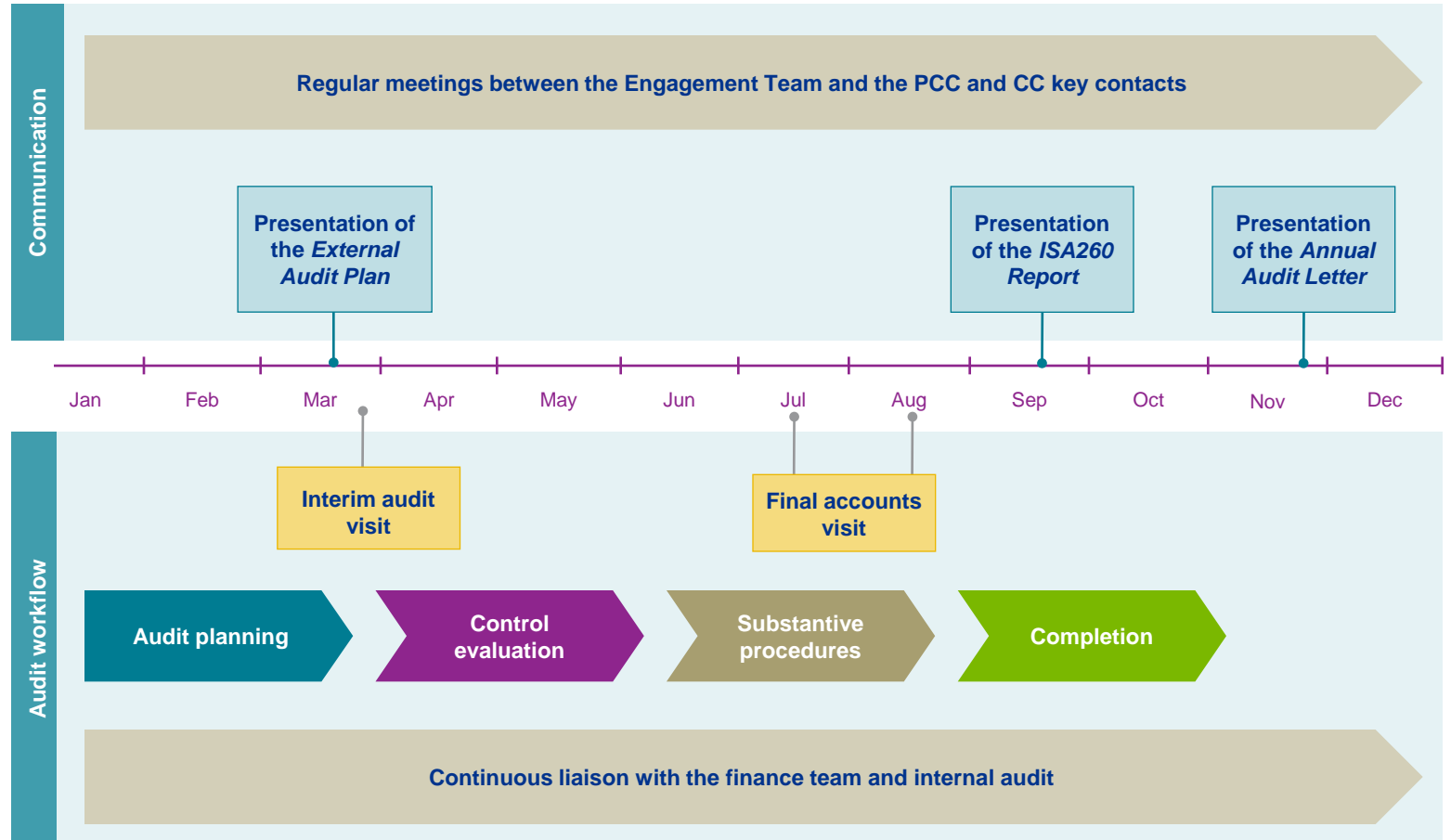
Key formal interactions with the Audit Committee are:

- March – External Audit Plan;
- 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 visits during April.
- Final accounts audit during July and August.



The main fee for 2012/13 audit of the PCC and CC is £66,000. The fee has not changed from that set out in our *Audit Fee Letter 2012/13* issued in February 2013.

Our audit fee remains indicative and based on you meeting our expectations of your support.

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

#### Audit fee

Our *Audit Fee Letter* issued to you in February 2013 sets out our fees for the 2012/13 audit. We have not considered it necessary to make any changes to the fees at this stage.

Element of the audit	2012/13 (planned) (£)	2011/12 (actual) (£)
Police and Crime Commissioner	20,000	N/A
Chief Constable	43,500	N/A
Total (2011/12 Police Authority)	63,500	72,600

Our audit fee includes our work on the VFM conclusion and our audit of the PCC's and CC's financial statements. The fee for 2012/13 is £63,500. This is a reduction of 13 percent compared to 2011/12.

#### Audit fee assumptions

The fee is 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 the 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 2011/12;
- 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 2012/13* within your 2012/13 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;
- internal audit adheres to our joint working protocol and completes appropriate work on all systems that provide material figures for the financial statements and we can place reliance on them for our audit; and
- additional work will not be required to address questions or objections raised by local government electors.

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 process 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:

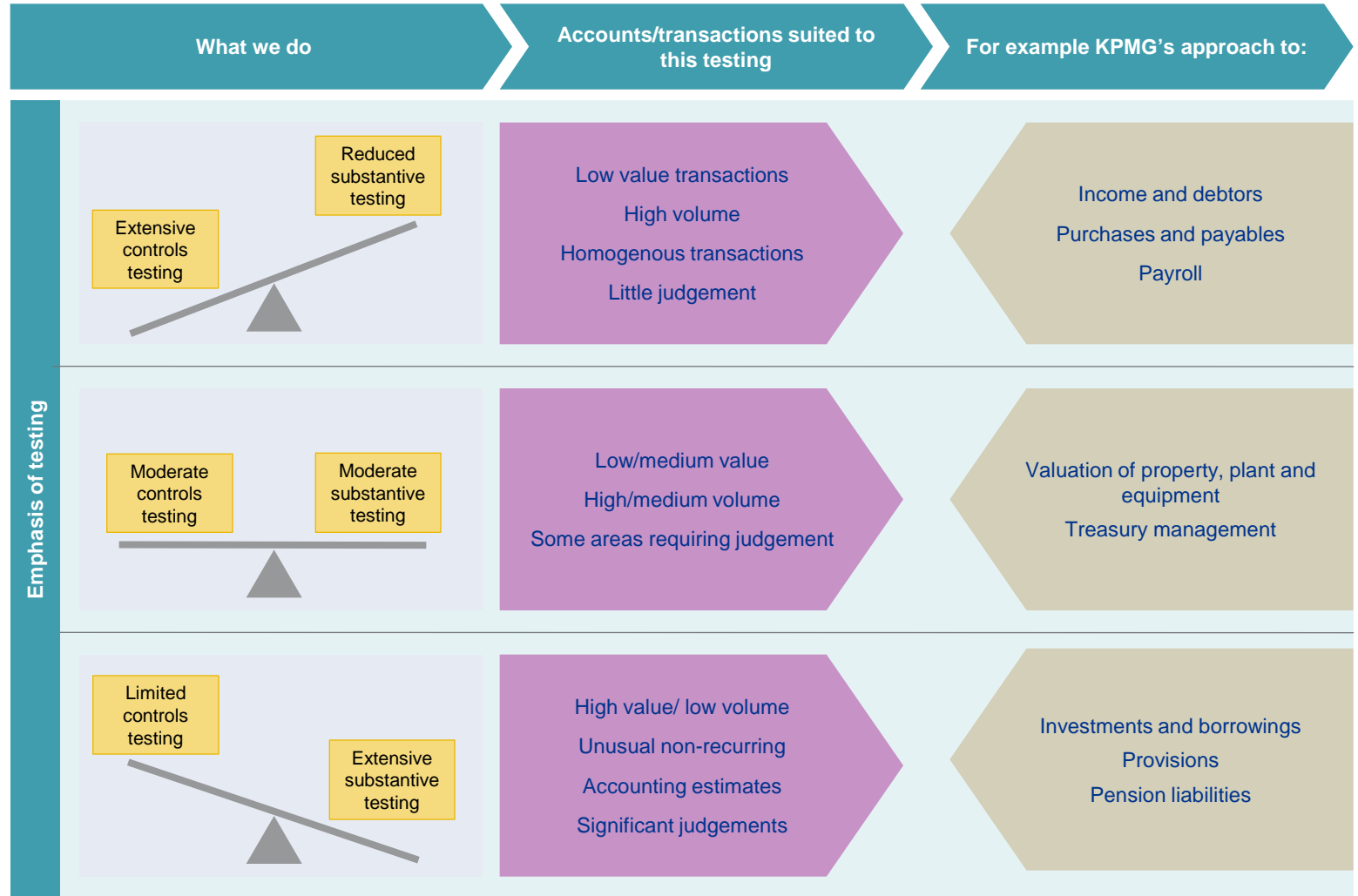
- new significant audit risks emerge;
- additional work is required of us by the Audit Commission or other regulators; and
- additional work is required as a result of changes in legislation, professional standards or financial reporting requirements.

If changes to this plan and the audit fee are required, we will discuss and agree these initially with the Chief Finance Officer and Head of Corporate Services.



# Appendix 1: Balance of internal controls and substantive testing

This appendix illustrates how we determine the most effective balance of internal controls and substantive audit testing.



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 or CC invites 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:

- Any staff involved on Commission work who wish to engage in political activity should obtain prior approval from the Partner.
- Audit staff are expected not to accept appointments as lay school inspectors.
- Firms are expected not to risk damaging working relationships by bidding for work within an audited body's area in direct competition with the body's own staff without having discussed and agreed a local protocol with the body concerned.

- Auditors are expected to comply with the Commission's statements on firms not providing personal financial or tax advice to certain senior individuals at their audited bodies, auditors' conflicts of interest in relation to PFI procurement at audited bodies, and disposal of consultancy practices and auditors' independence.
- 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 each audit at least once every five years (subject to agreed transitional arrangements). Audit suppliers are required to obtain the Commission's written approval prior to changing any Engagement Lead in respect of each audited body.
- Audit suppliers are required to obtain the Commission's written approval prior to changing any Engagement Lead in respect of each audited body.
- The Commission must be notified of any change of second in command within one month of making the change. Where a new Engagement Lead or second in command has not previously undertaken audits under the Audit Commission Act 1998 or has not previously worked for the audit supplier, the audit supplier is required to provide brief details of the individual's relevant qualifications, skills and experience.

## Appendix 3: 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.

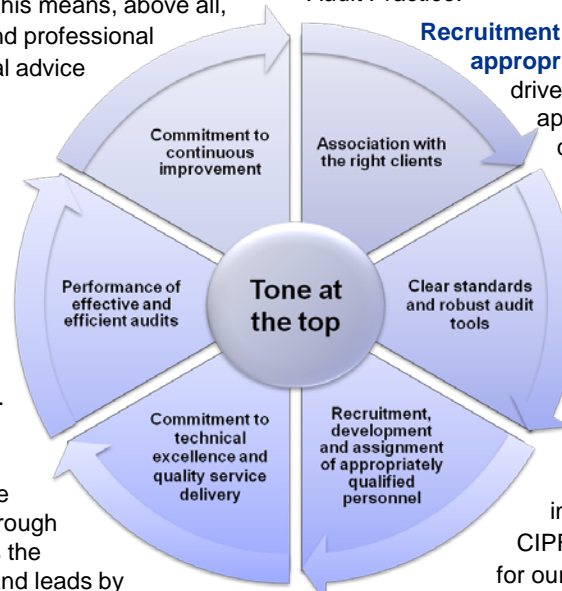
We believe it is important to be transparent about the processes that sit behind a KPMG audit report, so you can have absolute confidence in us and in the quality of our audit.

**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 drives 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.
- 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*.
- A dedicated Department of Professional Practice comprised of over 100 staff that provide support to our audit teams and deliver our web-based bi-monthly 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- 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 behaviors in the performance of effective and efficient audits. The key behaviors 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 results of the Audit Commission's annual quality review process is made publicly available each year ([http://www.audit-commission.gov.uk/audit-regime/Pages/qualityreviewprocess\\_copy.aspx](http://www.audit-commission.gov.uk/audit-regime/Pages/qualityreviewprocess_copy.aspx)). The latest report dated October 2012 showed that we performed highly against all the Commission's criteria.



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OFFICE OF NORTHAMPTONSHIRE POLICE & CRIME COMMISSIONER AND NORTHAMPTONSHIRE POLICE

Progress Report

For the Audit Committee – 19<sup>th</sup> March 2013

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The matters raised in this report are only those which came to our attention during our internal audit work and are not necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required. Whilst every care has been taken to ensure that the information provided in this report is as accurate as possible, based on the information provided and documentation reviewed, no complete guarantee or warranty can be given with regard to the advice and information contained herein. Our work does not provide absolute assurance that material errors, loss or fraud do not exist.

This report is prepared solely for the use of Board and senior management of Office of Northamptonshire Police & Crime Commissioner and Northamptonshire Police. Details may be made available to specified external agencies, including external auditors, but otherwise the report should not be quoted or referred to in whole or in part without prior consent. No responsibility to any third party is accepted as the report has not been prepared, and is not intended for any other purpose.

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## 1. INTRODUCTION

- 1.1 The periodic internal audit plan for 2012/13 was approved on 5<sup>th</sup> April 2012 by the Resources Committee, of the Police Authority. This report summarises the outcome of work completed to date against that plans, and Appendix A provides cumulative data in support of internal audit performance.

## 2. FINAL REPORTS ISSUED

- 2.1 We have issued 2 reports and these are in the area of:
- Payroll & Expenses (Police Authority & Force)
  - Microsoft Licensing

## 3. KEY FINDINGS FROM INTERNAL AUDIT WORK

- 3.1 The key findings from the reviews finalised since the last Committee meeting are as follows:

### Payroll & Expenses (Police Authority & Force)

We have provided substantial assurance and we have made 1 merits attention recommendation as part of the audit. The key findings from this review are as follows;

- There is a documented Data Protection Policy in place, available on the Forcenet. The Policy sets out the obligations and responsibilities of staff in ensuring that data is not passed on in an unauthorised way.
- The Payroll system is managed through a Bureau (Logica) and there is a SLA in place. As of 1<sup>st</sup> October 2012, the contract with Logica was transferred to the Multi Force Shared Services. At the time of the review a copy of the SLA had not been received. We made a recommendation within the report to ensure a copy of the SLA is received.
- Access to the system is controlled by passwords (which must be changed every 90 days). The Payroll Co-ordinator monitors access to the system, which is restricted to 5 payroll staff, the System Administrator and the HR department (enquiry only).
- Starters are added to the payroll on receipt of an authorised memo from HR which includes the starting salary/grade, funding for the post, the budget coding for the expense, hours of work, annual leave entitlement and any additional allowances.
- Payroll records are updated following notification from HR to the Payroll department of leavers by way of memo, signed by an HR Officer, giving details including the leaving date, any outstanding holiday entitlement and any outstanding pay. The records are not deleted but show that the employee has left. We selected a sample of 15 leavers and no problems were identified.



- A standard form is in place to notify payroll of changes to employees' standing data, although employees often advise payroll direct by e-mail. Changes of address are usually advised by a memo from HR. Standing data amendments are checked by another payroll officer. We selected a sample of 10 cases where a change to detail had been requested. Our testing did not highlight any problems.
- Proposed payment runs are notified to the Payroll Bureau in advance of the due date in line with the BACS transmission requirement to ensure that the employees' bank accounts are credited on time. The payroll BACS payment run is authorised by the Acting Chief Accountant, prior to payment. The last three pension BACS payment runs were reviewed and we identified that the Chief Accountant had authorised just one, prior to payment. This was for August 2012. Through discussion with the Payroll Service Manager this was put down to staffing pressures, but with the extra members of staff now in payroll this will happen going forward.
- Standard forms are completed and signed by those joining the schemes. The rates for pension deductions for employees are based on an agreed percentage of salary for both pension schemes in operation. We confirmed for the 15 starters selected, all scheme joiners received the appropriate pension information for the relevant scheme. Evidence of this was on personnel files, which contained the responses from the pension forms. It should be noted that in December 2012, the Interim Assistant Commissioner Resources identified an error with the operational processing of pensions, which contradicted the Force HR Policy of December 2009, which reports that staff (applicable from 1<sup>st</sup> April 2008) are automatically admitted to the Local Government Pension Scheme (currently forms are completed by the staff member and then on receipt of the form; included onto the Pension Scheme). Consequently, the Force has completed an analysis of all those starters from 1<sup>st</sup> April 2008, that have not opted out of the Pension Scheme, to confirm that the individuals have been appropriately included within the Pension Scheme and to further understand the impact of the operational error. Internal Audit is in the process of completing substantive testing surrounding the data and this will be subject to a separate letter / report.
- Claims for expenses and mileage are made on the APTOS finance system. All staff have individual logins. Expenses are entered into the system. Before submitting the claimant is required to print off an expenses receipt form. Mileage claims are forwarded to the centralised transport department for authorisation. Receipts for expenses are forwarded to Payroll. Payroll review evidence and expense claims and authorise as appropriate. Approved mileage and expenses are abstracted from the APTOS system in a monthly report and uploaded to payroll for payment. For our sample of expenses tested for Force staff and officers, as part of the audit, no problems were identified.

#### Microsoft Licensing

An advisory audit of the processes in place to ensure the use of Microsoft technologies are appropriately licenced was undertaken. The review considered two aspects of the licensing arrangements:

- The review of the licensing arrangements and whether a more cost effective option is available which would meet the requirements of the Organisation; and
- The process for undertaking the annual true up exercise to ensure that the Organisation is appropriately licensed for the Microsoft products in use.

We have made one 'merits attention' recommendation to assist in the software management processes and reduce the risks associated with this area. From the information provided, the staff within ISD involved in the Microsoft licensing exercise, have a good understanding of the requirements and have undertaken a thorough evaluation of 6 options comparing benefits and negatives of Perpetual Licensing against the Enterprise Subscription Agreement (ESA) approach.

In essence, the perpetual approach such as the current Select Plus volume license, allows the customer perpetual use of the license as they own the license. With the ESA model, the customer is renting the software and can only use the software throughout the term of the ESR agreement, which is typically for three years and whilst a "true up" is still required, the annual rental for desktop software is based on the number of PC's on site at the license anniversary. This therefore may have benefits against purchasing expensive software, which may only have a short term life. Review of reconciliation spread sheets for the 2012 true up exercise shows that a number of new licences were purchased or software uninstalled to remediate the software position. From the information provided, the steps taken to ensure the Organisation is properly licensed for the Microsoft products installed would appear reasonable and appropriate.

There are a large number of assumptions built into the various cost models due to the "unknowns" associated with software usage projected over the medium to long term period. As it is also likely that Microsoft licensing will change over the term of the ESA and collaborative working across neighbouring forces may impact on wider benefits to be gained from "economies of scale" licensing options, a pro-active review of the best value licensing arrangements, going forward once the ESA is in place, will assist the value for money to be obtained from this complex process.

#### 4. WORK IN PROGRESS AND CHANGES TO OUR INTERNAL AUDIT PLAN

- 4.1 We are undertaking work in relation to Transitional Arrangements – Payroll & Expenses (PCC) and will report our findings when this work is completed.
- 4.2 As detailed above, in December 2012, the Interim Assistant Commissioner Resources identified an error with the operational processing of pensions, which contradicted the Force HR Policy of December 2009, which reports that staff (applicable from 1<sup>st</sup> April 2008) are automatically admitted to the Local Government Pension Scheme (currently forms are completed by the staff member and then on receipt of the form; included onto the Pension Scheme). Consequently, the Force has completed an analysis of all those starters from 1<sup>st</sup> April 2008, that have not opted out of the Pension Scheme, to confirm that the individuals have been appropriately included within the Pension Scheme and to further understand the impact of the operational error. Internal Audit is in the process of completing substantive testing surrounding the data and this will be subject to a separate letter / report.
- 4.3 As members may recall at the Authority Resources Committee in June 2012, it was agreed that a review of Force Control Room be completed in March 2013. It is understood that the PCC has completed a scrutiny review of the Force Control Room and therefore we need to ensure that the scope of our review does not duplicate any areas considered by the PCC scrutiny review. Further discussions around this area can take place at the Audit Committee on 19<sup>th</sup> March.
- 4.4 We will be commencing our financial audit, specifically considering general ledger, budgetary control, management information and reporting in March 2013.

## 5. LIAISON WITH MANAGEMENT AND EXTERNAL AUDIT

5.1 Ongoing liaison is undertaken with your external auditors, KPMG to ensure they can rely on our work and there is no duplication of effort.

## APPENDIX A: OPERATIONAL PLAN PERFORMANCE 2012/13

Finalised Auditable Areas	Assurance level given	Number of Recommendations Made				
		F	S	MA	In Total	Agreed
Pension Administration	LIMITED	-	4	3	7	7
Governance – Transition	ADVISORY	-	-	2	2	2
Follow Up	GOOD PROGRESS	-	-	-	-	-
Review of Shared Services Project – Part One	ADVISORY	-	-	-	-	-
EMSOU – Key Financial Controls	ADEQUATE	-	3	9	12	12
Estate Management	SUBSTANTIAL	-	-	1	1	1
Payroll & Expenses (Police Authority & Force)	SUBSTANTIAL	-	-	1	1	1
Microsoft Licensing	ADVISORY	-	-	1	1	1

## Recommendation Categorisation

Our findings and recommendations are categorised as follows:

**Fundamental (F):** action is imperative to ensure that the objectives for the area under review are met

**Significant (S):** requires action to avoid exposure to significant risks in achieving the objectives for the area under review.

**Merits Attention (MA):** action advised to enhance control or improve operational efficiency

## Risk Based Internal Audit Assignments

	Level	Control Design	Control Application
(positive opinions)	Substantial Assurance	Robust framework of controls ensures objectives are likely to be achieved.	Controls are applied continuously or with minor lapses.
	Adequate Assurance	Sufficient framework of key controls for objectives to be achieved but, control framework could be stronger.	Controls are applied but with some lapses.
(negative opinion)	Limited Assurance	Risk of objectives not being achieved due to the absence of key internal controls.	Significant breakdown in the application of controls.

## Follow Up Reviews

(positive opinions)	Good Progress
	Reasonable Progress
(negative opinion)	Little Progress

## APPENDIX B: ACTION PLAN

PAYROLL – PRE 22<sup>ND</sup> NOVEMBER 2012 (06.12/13)

Ref	Recommendation	Categorisation	Accepted (Y/N)	Management Comment	Implementation Date	Manager Responsible
1	For completeness, the Force should obtain a copy of the SLA, as soon as possible.	Merits Attention	Y	Agreed.	Implemented	Sarah Copley Hirst

## MICROSOFT LICENSING (07.12/13)

Ref	Recommendation	Categorisation	Accepted (Y/N)	Management Comment	Implementation Date	Manager Responsible
1	The ISD Business Manager should define an approach for the pro-active review of licensing options available going forward once the Enterprise Subscription Agreement (ESA) is in place to best fit the business plans and technology strategies of the Organisation.	Merits Attention	Y	The proposal re doing periodic reviews of the best licence model for our business makes good governance sense. The ISD Business Manager with continue to monitor and review licensing options to identify the most appropriate model for the Force. However, the subscription model we have selected will tie the Force into a three year programme, so changes would not be possible during that period.	Ongoing	ISD Director