



Report to those charged with governance (ISA 260) 2015/16

**Police and Crime Commissioner and the
Chief Constable of Humberside**

September 2016



Contents

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This report is addressed to the Humberside PCC and CC 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 issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies summarising where the responsibilities of auditors begin and end and what is expected from audited bodies. We draw your attention to this document which is available on Public Sector Audit Appointment's website (www.psa.co.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.

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact John Prentice, the engagement lead to the PCC and CC, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers (on 020 7694 8981, or by email to andrew.sayers@kpmg.co.uk). After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing generalenquiries@psaa.co.uk, by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, Third Floor, Local Government House, Smith Square, London, SW1P 3HZ.

This document summarises:

- The key issues identified during our audit of the financial statements for the year ended 31 March 2016 for both the PCC and the CC; and
- Our assessment of the PCC and CC's arrangements to secure value for money.

Scope of this report

This report summarises the key findings arising from:

- Our audit work at the Police and Crime Commissioner for Humberside ('the PCC') and the Chief Constable of Humberside ('the CC') in relation to their 2015/16 financial statements; and
- The work to support our 2015/16 conclusion on the PCC and CC's arrangements to secure economy, efficiency and effectiveness in their use of resources ('VFM conclusion').

Financial statements

Our External Audit Plan 2015/16, presented to you in March 2016, set out the four stages of our financial statements audit process.



This report includes the third stage of the process: substantive procedures. Our on site work for this took place during July 2016.

We are now in the final phase of the audit, the completion stage. Key aspects of this stage are also discharged through this report.

VFM Conclusion

Our External Audit Plan 2015/16 explained our risk-based approach to VFM work. We have now completed the work to support our 2015/16 VFM conclusion. This included:

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

Structure of this report

This report is structured as follows:

- Section 2 summarises the headline messages.
- Section 3 sets out our key findings from our audit work in relation to the 2015/16 financial statements of the PCC and CC.
- Section 4 outlines our key findings from our work on the VFM conclusion.

Our recommendations are included in Appendix 1. We have also reviewed your progress in implementing prior year recommendations and this is detailed in Appendix 2.

Acknowledgements

We would like to take this opportunity to thank officers for their continuing help and co-operation throughout our audit work.

Section two

Headlines

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

Proposed audit opinion	We anticipate issuing unqualified audit opinions on the PCC and CC's financial statements by the end of September 2016. We will also report that your Annual Governance Statement complies with guidance issued by CIPFA/SOLACE in June 2007.
Audit adjustments	We identified one significant audit adjustment (deemed to be greater than £165,000 in value) which was not adjusted by Management. Property Plant and Equipment (PPE) was overstated in the group financial statements because assets were transferred to the joint workshop owned by Humberside Police and Fire at 1 April 2015 and were not removed from the asset register. PPE is over-stated by £0.25 million in the Group accounts. Work will be carried out in 2016/17 to correctly account for these assets.
Key financial statements audit risks	<p>We identified three key financial statements audit risks in our External Audit Plan 2015/16 - Management override of controls, Fraudulent revenue recognition, and the transfer to the new accounting ledger in November 2015.</p> <p>We have worked with officers to discuss these key risks and our detailed findings are reported in section 3 of this report. Whilst we encountered some difficulty in agreeing balances transferred to the new system we were ultimately able to satisfy ourselves that the balances transferred to the new ledger were complete and accurate. There were no other matters of any significance arising as a result of our audit work in these key risk areas.</p>

Section two

Headlines (cont.)

This table summarises the headline messages for the PCC and CC.

<p>Accounts production and audit process</p>	<p>We have noted that the accounts were prepared to a good standard, as in previous years with few errors identified, apart from the over-statement of assets described above. We had some difficulties in tracing transactions to financial statements as officers become familiar with the new system. We have made recommendations in Appendix 1 to ensure the correct accounting for assets and improving the audit trail from the statements to the ledger transactions and source information.</p> <p>We also recommended the urgent re-introduction of a Joint Independent Audit Committee. The existing Joint Integrated Audit Committee expired when the elections for the PCC were held in May 2016. The committee was in place throughout 2015/16. As an interim solution, the financial statements were subject to independent scrutiny by the South Yorkshire Police Audit Committee, however this important committee needs to be in place in 2016/17 as soon as possible.</p> <p>We followed up the recommendation made in our ISA 260 report 2014/15 over the development of an ethics committee. Limited progress has been made in 2015/16 as a joint independent audit committee and ethics committee is planned.</p>
<p>Completion</p>	<p>At the date of this report our audit of the financial statements is substantially complete subject to completion of the Whole of Government Accounts.</p> <p>Before we can issue our opinion, we also require a signed management representations letter.</p> <p>We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the PCC's and CC's financial statements.</p>
<p>VFM conclusion and risk areas</p>	<p>We identified one VFM risk reported to you at the Joint Independent Audit Committee in March 2016 based on the latest update of the Peel assessment by the HMIC issued in October 2015 which scored efficiency as 'Inadequate'. The HMIC cited 'serious difficulties in implementing the new operating model' although the Force has stressed that the inspection was undertaken very quickly after the model was first introduced.</p> <p>We have worked with officers throughout the year to discuss the specific VFM risk and evidence was provided of arrangements to track progress and management actions to address the specific concerns raised by HMIC. With improved management arrangements in place, we anticipate issuing an unqualified VFM conclusion in September 2016.</p>

Proposed opinion and audit differences

We identified one issue in the course of the audit that is considered to be significant and management chose not to address.

We anticipate issuing an unqualified audit opinion in relation to the PCC and CC's financial statements by the end of September 2016.

Proposed audit opinion

Subject to all outstanding queries being resolved to our satisfaction, we anticipate issuing unqualified audit opinions on the PCC and CC's financial statements following approval of their Statement of Accounts by the PCC and CC.

Audit differences

In accordance with ISA 260 we are required to report uncorrected audit differences to you. We also report any material misstatements which have been corrected and which we believe should be communicated to you to help you meet your governance responsibilities.

The final materiality level (see Appendix 5 for more information on materiality) for this year's audit was set at £3.3 million. Audit differences below £165,000 are considered to be trivial.

Our audit identified no significant audit misstatements affecting the primary statements (i.e. above £165,000) except for an over-statement of assets. Property Plant and Equipment assets were transferred to the Humberside Police and Fire joint workshop at 1 April 2015. A separate company Emergency Services Fleet Management (Humberside) Ltd was set up to administer this joint arrangement. No work was carried out to remove these assets from the balance sheet of the PCC during the financial year. The impact is that Property Plant and Equipment are over-stated by £0.25m in the Group accounts.

Management have chosen not to amend the financial statements because the accounting entries are complex and this does not impact on the financial position.

Annual Governance Statement

We have reviewed the Annual Governance Statements for both the PCC and the CC and confirmed that:

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

Significant risks and key areas of audit focus

We have worked with the PCC and CC throughout the year to discuss significant risks and key areas of audit focus.

This section sets out our detailed findings on those risks.

In our External Audit Plan 2015/16, we identified the significant risks affecting the PCC and CC's 2015/16 financial statements. We have now completed our testing of these areas and set out our evaluation following our substantive work.

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

Introducing the new accounting ledger

We identified a risk that the ledger balances could be incorrectly transferred to the new ERP system and reporting package which went live on 1 November 2015. We carried out a detailed review of the transfer of accounting balances and transaction information.

Working papers provided to support the balance transfer initially had no clear audit trail. The approach taken, by re-creating prior transactions on the new system rather than running with two ledgers in year and transferring the balance with one journal transaction, meant the records were over complex. There was limited evidence provided of the internal check of balances transferred from the old Trial Balance to the new Trial Balance.

Following detailed testing we were able to satisfy ourselves that the transfer of balances was complete and accurate.

We also identified one area of audit focus in the plan which is described below.

Strategic partnership with South Yorkshire Police

We monitored the impact of closer working with South Yorkshire on governance, the financial systems and underlying controls in developing our detailed audit approach for 2015/16. Apart from the new ledger described above financial control and governance processes remained largely the same with underlying control processes continuing in place during the financial year.

Significant risks and key areas of audit focus (cont.)

There are two mandatory significant risks that need to be considered as part of our audit. No issues were identified from this work.

In our *External Audit Plan 2015/16* we reported that we would consider two risk areas that are specifically required by professional standards and report our findings to you. These risk areas were the Fraud risk of revenue recognition and Management override of controls.

The table below sets out the outcome of our audit procedures and assessment on these risk areas.

Fraud risk of revenue recognition

Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk.

In our *External Audit Plan 2015/16* we reported that we do not consider this to be a significant risk for the PCC (99% of income comes from government grants and public bodies) and the CC (whose funding comes from the PCC) as there is unlikely to be an incentive to fraudulently recognise revenue.

This is still the case. Since we have rebutted this presumed risk, there has been no impact on our audit work.

Management override of controls

Professional standards require us to communicate the fraud risk from management override of controls as significant because management is typically in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

Our audit methodology incorporates the risk of management override as a default significant risk. We have not identified any specific additional risks of management override relating to this audit.

In line with our methodology, we carried out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual.

There are no matters arising from this work that we need to bring to your attention.

Accounts production and audit process

We have noted that the quality of the accounts and the supporting working papers was generally good but had some difficulty in tracing transactions in the new ledger.

Officers dealt efficiently with the majority of audit queries and the audit process should be completed within the planned timescales.

The recommendation from our ISA 260 Report 2014/15 has not been addressed and there is a need to re-constitute the audit committee as a matter of urgency.

Accounts production and audit process

ISA 260 requires us to communicate to you our views about the significant qualitative aspects of the PCC and CC's accounting practices and financial reporting. We also assessed the PCC and CC's processes for preparing their accounts and their support for an efficient audit.

We considered the following criteria:

Element	Commentary
Accounting practices and financial reporting	<p>The PCC and CC have maintained strong financial reporting processes, with minor adjustments to disclosures and presentation only being required to the draft accounts.</p> <p>We consider that accounting practices are appropriate however we made one recommendation. Assets transferred to the Joint Vehicle workshop were not removed from the PCC's asset register resulting in an unadjusted misstatement and over-statement of assets in the group financial statements described in Appendix 3.</p>
Completeness of draft accounts	<p>We received a complete set of draft accounts on 30 June 2016.</p> <p>The PCC and CC have made a number of minor amendments to the accounts presented for audit, however there have been no changes which affect the financial position.</p>

Element	Commentary
Quality of supporting working papers	<p>Our Accounts Audit Protocol, which we issued to and discussed with the Financial and Technical Accountant, set out our working paper requirements for the audit.</p> <p>The quality of working papers provided was affected by the new ledger we had difficulty in tracing some transactions notably IT assets and income transactions. We have made recommendations in Appendix 1.</p>
Response to audit queries	<p>The response to resolving audit queries remained very good, as in previous years. Audit queries affecting the financial statements were largely resolved in a timely manner apart from those arising from the difficulties in tracing some transactions discussed above.</p>

Findings in respect of the control environment for key financial systems

We made no recommendations over the control environment for key financial systems, however there is a need to re-constitute the joint independent audit committee as a matter of urgency covered in a recommendation in Appendix 1.

Prior year recommendations

As part of our audit we have specifically followed up progress in addressing the recommendations in last year's ISA 260 report. We made one recommendation in the report last year which is in progress relating to the set up of an ethics committee. Appendix 2 provides further details.

Completion

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

Before we can issue our opinion we require signed management representations letters.

Once we have finalised our opinions and conclusions we will prepare our Annual Audit Letter and close the audits.

Declaration of independence and objectivity

As part of the finalisation process we are required to provide you with representations concerning our independence.

In relation to the audits of the financial statements of the Police and Crime Commissioner for Humberside and the Chief Constable of Humberside for the year ending 31 March 2016, we confirm that there were no relationships between KPMG LLP and the Police and Crime Commissioner for Humberside and the Chief Constable of Humberside, their senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

We have provided a detailed declaration in Appendix 4 in accordance with ISA 260.

Management representations

You are required to provide us with representations on specific matters such as your financial standing and whether the transactions within the accounts are legal and unaffected by fraud. We have provided a template to the respective Chief Finance Officers for presentation to the PCC and CC. We require their signed management representations letters before we issue our audit opinions.

Other matters

ISA 260 requires us to communicate to you by exception 'audit matters of governance interest that arise from the audit of the financial statements' which include:

- Significant difficulties encountered during the audit;
- Significant matters arising from the audit that were discussed, or subject to correspondence with management;
- Other matters, if arising from the audit that, in the auditor's professional judgement, are significant to the oversight of the financial reporting process; and
- Matters specifically required by other auditing standards to be communicated to those charged with governance (for example significant deficiencies in internal control; issues relating to fraud, compliance with laws and regulations, subsequent events, non disclosure, related parties, public interest reporting, questions/objections, opening balances etc).

There are no others matters which we wish to draw to your attention in addition to those highlighted in this report.

VFM Conclusion

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

Background

The Local Audit and Accountability Act 2014 requires auditors to give their statutory VFM conclusion based on three sub-criteria specified by the National Audit Office. These consider whether the PCC and CC have proper arrangements in place for:

- Informed decision making;
- Sustainable resource deployment: looking at how the PCC and CC are prioritising resources and improving efficiency and productivity; and
- Working with partners and third parties.

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

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



Work completed

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

The following pages includes further details of our VFM risk assessment and our specific risk-based work.

Conclusion

We have concluded that the PCC and CC have made proper arrangements to secure economy, efficiency and effectiveness in their use of resources.

Sub criterion	Met
Informed decision making	Yes
Sustainable resource deployment	Yes
Working with partners and third parties	Yes

Section four

Specific VFM Risks

We identified three specific VFM risks.

We need to be satisfied that external or internal scrutiny provide sufficient assurance that the PCC and CC's current arrangements in relation to this risk area is adequate.

Work completed

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

- Assessed the PCC and CC's key business risks which are relevant to our VFM conclusion;
- Identified the residual audit risks for our VFM conclusion, taking account of work undertaken in previous years or as part of our financial statements audit; and
- Considered the results of relevant work by the PCC and CC, inspectorates and review agencies in relation to these risk areas,

Key findings

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

Key VFM Risk	Assessment
<p>Peel Assessment</p> <p>The update of the Peel assessment by the HMIC in October 2015 scored efficiency as 'Inadequate'. The HMIC cited 'serious difficulties in implementing the new operating model'.</p>	<p>We assessed the Force's response to the criticism, reviewing management's action plan and evidence of monitoring progress to consider the impact on our assessment of 'Sustainable Resource Deployment' in forming our VFM opinion. We concluded that the Force had adequate performance management arrangements in place to meet the minimum standard required to address the VFM risk and concerns raised by HMIC..</p> <p>The HMIC inspection was carried out shortly after the implementation of the internal reorganisation in April 2015. At that time, the new contact hub, had gone live in February in advance on the reorganisation was not operating well and 30% of calls were not answered. The situation has now stabilised. The Force learnt a lot from the post implementation review and call handling and resources to respond were given a high level of scrutiny. Call statistics are now monitored on a daily basis and they have been at 5.2% abandoned 101 calls for the last 6 months; this is better than the national average. The challenge remains to ensure that service across all areas, such as responding to prompt calls within an hour, is meeting PCC or Force targets.</p> <p>For safeguarding, a team from Gwent has done a peer review of protecting vulnerable people (PVP) and major crime capacity. They looked at how work is distributed and what resources are needed and as a result 20 officers have been transferred into PVP.</p> <p>Changes have been made to shift patterns to better respond to demand. A through review of flexible working arrangements has also been undertaken. The Force has introduced a more robust sickness policy, training and access to wellbeing services with dedicated Chief Inspectors, and a 24/7 employee assistance programme. Sickness levels have reduced.</p> <p>A further Peel review took place in Summer 2016 and is expected to be reported in Autumn 2016.</p>



Appendices

Appendix 1: Key issues and recommendations

Appendix 2: Follow up of prior year recommendations

Appendix 3: Audit differences

Appendix 4: Declaration of independence and objectivity

Appendix 5: Materiality and reporting of audit differences

Appendix 6: KPMG Audit Quality Framework

Key issues and recommendations

We have made three recommendations for 2015/16.

We give our recommendations a risk rating and agree what action management will need to take. The PCC and CC should monitor progress in addressing specific risks and implementing our recommendations. We will formally follow up these recommendations next year.

Priority rating for recommendations			
1	Priority one: issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.	2	Priority two: issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.
		3	Priority three: issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.

No.	Risk	Issue and recommendation	Management response/responsible officer/due date
1	2	<p>Audit Trail</p> <p>Finance staff have yet to develop a set of detailed business intelligence (BI) reports to allow a detailed breakdown of transactions in the accounting statements. Finance staff were initially unable to provide detailed breakdowns of some transactions such as Income and IT assets.</p> <p>Recommendation</p> <p>Accurate BI reports need to be developed to allow detailed transactions underpinning key balances in the financial statements to be identified easily.</p>	<p>Management response</p> <p>We developed accurate and detailed BI reports for the 1516 accounts based on the BI universes available to us. The Accounts Receivable (AR) universe was not available so we were unable to supply detailed reports for income but provided alternative evidence to support the key balances in the financial statements. We provided all our available information on IT assets based on accruals information supplied by South Yorkshire Police. The Oracle system does not allow a drill down to bottom level transactions on the General Ledger.</p> <p>We will work with our Joint IT Consultants to provide the AR universe in time for the 1617 accounts preparation so we can provide BI reports on income. We are pressing our South Yorkshire colleagues to issue IT asset invoices to us on a regular basis to improve the timing of information flow between the two Forces.</p> <p>Responsible officer: John Bates, Chief Finance Officer</p> <p>Due date: March 2017</p>

Key issues and recommendations (continued)

We have made three recommendations for 2015/16.

No.	Risk	Issue and recommendation	Management response/responsible officer/due date
2	1	<p>Audit Committee</p> <p>The existing Audit Committee expired when the elections for the PCC were held in May 2016. The committee was in place for all of 2015/16 and the financial statements were subject to independent scrutiny by the South Yorkshire Police Joint Independent Audit Committee.</p> <p>The purpose of an audit committee is to provide to those charged with governance with independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and annual governance processes and it is therefore essential for the PCC and CC to have a fully constituted audit committee in place.</p> <p>Recommendation</p> <p>A new audit committee needs to be set up as soon as possible.</p>	<p>Management response</p> <p>The commitment of the PCC and the CC to the establishment of a Joint Independent Audit and Ethics Committee has been reaffirmed following the May 2016 elections and terms of reference have been agreed. Expressions of interest have been invited and a small number of potential candidates have been identified. A further exercise is being carried out to re-advertise the positions to obtain a wider pool of candidates with relevant experience with the intention of carrying out interviews to appoint to the Committee at the earliest opportunity.</p> <p>Responsible officer: Martin Scoble, Chief Executive</p> <p>Due date: November 2016</p>
2	2	<p>Assets transferred to the Joint Vehicle workshop</p> <p>The new joint vehicle workshop commenced on 1 April 2015 and a number of existing assets were transferred to the company running the new facility. These assets were not removed from the balance sheet and asset records of the PCC so are over-stated in the financial statements.</p> <p>Recommendation</p> <p>Work to identify and remove the assets from the PCC's balance sheet and asset register needs to take place as soon as possible.</p>	<p>Management response</p> <p>We have identified assets amounting to approximately £252k which require removing from the PCC's asset register. These will be adjusted as part of the 16/17 annual accounts preparation process.</p> <p>Responsible officer: John Bates, Chief Finance Officer</p> <p>Due date: March 2017</p>

Appendix 2

Follow up of prior year recommendations

The PCC and CC have implemented one recommendation from our ISA 260 Report 2014/15. One recommendation remains outstanding.

This appendix summarises the progress made to implement the recommendations identified in our ISA 260 Report 2014/15.

Number of recommendations that were:	
Included in original report	1
Implemented in year or superseded	0
Remain outstanding	1

No.	Risk	Issue and recommendation	Officer responsible and due date	Status as at September 2016
1	2	<p>Ethics Committee</p> <p>Humberside PCC/CC has made limited progress in developing an ethics committee. A joint arrangement with South Yorkshire Police is under consideration but there are no firm plans or timescales to develop a Committee.</p> <p>Recommendation</p> <p>Humberside PCC and CC need to develop a clear plan with timescales and actions to develop an Ethics Committee.</p>	<p>Management response</p> <p>Responsible Officer: Martin Scoble, Chief Executive</p> <p>Due date: 31 December 2015</p>	<p>During 2015/16 research was carried out into those PCCs and Forces who were operating combined audit and ethics committees (JIAECs). This provided information on their terms of reference, coverage and the practical aspects of running a committee of this nature. It was noted that the research showed a limited number of joint ethics and audit committees operating, with some PCCs and forces having separate committees and some not having yet organized specific arrangements for ethical issues.</p> <p>This informed consideration of the arrangements for setting up the JIAEC. The situation was complicated by the change in PCC in May 2016. The incoming PCC, Mr. Hunter, was consulted on his views and agreed proposals for the setting up of the Committee on 1 June 2016. This included approving the terms of reference for the JIAEC, role requirements, member remuneration and the process timetable. The posts were advertised on 15 July 2016 with a closing date of 10 August 2016. Unfortunately only three applications were received. The applicants have been advised that there were an insufficient number of responses to create a shortlist. In these circumstances, the intention is to review the arrangements and to re-advertise the posts. Those submitting responses to the original advert will be considered as part of this process.</p>

Audit differences

This appendix sets out the audit differences.

The financial statements have been amended for non-trivial errors identified through the audit process but there is one unadjusted mis-statement.

We are required by ISA 260 to report all uncorrected misstatements, other than those that we believe are clearly trivial, to those charged with governance (which in your case is the PCC and the CC). We are also required to report all material misstatements that have been corrected but that we believe should be communicated to you to assist you in fulfilling your governance responsibilities.

Uncorrected audit differences

We identified one un-corrected difference relating to Assets transferred to Emergency Services Fleet Management Humberside Ltd which operates the joint vehicle workshop. Property Plant and Equipment assets were transferred to the joint workshop at 1 April 2015. No work was carried out to remove these assets from the balance sheet of the PCC during the financial year. The impact is that Property Plant and Equipment is over-stated by £0.25m in the Group accounts.

Work is planned in 2016/17 to amend the asset register and account for the change. This difference is not material to the financial position of the PCC.

We can confirm that there are no other uncorrected misstatements, other than those that we believe are clearly trivial.

Corrected audit differences

We confirm that there are no corrected misstatements, other than those that we believe are clearly trivial.

Disclosures and presentational adjustments

A small number of disclosure and presentational adjustments have been made; these are mainly the correction of typographical errors and references to updated legislative or regulatory requirements.

Declaration of independence and objectivity

The Code of Audit Practice requires us to exercise our professional judgement and act independently of both Public Sector Audit Appointments Ltd and the PCC and CC.

Requirements

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

'Auditors and their staff should exercise their professional judgement and act independently of both the Commission and the audited body. Auditors, or any firm with which an auditor is associated, should not carry out work for an audited body that does not relate directly to the discharge of auditors' functions, if it would impair the auditors' independence or might give rise to a reasonable perception that their independence could be impaired.'

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code, the detailed provisions of the Statement of Independence included within the Public Sector Audit Appointments Ltd *Terms of Appointment* ('Public Sector Audit Appointments Ltd Guidance') and the requirements of APB Ethical Standard 1 *Integrity, Objectivity and Independence* ('Ethical Standards').

The Code states that, in carrying out their audit of the financial statements, auditors should comply with auditing standards currently in force, and as may be amended from time to time. Public Sector Audit Appointments Ltd guidance requires appointed auditors to follow the provisions of ISA (UK&I) 260 *Communication of Audit Matters with Those Charged with Governance* that are applicable to the audit of listed companies. This means that the appointed auditor must disclose in writing:

- Details of all relationships between the auditor and the client, its directors and senior management and its affiliates, including all services provided by the audit firm

and its network to the client, its directors and senior management and its affiliates, that the auditor considers may reasonably be thought to bear on the auditor's objectivity and independence.

- The related safeguards that are in place.
- The total amount of fees that the auditor and the auditor's network firms have charged to the client and its affiliates for the provision of services during the reporting period, analysed into appropriate categories, for example, statutory audit services, further audit services, tax advisory services and other non-audit services. For each category, the amounts of any future services which have been contracted or where a written proposal has been submitted are separately disclosed. We do this in our *Annual Audit Letter*.

Appointed auditors are also required to confirm in writing that they have complied with Ethical Standards and that, in the auditor's professional judgement, the auditor is independent and the auditor's objectivity is not compromised, or otherwise declare that the auditor has concerns that the auditor's objectivity and independence may be compromised and explaining the actions which necessarily follow from his. These matters should be discussed with the PCC and CC.

Ethical Standards require us to communicate to those charged with governance in writing at least annually all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place that, in our professional judgement, may reasonably be thought to bear on our independence and the objectivity of the Engagement Lead and the audit team.

Declaration of independence and objectivity (cont.)

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

General procedures to safeguard independence and objectivity

KPMG's reputation is built, in great part, upon the conduct of our professionals and their ability to deliver objective and independent advice and opinions. That integrity and objectivity underpins the work that KPMG performs and is important to the regulatory environments in which we operate. All partners and staff have an obligation to maintain the relevant level of required independence and to identify and evaluate circumstances and relationships that may impair that independence.

Acting as an auditor places specific obligations on the firm, partners and staff in order to demonstrate the firm's required independence. KPMG's policies and procedures regarding independence matters are detailed in the *Ethics and Independence Manual* ('the Manual'). The Manual sets out the overriding principles and summarises the policies and regulations which all partners and staff must adhere to in the area of professional conduct and in dealings with clients and others.

KPMG is committed to ensuring that all partners and staff are aware of these principles. To facilitate this, a copy of the Manual is provided to everyone annually. The Manual is divided into two parts. Part 1 sets out KPMG's ethics and independence policies which partners and staff must observe both in relation to their personal dealings and in relation to the professional services they provide. Part 2 of the Manual summarises the key risk management policies which partners and staff are required to follow when providing such services.

All partners and staff must understand the personal responsibilities they have towards complying with the policies outlined in the Manual and follow them at all times. To acknowledge understanding of and adherence to the policies set out in the Manual, all partners and staff are required to submit an annual ethics and independence confirmation. Failure to follow these policies can result in disciplinary action.

Auditor declaration

In relation to the audit of the financial statements of the Police and Crime Commissioner for Humberside and the Chief Constable of Humberside for the financial year ending 31 March 2016, we confirm that there were no relationships between KPMG LLP and the Police and Crime Commissioner for Humberside and the Chief Constable of Humberside, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

Materiality and reporting of audit differences

For 2015/16 our materiality is £3.3 million for the PCC's Group accounts.

We have reported all audit differences over £165,000 for the PCC and CC's accounts to the PCC and CC respectively.

Materiality

The assessment of what is material is a matter of professional judgement and includes consideration of three aspects: materiality by value, nature and context.

- Material errors by value are those which are simply of significant numerical size to distort the reader's perception of the financial statements. Our assessment of the threshold for this depends upon the size of key figures in the financial statements, as well as other factors such as the level of public interest in the financial statements.
- Errors which are material by nature may not be large in value, but may concern accounting disclosures of key importance and sensitivity, for example the salaries of senior staff.
- Errors that are material by context are those that would alter key figures in the financial statements from one result to another – for example, errors that change successful performance against a target to failure.

We used the same planning materiality reported in our External Audit Plan 2015/16, presented to the Audit Committee in March 2016.

Materiality for the PCC Group accounts was set at £3.3million which equates to around 1.6 percent of the Group's gross expenditure. We design our procedures to detect errors in specific accounts at a lower level of precision.

Reporting to the PCC and CC

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the PCC and CC any misstatements of lesser amounts to the extent that these are identified by our audit work.

Under ISA 260, we are obliged to report omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

ISA 450 requires us to request that uncorrected misstatements are corrected.

In the context of the PCC and CC, we consider that an individual difference could normally be considered to be clearly trivial if it is less than £165,000 for the PCC or CC.

Where management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the PCC and CC to assist in fulfilling their governance responsibilities.

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. John Prentice 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 National Audit Office's Code of Audit Practice.

Recruitment, development and assignment of appropriately qualified personnel: One of the key drivers of audit quality assigning professionals appropriate to the PCC and CC's risks. We take great care to assign the right people to 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 who provide support to our audit teams and deliver our web-based quarterly technical training.



KPMG Audit quality framework (cont.)

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 date 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 judgement 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

Public Sector Audit Appointments Ltd publishes information on the quality of work provided by us (and all other firms) for audits undertaken on behalf of them at <http://www.psa.co.uk/audit-quality/principal-audits/kpmg-audit-quality/>.

The latest Annual Regulatory Compliance and Quality Report (issued June 2015) showed that we are meeting the overall audit quality and regulatory compliance requirements. Quarterly monitoring reports for 2015/16 are also available on the same link above.



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