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Report to those charged with governance (ISA 260) 2012/13

The Police and Crime Commissioner for Humberside
Humberside Chief Constable

18 September 2013



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This report is addressed to The Police and Crime Commissioner for Humberside (PCC) and Humberside Chief Constable (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 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.

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 Damian Murray, the appointed engagement lead to the PCC/CC, who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees on 0161 246 4000, or by email to trevor.rees@kpmg.co.uk, who is the national contact partner for all of KPMG's work with the Audit Commission. After this, if you are still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. Put your complaint in writing to the Complaints Unit Manager, Audit Commission, 3rd Floor, Fry Building, 2 Marsham Street, London, SW1P 4DF or by email to complaints@audit-commission.gsi.gov.uk. Their telephone number is 03034448330.

This report summarises:

- the key issues identified during our audit of The Police and Crime Commissioner for Humberside (PCC) and Humberside Chief Constable's (CC) financial statements for the year ended 31 March 2013; and
- our assessment of the PCC and CC's arrangements to secure value for money (VFM) in its use of resources.

Financial statements

Our *External Audit Plan 2012/13* presented to you in March 2013 set out the four stages of our financial statements audit process.



This report focuses on the second and third stages of the process: control evaluation and substantive procedures. Our on site work for these took place in two tranches during March 2013 (interim audit) and August 2013 (year end audit). We carried out the following work:

Control Evaluation	<ul style="list-style-type: none"> ■ Evaluate and test selected controls over key financial systems ■ Review internal audit function ■ Review accounts production process ■ Review progress on critical accounting matters
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Substantive Procedures	<ul style="list-style-type: none"> ■ Planning and performing substantive audit procedures. ■ Concluding on critical accounting matters. ■ Identifying audit adjustments. ■ Reviewing the Annual Governance Statement.
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We are now in the final phase of the audit. Some aspects are also discharged through this report:

Completion	<ul style="list-style-type: none"> ■ Declaring our independence and objectivity. ■ Obtaining management representations. ■ Reporting matters of governance interest. ■ Forming our audit opinion.
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VFM conclusion

Our *External Audit Plan 2012/13* explained our risk-based approach to VFM work, which follows guidance provided by the Audit Commission. We have completed our work to support our 2012/13 VFM conclusion. This included:

- assessing the potential VFM risks and identifying the residual audit risks for our VFM conclusion;
- considering the results of any relevant work by the PCC and CC, the Audit Commission, 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 the key findings from our audit work in relation to the 2012/13 financial statements.
- Section 4 outlines the key findings from our work on the VFM conclusion.

Our recommendations are included in Appendix 1.

Acknowledgements

We would like to take this opportunity to thank John Bates, Phil Goatley, Michael Pilsworth and Christina Broom, as well as other Officers for their continuing help and co-operation throughout our audit work.

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

Proposed audit opinion	We anticipate issuing unqualified audit opinions on both the PCC and CC financial statements by 30 September 2013. We will also report that the wording of your Annual Governance Statements accords with our understanding of your arrangements .
Audit Adjustments	<p>We are pleased to report that there were no material adjusted audit misstatements. We identified a number of presentational points during the course of our work in both the PCC and CC financial statements, mostly in the notes to the accounts. Management have agreed to make the required amendments to the financial statements. These amendments are not significant given the major changes in format and guidance in the year and do not impact on the financial position of the PCC or CC.</p> <p>We have raised recommendations in relation to the matters highlighted above, summarised in Appendix 1.</p>
Critical accounting matters	We did not identify any critical accounting matters, other than those relating to the accounts production and audit process.
Accounts production and audit process	<p>The key challenge faced by the PCC and CC in the accounts production is the format of the accounts as the code guidance has not been sufficiently detailed to provide a full framework on which to base the two sets of financial statements and the group financial statements. The PCC and CC have made good progress in compiling the financial statements to ensure that they meet the code requirements.</p> <p>We have discussed the code requirements both internally and with the Audit Commission and the PCC and CC have agreed to the following changes:</p> <ul style="list-style-type: none"> • the CC accounts being amended to include an 'Comprehensive Income and Expenditure Statement' to comply with the code and the 'Operating Cost Statement' to be moved to Note 2 to the accounts • changes to some disclosure notes to both the PCC and CC financial statements to reflect the new arrangements and to explain that the CC has incurred expenditure on behalf of the PCC. <p>We have worked with Officers throughout the year to discuss the specific risk areas for this year's audit. These issues have been addressed appropriately. Officers dealt efficiently with audit queries and the audit process has been substantially completed within the planned timescales.</p>

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

Control environment	<p>We are satisfied that Internal Audit is compliant with the Code of Practice for Internal Audit in Local Government and have been able to place reliance on their work where this was relevant to our work.</p> <p>We have not identified any significant issues from our work on your control environment.</p>
Completion	<p>At the date of this report our audits of the financial statements are substantially complete subject to completion of the following areas:</p> <ul style="list-style-type: none"> ■ Whole of Government Accounts review; and ■ a review of any post balance sheet events up to the date of signing our audit reports. <p>Before we can issue our opinion we require signed management representation letters for both the PCC and CC.</p> <p>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.</p>
VFM conclusions	<p>We have concluded that the PCC and CC have made proper arrangements to secure economy, efficiency and effectiveness in its use of resources. We therefore anticipate issuing an unqualified VFM conclusion by 30 September 2013.</p>

We have identified no issues in the course of the audit that are considered to be material.

The wording of your Annual Governance Statements accord with our understanding.

Proposed audit opinions

We anticipate issuing unqualified audit opinions on both the PCC and CC financial statements by 30 September 2013.

Audit Differences

We report any material misstatements which have been corrected and which we believe should be communicated to you to help you meet your governance responsibilities. We did not identify any material misstatements.

The key challenge faced by the PCC and CC in the accounts production was the format of the accounts following the transition from the Police Authority in November 2012. The code guidance has not been sufficiently detailed to provide a full framework on which to base the two sets of financial statements and the group financial statements. The PCC and CC' accountants have undertaken a great deal of work and made good progress in compiling the financial statements to ensure that they meet the code requirements.

We have discussed the code requirements both internally and with the Audit Commission and the PCC and CC and as a result of our discussions with your accountants have agreed to the following changes:

- the CC accounts being amended to include an 'Comprehensive Income and Expenditure Statement' to comply with the code and the 'Operating Cost Statement' to be moved to Note 2 of the accounts ;
- changes to some disclosure notes to both the PCC and CC financial statements to reflect the new arrangements and to explain that the CC has incurred expenditure on behalf of the PCC.

This does not affect any of the figures in the accounts or the overall financial position and is merely a formatting amendment.

We identified a small number of presentational adjustments, in both the PCC and CC accounts, required to ensure that the accounts are compliant with the Code of Practice on Local Authority Accounting the United Kingdom 2012/13 ('the Code'). The financial statements of both the PCC and CC have been amended to correct these. There is no impact on the financial position of the PCC as a result of these amendments.

Annual Governance Statements

We have reviewed the Annual Governance Statements and confirmed that:

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

We have worked with Officers throughout the year to discuss specific risk areas. The PCC and CC addressed the issues appropriately.

In our *External Audit Plan 2012/13*, presented to you in March, we identified the key risks affecting the PCC and CC's 2012/13 financial statements. We have now completed our testing of these areas and set out our final evaluation following our substantive work.

The table below sets out our detailed findings for each risk.

Key audit risks	Issue	Findings
<p>Savings and performance</p>	<p>Risk</p> <p>The PCC and CC will need to continue to deliver savings in line with the CSR2015 plan, taking account of ongoing performance against the plan, in order to address further reductions in funding and continued cost pressures.</p> <p>The PCC and CC need to demonstrate that during this period of budget reductions, levels of performance are consistent with the resources being applied.</p> <p>Our audit work</p> <p>In conjunction with our VFM work we will critically assess the controls the PCC and CC have in place to ensure a sound financial standing, specifically that its Medium Term Financial Plan has duly taken into consideration the potential funding reductions and that it is sufficiently robust to ensure that the PCC and CC can continue to provide services effectively. We will also review how the PCC and CC are planning and managing their savings plans.</p> <p>As part of our final accounts audit we will review the PCC and CC's assessment of any potential liabilities arising from their savings plans against the <i>Code</i>. If applicable, we will review the PCC and CC's provisions, including the methodology, assumptions and calculations.</p>	<p>The PCC and CC have adequate controls in place to ensure a sound financial standing, and the Medium Term Financial Plan takes account of potential funding reductions.</p> <p>The PCC and CC have plans to achieve the remaining savings required under the current spending review. Whilst there are an additional £3.4m of savings to be found prior to March 2015, the level of savings already made indicates that this will be achieved.</p> <p>The PCC and CC face challenges in making additional savings, arising from the fact that costs have already been reduced by a significant amount and they receive a relatively low level of funding compared to other Police bodies. This reduces the options available to make future savings.</p> <p>We reviewed the PCC and CC's assessment of any liabilities arising from their savings plans, as well as any provisions, as part of our final accounts audit. We did not identify any issues that would impact on the PCC and CC's financial standing or indicate a risk of not achieving their savings plans.</p>

Key financial statements audit risks (continued)

We have worked with Officers throughout the year to discuss specific risk areas. The PCC and CC addressed the issues appropriately.

Key audit risks	Issue	Findings
	<p>Risk</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 made to justify the decisions made.</p> <p>Our audit work</p> <p>We will liaise with your key finance staff on a regular basis during the audit to discuss and agree a way forward on any accounting issues as they arise.</p> <p>We will review the 2012/13 financial statements 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>	<p>We liaised with key finance staff to ensure that the 2012/13 financial statements were compliant with group accounting requirements and other technical accounting guidance available. The draft accounts submitted for audit were broadly compliant with those requirements.</p> <p>Changes to the structure of the accounts were required as a result of guidance provided late on in the audit process, and management have implemented these changes to the financial statements. These changes do not indicate weaknesses in the process for preparing the financial statements, but reflect the timeliness of guidance within a technically complex accounting area.</p> <p>Whilst we identified some presentational issues throughout the PCC and CC accounts, we did not identify any other significant errors or misstatements that we wish to bring to your attention.</p>

The PCC and CC have good processes in place for the production of the accounts and good quality supporting working papers.

Officers dealt efficiently with audit queries and the audit process could be completed within the planned timescales.

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 process for preparing the accounts and its support for an efficient audit.

We considered the following criteria:

Element	Commentary
Accounting practices and financial reporting	<p>The PCC and CC have good financial reporting arrangements in place to assist the preparation of the financial statements.</p> <p>We consider that overall accounting practices are appropriate.</p>
Completeness of draft accounts	<p>We received a complete set of signed draft financial statements for both the PCC and CC on 28 June 2013 , meeting the 30 June deadline.</p> <p>We have held ongoing discussions with officers regarding the format of the accounts and this has resulted in an agreed format for the 2012/13 PCC and CC accounts</p>
Quality of supporting working papers	<p>Our working paper requirements ('prepared by client request') for the audit were discussed in detail with officers prior to the final audit.</p> <p>The quality of working papers provided were good and audit queries were dealt with in a timely manner.</p>

Element	Commentary
Critical accounting matters (key audit risks)	<p>We have discussed with officers throughout the year the areas of specific audit risk and undertaken specific audit procedures.</p> <p>Specific risks identified were the transition from the Police Authority to the PCC and CC and continued reduction in income and need to reduce spending as part of the Government spending review.</p> <p>There are no additional matters to draw to your attention.</p>
Response to audit queries	<p>Officers resolved audit queries in a timely manner.</p>

Prior year recommendations

As part of our audit, we follow up progress in addressing the recommendations in last years ISA 260 report. There were no recommendations were raised on 2011/12.

Control environment

The organisational and IT control environment is effective, and controls over the key financial systems are sound.

We are satisfied that internal audit are compliant with the Code of Practice for Internal Audit in Local Government and have been able to place reliance on their work where this was relevant to our work.

During March 2013 we completed our control evaluation work. We did not issue an interim report as there were no significant issues arising from this work. For completeness we reflect on key findings from this work.

Organisational and IT 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 have implications for our audit. We therefore obtain an understanding of the PCC and CC's overall control environment and determine if appropriate controls have been implemented.

The PCC and CC also rely on information technology (IT) to support both financial reporting and internal control processes and where necessary we found the controls to be operating satisfactorily.

Review of Internal Audit

We work with your Internal Auditors to assess the control framework for certain key financial systems and seek to rely on any relevant work they have completed to minimise unnecessary duplication of work.

We work with your Internal Auditors to assess the control framework for certain key financial systems and review reports to inform our risk assessments.

Based on the self-assessment performed and attendance at Joint Independent Audit Committee and regular meetings during the course of the year, internal audit continue to comply with the Code of Practice for Internal Audit in Local Government .

Since April 2013, the United Kingdom Public Sector Internal Audit Standards (PSIAS) apply across the whole of the public sector, including local government. These standards are intended to promote further improvement in the professionalism, quality, consistency and effectiveness of internal audit across the public sector.

This has been identified by Internal Audit and will be fed into their audit procedures.

Controls over key financial systems

Where we have determined that this is the most efficient audit approach to take, we test selected controls that address key risks within the financial systems. The strength of the control framework informs the substantive testing we complete during our final accounts visit.

Based on the work of your Internal Auditors, and our own work on controls over the year end process, the controls over the financial systems are sound.

Internal Audit have provided details of their control findings in their reports as appropriate.

Completion

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

Before we can issue our opinions we require separate signed management representation letters for both the PCC and CC.

Once we have finalised our opinions and conclusions we will prepare our *Annual Audit Letters* and close our 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 audit of the financial statements of The Police and Crime Commissioner for Humberside and the Humberside Chief Constable for the year ended 31 March 2013, we confirm that there were no relationships between KPMG LLP and The Police and Crime Commissioner for Humberside and the Humberside Chief Constable, 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 Audit Commission's requirements in relation to independence and objectivity.

We have provided a detailed declaration in Appendix 3 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 PCC's Deputy Chief Executive & Treasurer and the CC's Assistant Chief Officer (Support), a draft of which is reproduced in Appendix 4. We require a signed copy of your management representations before we issue our audit opinion.

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'.

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

There are no other matters which we wish to draw to your attention in addition to those highlighted in this report relating to the audit of the 2012/13 financial statements.

Our VFM conclusions considers how the PCC and CC secure financial resilience and challenges how it secures economy, efficiency and effectiveness.

We have concluded that there are proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources.

Background to approach to VFM work

Auditors are required to give their statutory VFM conclusions based on criteria specified by the Audit Commission. These consider whether the PCC and CC has proper arrangements in place for securing economy, efficiency and effectiveness in their use of resources.

In meeting their statutory responsibilities, 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.

For 2012/13 the scope of work on value for money at The Police and Crime Commissioner and Chief Constable included:

- reviewing the Annual Governance Statement (AGS); and
- 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.

As part of this review we also considered:

- 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.

Findings

We have reviewed the PCC and CC's annual governance statements. These are consistent with our knowledge and there are no matters arising from these which impact on our value for money conclusions.

Our detailed findings can be found on the following pages. We supplemented the work above by reviewing:

- your progress in addressing the challenge of current and future

budget cuts while meeting priorities; and

- changes to governance arrangements following the election of The Police and Crime Commissioner.

Conclusion

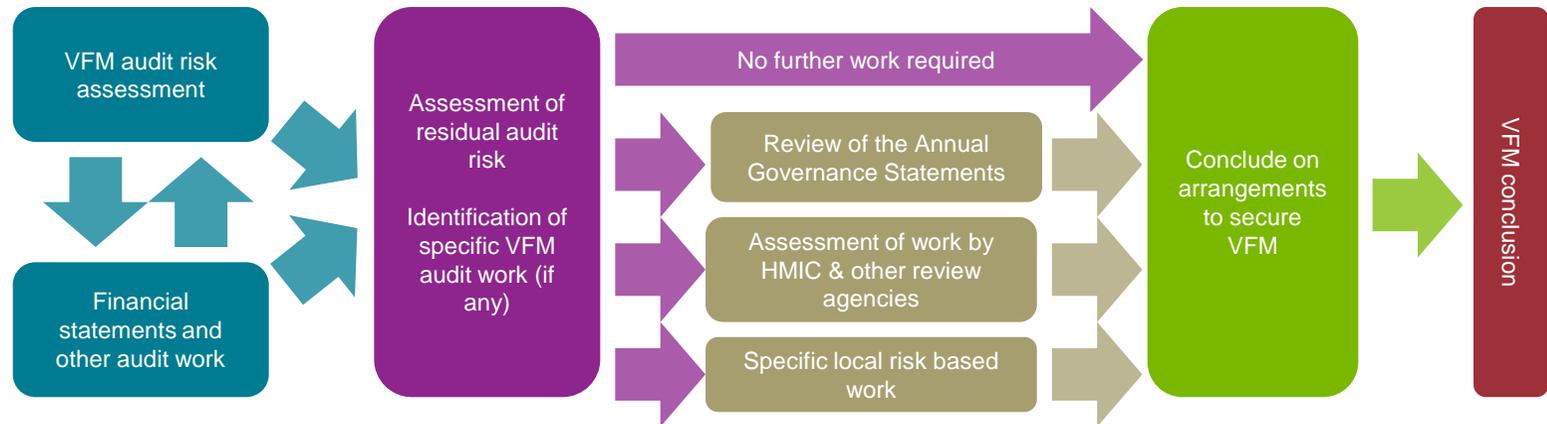
We have concluded that the PCC and CC has made proper arrangements to secure economy, efficiency and effectiveness in their use of resources.

Our VFM conclusions considers how the PCC and CC secure financial resilience and challenges how it secures economy, efficiency and effectiveness.

We have concluded that there are proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources.

Overview of the VFM audit approach

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



The risk assessment stage is explained further below.

VFM audit stage	Audit approach
VFM audit risk assessment	<p>We considered 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 Humberside. These are the significant operational and financial risks in achieving statutory functions and objectives, which are relevant to auditors' responsibilities under the Code of Audit Practice. In doing so we consider:</p> <ul style="list-style-type: none"> ■ The Police and Crime Commissioner's and Chief Constable' own assessment of the risks it faces, and its arrangements to manage and address its risks; ■ information from the Audit Commission's financial ratios tool and HMIC's Value for Money profiles; ■ evidence gained from previous audit work, including the response to that work; and ■ the work of the Audit Commission, other inspectorates and review agencies, notably HMIC.

In addition, specifically assessed the areas below.

Our VFM conclusions considers how the PCC and CC secure financial resilience and challenges how it secures economy, efficiency and effectiveness.

We have concluded that there are proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources.

Planned work	Focus of audit work	Findings and conclusion
<p>The challenge of current and future budget cuts while meeting priorities.</p> <p>Incorporates the findings of HMIC ‘valuing the police 3’ inspection.</p>	<p>We reviewed the adequacy of your arrangements to achieve and monitor the significant savings required while ensuring that performance is maintained and priorities met.</p>	<p>We had no issues to report over your financial management arrangements .</p> <p>During 2012/13 overall usable reserves for the PCC group reduced slightly in year from £34.5m to £33.0m in accordance with the budget. The Medium Term Financial Strategy sets out the financial plan for the next 5 years from 2013/14 with the performance improvement reserve dropping overall by £5.2m. The plan acknowledges there are uncertainties over the level of funding .</p> <p>The HMIC report ‘Responding to the funding challenge’ recognises that :</p> <ul style="list-style-type: none"> ▪ There are plans in place to achieve the remaining savings of £3.4m required under the current spending review; ▪ your low cost base will make achievement of any further savings target difficult ; and ▪ recorded crime is reducing and victim satisfaction remains relatively high .

Our VFM conclusions considers how the PCC and CC secure financial resilience and challenges how it secures economy, efficiency and effectiveness.

We have concluded that there are proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources.

Planned work	Focus of audit work	Findings and conclusion
<p>Review of governance arrangements following the election of the Police and Crime Commissioner notably the second stage transfer.</p> <p>Includes the findings from the HMIC review of transition arrangements.</p>	<p>Our reviewed your will gain an understanding of the new arrangements and their impact on the governance of the new organisations.</p>	<p>We also had no issues to report over your governance arrangements.</p> <p>The roles and responsibilities of the PCC and CC are clearly set out in the Corporate Governance framework document. This document was adopted by the PCC in November 2012 immediately after the election. It is a comprehensive documenting covering :</p> <ul style="list-style-type: none"> ▪ Statement of Corporate Governance for The Police and Crime Commissioner and Chief Constable; ▪ Code of Corporate Governance for The Police and Crime Commissioner and Chief Constable; and ▪ Scheme of Corporate Governance. <p>Work is on-going to implement the second stage transfer and plans are in place and in track.</p>

Appendix 1: Key issues and recommendations

We have given the recommendation a risk rating and agreed what action management will need to take.

We will formally follow up on this recommendation next year.

Priority rating for recommendations		
<p>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.</p>	<p>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.</p>	<p>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.</p>

No.	Risk	Issue and recommendation	Management response / responsible officer / due date
1	1	<p><i>Continue to review and assess the professional guidance on the format of the financial statements including the impact of the Stage 2 transfer.</i></p> <p><i>Whilst maintaining our independence we will work alongside the PCC and CC to anticipate changes in the guidance ensuring a smooth 2013/14 accounts and audit process.</i></p>	<p>The Deputy Chief Executive and Treasurer and the Assistant Chief Officer (Support) have already been in discussions with colleagues at a Regional and National level to pursue the need for a common and consistent approach to developing guidance for completion of the accounts in order to avoid any repetition of the confusion in respect of 2012/13. This will take into account the need to consider Stage 2 under which transfers will take place on 1 April 2014, including assessments of the implications of changes that will be necessary to the corporate governance framework that could impact on the accounting arrangements in the future.</p>

We are required by ISA (UK and Ireland) 260 Communication of Audit Matters to Those Charged with Governance to communicate all uncorrected misstatements, other than those that we believe are clearly trivial, to those charged with governance. We are also required to report all material misstatements that management has corrected but that we believe should be communicated to Those Charged with Governance to assist it in fulfilling its governance responsibilities.

This appendix sets out the audit differences that we identified following the completion of our audit of the PCC and CC for the year ended 31 March 2013.

Adjusted audit misstatements

We are pleased to report that there were no material adjusted audit misstatements

Presentational Issues

We identified a small number of presentational issues in both the PCC and CC accounts during our audit and these have all been amended by the PCC and the CC including amendments to the formatting due to lack of clarity in guidance and practice elsewhere.

Unadjusted audit misstatements

There are no unadjusted misstatements .

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

Requirements

Auditors appointed by the Audit Commission 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 Audit Commission’s Standing guidance for local government auditors (Audit Commission 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. Audit Commission 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 Joint Independent Audit Committee.

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 Audit Partner and the audit team.

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.

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.

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 hard 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 Humberside Chief Constable for the financial year ending 31 March 2013, we confirm that there were no relationships between KPMG LLP and the Police and Crime Commissioner for Humberside, nor the Humberside Chief Constable, 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 Audit Commission's requirements in relation to independence and objectivity.

We ask you to provide us with representations on specific matters such as whether the transactions within the accounts are legal and unaffected by fraud.

We will require one letter for each of the PCC and CC accounts.

The wording for these representations is prescribed by auditing standards.

We require a signed copy of your management representations before we issue our audit opinion.

Dear Sirs

This representation letter is provided in connection with your audit of the financial statements of The Police and Crime Commissioner for Humberside (“the PCC”)/Chief Constable (“the CC”) for Humberside, for the year ended 31 March 2013, for the purpose of expressing an opinion as to whether these:

- i. give a true and fair view of the financial position of The Police and Crime Commissioner for Humberside and its Group/Chief constable for Humberside as at 31 March 2013 and of its expenditure and income for the year then ended; and
- iii. have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

These financial statements comprise the PCC/CC and Group Movement in Reserves Statement, the Group Comprehensive Income and Expenditure Statement, the PCC and Group/CC Balance Sheet, the Cash Flow Statement and the related notes. The PCC/CC confirms that the representations it makes in this letter are in accordance with the definitions set out in the Appendix to this letter.

The PCC/CC confirms that, to the best of its knowledge and belief, having made such inquiries as it considered necessary for the purpose of appropriately informing itself:

Financial statements

1. The PCC/CC has fulfilled its responsibilities, as set out in regulation 8 of the Accounts and Audit (England) Regulations 2011, for the preparation of financial statements that:
 - give a true and fair view of the financial position of the PCC and the Group as at 31 March 2013 and of the PCC’s expenditure and income for the year then ended; and
 - have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority

Accounting in the United Kingdom 2012/13.

2. The financial statements have been prepared on a going concern basis.
3. Measurement methods and significant assumptions used by the PCC/CC in making accounting estimates, including those measured at fair value, are reasonable.
4. All events subsequent to the date of the financial statements and for which the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 require adjustment or disclosure have been adjusted or disclosed.
5. The effects of uncorrected misstatements are immaterial, both individually and in the aggregate, to the financial statements as a whole. A list of the uncorrected misstatements is attached to this representation letter.

Information provided

5. The PCC/CC has provided you with:
 - access to all information of which it is aware, that is relevant to the preparation of the financial statements, such as records, documentation and other matters;
 - additional information that you have requested from the PCC/CC for the purpose of the audit; and
 - unrestricted access to persons within the PCC and Group/CC from whom you determined it necessary to obtain audit evidence.
7. All transactions have been recorded in the accounting records and are reflected in the financial statements.
8. The PCC and Group/CC acknowledges its responsibility for such internal control as it determines necessary for the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In particular, the PCC and Group/CC acknowledges its responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

We ask you to provide us with representations on specific matters such as whether the transactions within the accounts are legal and unaffected by fraud.

The wording for these representations is prescribed by auditing standards.

We require a signed copy of your management representations before we issue our audit opinion.

We will require one letter for each of the PCC and CC accounts.

7. The PCC and Group/CC has disclosed to you the results of its assessment of the risk that the financial statements may be materially misstated as a result of fraud.
8. The PCC/CC has disclosed to you all information in relation to:
 - a) Fraud or suspected fraud that it is aware of and that affects the PCC and CC and the Group and involves:
 - management;
 - employees who have significant roles in internal control; or
 - others where the fraud could have a material effect on the financial statements; and
 - b) allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.
10. The PCC/CC has disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.
11. The PCC/CC has disclosed to you and has appropriately accounted for and/or disclosed in the financial statements in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.
12. The PCC/CC has disclosed to you the identity of the PCC's/CC's and the Group's related parties, and all the related party relationships and transactions of which it is aware. All related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

Included in the Appendix to this letter are the definitions of both a related party and a related party transaction as the PCC/CC

understands them and as defined in IAS 24, except where interpretations or adaptations to fit the public sector are detailed in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

13. On the basis of the process established by the PCC/CC and having made appropriate enquiries, the PCC/CC is satisfied that the actuarial assumptions underlying the valuation of pension scheme liabilities are consistent with its knowledge of the business.

The PCC/CC further confirms that:

- a) all significant retirement benefits, including any arrangements that:
 - are statutory, contractual or implicit in the employer's actions;
 - arise in the UK and the Republic of Ireland or overseas;
 - are funded or unfunded; and
 - are approved or unapproved,have been identified and properly accounted for; and
- b) all settlements and curtailments have been identified and properly accounted for.

This letter was tabled and agreed at the meeting of the Joint Independent Audit Committee on *26 September 2013*

Yours faithfully,

Police and Crime Commissioner for Humberside

PCC Chief Financial Officer

Chief Constable for Humberside

CC Chief Financial Officer



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