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Report to those charged with governance (ISA 260) 2013/14

Police and Crime Commissioner for West Yorkshire and the Chief Constable of West Yorkshire

10 September 2014

Contents

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

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 Trevor Rees on 0161 246 4000, or by email to trevor.rees@kpmg.co.uk, the appointed engagement lead to the Authority, who will try to resolve your complaint. Trevor is also the national contact partner for all of KPMG's work with the Audit Commission. if you are 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, 1st Floor, Fry Building, 2 Marsham Street, London, SW1P 4DF or by email to complaints@audit-commission.gsi.gov.uk. Their telephone number is 03034448330.

Section one

Introduction

This document summarises:

- **the key issues identified during our audit of the financial statements for the year ended 31 March 2014 for the PCC and CC; and**
- **our assessment of the PCC's and the CC's arrangements to secure value for money (VFM) in its use of resources.**

Scope of this report

This report summarises the key findings arising from:

- our audit work at the Police and Crime Commissioner for West Yorkshire ('the PCC') and the Chief Constable of West Yorkshire ('the CC') on their 2013/14 financial statements; and
- our work to support our 2013/14 value for money (VFM) arrangements conclusion.

ISA 260 requires us to produce this report for those charged with governance; the PCC and the CC acting as corporations sole. We are also providing a copy of this report to the Joint Independent Audit Committee to assist with their role.

Financial statements

Our *External Audit Plan 2013/14*, presented to you in April 2014, 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 this took place during July and August 2014.

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

VFM arrangements conclusion

Our *External Audit Plan 2013/14* explained our risk-based approach to VFM work, which follows guidance provided by the Audit Commission. We have now completed our work to support our 2013/14 VFM arrangements conclusion. This included:

- assessing the potential VFM risks and identifying the residual audit risks for our VFM arrangements 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 2013/14 financial statements of the Authority.
- Section 4 outlines our key findings from our work on the VFM arrangements conclusion.

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

Acknowledgements

We would like to take this opportunity to thank the finance team and other colleagues for their continuing help and co-operation throughout our audit work.

Headlines

This table summarises the headline messages.

Sections three and four of this report provide further details on each area.

Proposed audit opinion	We anticipate issuing unqualified audit opinions on the financial statements for both the PCC and CC by 30 September 2014. We will also report that the wording of your Annual Governance Statements accord with our understanding.
Audit adjustments	For the PCC and the CC, our audit has not identified any audit adjustments that impact on the primary statements. A number of presentational adjustments have been identified, these are explained in more detail at Appendix 3. We have raised one recommendation in relation to the matters highlighted above, which is summarised in Appendix 1.
Changes in accounting approach	New authoritative guidance has been issued by CIPFA to assist police bodies in allocating financial activity between the PCC and the CC in their single entity financial statements. The CC has therefore recognised the costs of operational policing and associated pension and accumulated absence liabilities in their 2013/14 financial statements. A prior period adjustment has been made to ensure the financial statements are comparable between the two periods.
Key financial statements audit risks	We have worked with officers throughout the year to discuss specific risk areas. The PCC and the CC addressed the issues appropriately.
Accounts production and audit process	We have noted an improvement in the quality of the accounts and the supporting working papers. Officers dealt efficiently with audit queries and the audit process has been completed within the planned timescales. The PCC and the CC have implemented all of the recommendations in our *ISA 260 Report 2012/13* relating to the financial statements.

Headlines (continued)

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

Completion	At the date of this report our audit of the financial statements is substantially complete, subject to completion of the following areas: ■ review of some disclosure notes; ■ receipt of the final pensions work from the auditors of the West Yorkshire Pension Fund; ■ a review of the updated financial statements; and ■ a final confirmation that there are no additional matters of which we need to be aware from the Interim Chief Financial Officer (PCC) and the Chief Finance Officer (CC) immediately prior to issuing our opinion. Before we can issue our opinion we require a signed management representation letter. We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the financial statements of the PCC and the CC.
VFM arrangements conclusion and risk areas	We have concluded that the PCC and the CC have made proper arrangements to secure economy, efficiency and effectiveness in its use of resources. We therefore anticipate issuing an unqualified VFM arrangements conclusion by 30 September 2014.

Proposed opinion and audit differences

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

Proposed audit opinion

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

Audit differences

In accordance with ISA 260 we are required to report uncorrected audit differences to those charged with governance. 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.

We did not identify any material misstatements. We identified a number of presentational adjustments required to ensure that the accounts are compliant with the *Code of Practice on Local Authority Accounting the United Kingdom 2013/14 ('the Code')*. We understand that the PCC and PC will be addressing these where significant.

Annual Governance Statement

We have reviewed the Annual Governance Statements and confirmed that:

- they complies 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.

Changes in accounting approach

We have worked with management to consider the implications of the new accounting guidance issued by CIPFA. The PCC and the CC have revised the accounting approach adopted for 2013/14, and in the prior period, to reflect these discussions.

For 2013/14, the PCC and the CC have changed the basis on which their single entity financial statements have been produced.

Prior period approach

For 2012/13, in common with PCCs and CCs in many other police areas, the PCC and the CC adopted the concept of agent/principal when accounting for their activity. This approach recognised:

- the PCC's strategic policing role in setting the Police and Crime Plan;
- the CC's use of assets owned by the PCC, and of police staff employed by the CC, to deliver the CC's operational policing role; and
- the PCC's ability to hold the CC to account.

As a result, it was considered that the CC was acting as the PCC's agent, with the CC managing the PCC's resources to meet the PCC's strategic objectives, rather than as a principal in their own right. This meant that operational policing and all other activity was recognised in the PCC's primary statements only, with the CC producing 'zero' accounts, that explained their role and showed the resources deployed by the CC on the PCC's behalf, but did not recognise any income and expenditure or assets and liabilities.

Despite the significantly different approaches adopted by different police bodies, there were no qualified audit opinions issued in 2012/13 because the lack of definitive guidance meant that the wide range of different approaches were all considered reasonable to reflect the nature of local arrangements.

Why change the approach for 2013/14?

The inconsistencies that were apparent in 2012/13 prompted a reconsideration of the basis of police accounting and a desire for greater consistency between the accounts of PCCs and CCs in different police areas.

Changes enacted in the Anti-social Behaviour Act 2014 made CC's local authorities in their own right, changed the statutory basis on which CC's prepared their financial statements, legally requiring them to adopt the Code of Audit Practice for Local Accounting, and permitting CIPFA to consider issuing guidance on interpreting the Code for CCs.

In March 2014, CIPFA issued LAAP Bulletin 98A which provided police bodies with authoritative guidance on apportioning activity and assets between the PCC and the CC in their respective single entity financial statements. The Audit Commission and its audit suppliers, including KPMG, have discussed the guidance to ensure a consistent approach is being adopted to the audit of PCC and CC accounts in 2013/14.

What changes have been made?

Following discussions between the Chief Finance Officer (CC), the Interim Chief Finance Officer and us, we have agreed that, on the basis of the new guidance issued since our 2012/13 audit opinion was issued in September 2013, it is appropriate to change the accounting approach adopted for 2013/14.

In 2013/14, the CC is recognising the operational costs of policing as costs within the Comprehensive Income and Expenditure Statement. This includes the full employment costs of police officers and civilian staff, except for staff employed in the Office of the PCC. The CC also recognises the direct liabilities arising from the employment costs of police officers and civilian staff, namely the IAS 19 pensions liability and the accumulated absences liability.

All other income and expenditure, assets and liabilities are recognised by the PCC in their single entity financial statements. A prior period adjustment has been made to both sets of financial statements to apply the same accounting approach to the prior period, to make the financial performance and position in both years comparable.

There have been no changes to the group financial performance or position reported in 2012/13 as a result of these changes.

Key financial statements audit risks

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

In our *External Audit Plan 2013/14*, presented to you in April 2014, we identified the key risks affecting the 2013/14 financial statements for the PCC and CC. 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 the CC.

Additionally, we considered the risk of management override of controls, which is a standard risk for all organisations.

Our 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, did not identify any issues.

Key audit risk	Issue	Findings
Format of the Accounts	The key challenge faced by the PCC and CC in the accounts production for 2012/13 was the format of the accounts as the Code guidance had not been sufficiently detailed to provide a full framework on which to base the PCC's and CC's financial statements and the group financial statements. CIPFA issued further guidance in LAAP Bulletin 98A in March 2014 and we will work with finance staff to assess the impact on your accounts. In addition, the 'Second Stage Transfer' comes into effect on 1 April 2014 with some staff moving from the PCC's employment to the CC's. This may lead to further changes in the format of your accounts in 2014/15.	We reviewed the accounts in line with the guidance from CIPFA. Small presentational issues were identified and corrected.

Key financial statements audit risks (continued)

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

Key audit risk	Issue	Findings
Pension valuations	During the year, the Local Government Pension Scheme for West Yorkshire (the Pension Fund) has undergone a triennial valuation with an effective date of 31 March 2013 in line with the LGPS (Administration) Regulations 2008. The PCC's share of pensions assets and liabilities is determined in detail, and a large volume of data is provided to the actuary in order to carry out this triennial valuation. The LGPS pensions' figures to be included in the financial statements for 2013/14 will be based on the output of the triennial valuation rolled forward to 31 March 2014. For 2014/15 and 2015/16 the actuary will then roll forward the valuation for accounting purposes based on more limited data. There is a risk that the data provided to the actuary for the valuation exercise is inaccurate, and that these inaccuracies affect the actuarial figures in the accounts. Most of the data is provided to the actuary by West Yorkshire Pensions Authority (WYPA) who administer the Pension Fund. In addition to LGPS pensions' figures, the PCC and CC must also account for its police officer pensions transactions. These transactions are typically large in value, and are estimates with an inherently high degree of uncertainty. They therefore represent a key risk .	We reviewed the pension data and actuary report, and performed work over the data provided by to the actuary, and over the information received from the actuary. No issues were identified.

Key financial statements audit risks (continued)

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

Key audit risk	Issue	Findings
PFI	During 2013/14 a PFI scheme for the provision of local district headquarters and the operational training facilities at Carr Gate has commenced. Accounting for PFI schemes on balance sheet is complex and new to West Yorkshire Police, therefore there is an increased risk of misstatement. You have worked through the PFI model to determine how to account for these. It is anticipated that one building may not be completed by 31 March 2014. Due to changes in the Code, incomplete PFI Assets are now accounted for as Assets Under Construction.	We reviewed the PFI financial model during our interim audit visit, and were satisfied that it correctly reported the required financial information. At year end, we agreed the model to the relevant disclosures and balances in the financial statements. No issues were identified. At year-end, the Elland Road complex had yet to open and as such was correctly classified as an asset under construction. We understand that the site was opened in early April 2014.
NPAS	The National Police Air Service (NPAS) was rolled out and accounted for by West Yorkshire Police and Crime Commissioner during 2012/13. Initially 11 airframes were transferred to the PCC and a further 18 are expected to transfer during 2013/14. As values increase above our materiality threshold any errors relating to accounting for this increases the risk of material misstatement to in the accounts. The 2013/14 NPAS capital grant was underspending and you have managed this by bringing forward the payment of the airframe capital credits to those PCCs who have joined NPAS.	We reviewed the transactions relating NPAS in 2013/14, and did not identify any errors. An error was identified in the prior year adjustment made for 2012/13, where an NPAS airframe was incorrectly adjusted within land and buildings within the fixed asset note; this is one of a number of errors identified within this note, although all of these were misclassifications and did not impact on the net book value recognised on the face of the balance sheet. In addition, the NPAS financial statements, included as a disclosure within the PCC's accounts, were reviewed, and again no errors were identified.

Accounts production and audit process

We have noted that the quality of the accounts and the supporting working papers was good.

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

The PCC and the CC have implemented all of the recommendations in our ISA 260 Report 2012/13.

Accounts production and audit process

ISA 260 requires us to communicate to those charged with governance, the PCC and the CC as corporations sole, our views about the significant qualitative aspects of their accounting practices and financial reporting. We also assessed the processes for preparing the accounts and supporting an efficient audit .

We considered the following criteria:

Element	Commentary
Accounting practices and financial reporting	The PCC and the CC have appropriate financial reporting processes in place to assist the preparation of the financial statements. There is scope to improve this further by implementing the recommendation regarding the fixed asset register detailed in Appendix 1, which will improve the effectiveness of the Authority's control environment.
Completeness of draft accounts	We received a complete set of draft accounts after they were approved by the Interim Chief Finance Officer (PCC) and the Chief Finance Officer (CC) respectively on 30 June.
Quality of supporting working papers	Our '*Prepared by Client List*' set out our working paper requirements for the audit. The working papers provided were of a good quality and generally met our requirements.
Response to audit queries	Officers resolved the majority of audit queries in a reasonable time. This was despite our audit overrunning the originally scheduled timetable due to KPMG staff illness.
Group audit	Due to the structure of the financial ledger, we audited group balances and then gained assurance that these had been allocated appropriately to the PCC and CC single entity accounts. We were happy that these balances had been allocated appropriately.

Prior year recommendations

As part of our audit we have specifically followed up the PCC's and the CC's progress in addressing the recommendations in last years ISA 260 report.

The PCC and the CC have implemented all of the recommendations in our *ISA 260 Report 2012/13*. Appendix 2 provides further details.

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

Before we can issue our opinion we require a signed management representation letter.

Once we have finalised our opinions and conclusions we will prepare our *Annual Audit Letter* and close our audit.

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 West Yorkshire and the Chief Constable of West Yorkshire for the year ending 31 March 2014, we confirm that there were no relationships between KPMG LLP and the Police and Crime Commissioner for West Yorkshire and the Chief Constable of West Yorkshire, their senior officers and management and their 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 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 templates to the Interim Chief Finance Officer (PCC) and the Chief Finance Officer (CC) for presentation to the PCC and the CC. We require a signed copy of these management representations before we issue our audit opinions.

Other matters

ISA 260 requires us to communicate to those charged with governance 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 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 others matters which we wish to draw to your attention in addition to those highlighted in this report or our previous reports relating to the audit of the 2013/14 financial statements for the PCC and the CC.

VFM arrangements conclusion

Our VFM arrangements conclusion considers how the PCC and the CC secure financial resilience and challenges how they secure economy, efficiency and effectiveness.

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

Background

Auditors are required to give their statutory VFM arrangements conclusion based on two criteria specified by the Audit Commission. These consider whether the PCC and the CC have proper arrangements in place for:

- securing financial resilience: looking at the financial governance, financial planning and financial control processes at both the PCC and the CC; and
- challenging how the PCC and the CC secure economy, efficiency and effectiveness: looking at how they prioritise resources and improve efficiency and productivity.

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 the 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

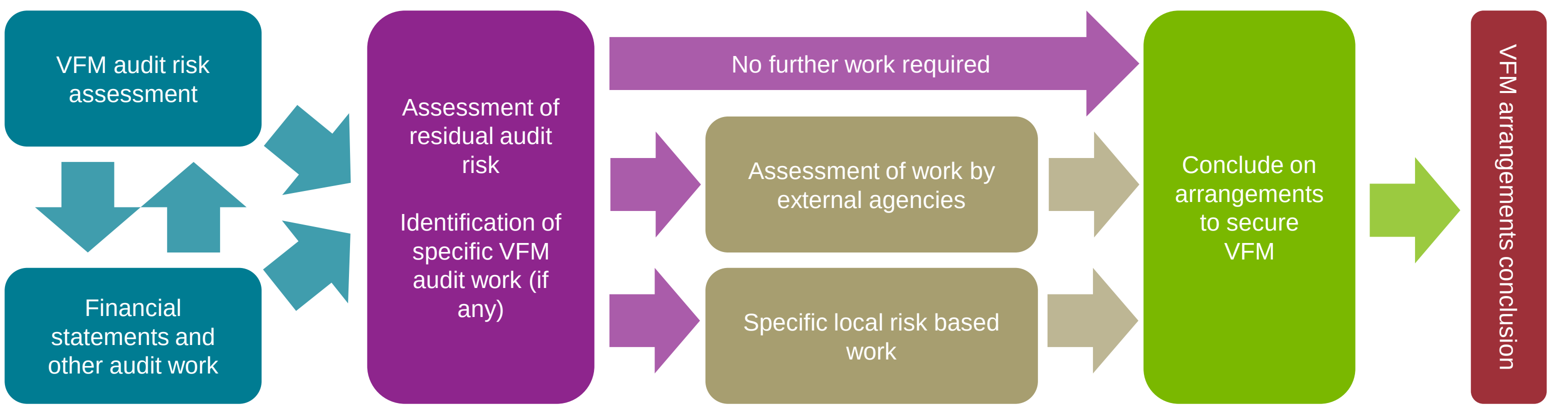
We performed a risk assessment earlier in the year and have reviewed this throughout the year.

We have not identified any significant risks to our VFM arrangements conclusion and therefore have not completed any additional work.

Conclusion

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

VFM criterion	Met by	
	PCC?	CC?
Securing financial resilience	✓	✓
Securing economy, efficiency and effectiveness	✓	✓



Specific VFM risks

We have identified a number of specific VFM risks.

In all cases we are satisfied that external or internal scrutiny provides sufficient assurance that the current arrangements in relation to these risk areas at the PCC and the CC are 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 key business risks affecting the PCC and the CC which are relevant to our VFM arrangements conclusion;
- identified the residual audit risks for our VFM arrangements 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 the 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 arrangements conclusion.

We concluded that we did not need to carry out additional work for these risks as there was sufficient relevant work that had completed by the PCC and the CC, inspectorates and review agencies in relation to these risk areas.

Key VFM risk	Risk description and link to VFM arrangements conclusion	Assessment
	Over the six year period 2011/12 to 2016/17 you have had to find £157 million of savings. You have set a balanced budget for 2014/5 and 2015/16 and currently have a £5.8 million budget gap for 2016/17 and £8 million gap for 2017/18. You have also recently reviewed your reserves strategy. Your 2013/14 budget is currently projecting a £7 million underspend. The PCC and CC will need to continue to deliver financial savings, taking account of ongoing performance against the medium term financial plan, in order to address further reductions in funding and continued cost pressures.	The force actually achieved an underspend of £17.7 million for 2013/14. This reflected savings being made ahead of schedule, a significant proportion of these being savings on police officer and staff pay as vacancies were left unfilled as the force transitioned to its new operating structures. Her Majesty's Inspectorate of Constabulary (HMIC) reported very positively on the force's progress in delivering its programme of change, and the steps taken to close the savings gap, which it is confident that the force will be able to achieve. This is a significant boost given the challenges that HMIC identified in the force achieving its plans in 2013. The PCC has transferred £44.7 million of general reserves into earmarked reserves to support future investment in operational services and savings plans while retaining a general reserve level significantly in excess of the minimum required. **Specific risk based work required:** No

Appendix 1: Key issues and recommendations

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

The PCC should closely monitor progress in addressing specific risks and implementing our recommendations.

We will formally follow up these recommendations next year.

Priority rating for recommendations		
❶ ***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.	❷ ***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.	❸ ***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	Relevant body	Issue and recommendation	Management response / responsible officer / due date
1	❷	PCC	**Fixed asset register** The PCC holds all of the fixed assets belonging to West Yorkshire Police as well as those belonging to the NPAS. The fixed asset register, which records the financial cost and accumulated depreciation of each asset is currently maintained using a number of MS Excel spreadsheets. Holding important financial information in a spreadsheet can lead to errors arising when calculating additions, disposals, depreciation and revaluations. A number of such errors were identified during our audit in 2013/14; although there was no financial impact on the net book value of the assets, a number of corrections were required to the fixed asset note in the PCC's financial statements which impacted on the cost and accumulated depreciation of a number of categories of fixed assets. **Recommendation** Following the discovery of these errors the finance team have already begun to investigate purchasing a suitable fixed asset system. We would encourage the team to continue with this exercise so that the fixed assets can be recorded on this new system for the 2014/15 year-end.	**Management response** *The Chief Officer Team approved the purchase of a fixed asset system on 8 September 2014. This should be implemented to enable the 2014-15 closedown to be completed using the software.* **Responsible officer** *Ruth Langley, Director of Finance & Business Support* **Due date** *31 March 2015*

Appendix 2: Follow up of prior year recommendations

The PCC and the CC have implemented all of the recommendations in our *ISA 260 Report 2012/13.*

This appendix summarises the progress made to implement the recommendations identified in our *ISA 260 Report 2012/13* and re-iterates any recommendations still outstanding.

Number of recommendations that were:	
Included in original report	3
Implemented in year	3
Remain outstanding or superseded	0

No.	Risk	Relevant body	Issue and recommendation	Position as at September 2014
1	2	PCC	Our audit has identified one material audit adjustment of £21.7 million that affects both the Creditor and Debtors values in the PCC's financial statements. This has arisen as amounts due for 2013/14 in relation to forces joining and existing forces in NPAS being invoiced in March 2013. This was incorrectly accounted for in the 2012/13 Debtors with a matching Receipt in Advance in Creditors. These were not accounted for through the Comprehensive Income and Expenditure Statement. The financial statements have been amended to correct this. There is no impact on the financial position of the PCC as a result of this amendment. It is recommended that a review of significant movements in account balances and significant year end Creditors and Debtors is undertaken to ensure that they are accounted for in the correct year.	The balances were reviewed as part of the year-end close down procedures and no such errors were identified in our 2013/14 audit.

Appendix 2: Follow up of prior year recommendations (continued)

The PCC and the CC have implemented all of the recommendations in our *ISA 260 Report 2012/13.*

No.	Risk	Relevant body	Issue and recommendation	Position as at September 2014
2	2	PCC	We noted as part of the audit that although the bank reconciliation is undertaken and reviewed daily there is no evidence of the year end bank reconciliation review retained on the accounts working paper file. The SUN System does however record the members of staff who have been involved in the process and this includes the financial accountant who performs the review. It is recommended that the monthly and year end bank reconciliations are evidenced as reviewed.	Our testing of the bank reconciliations identified that the evidence of review was retained for 2013/14.
3	2	Both PCC and CC	The PCC and CC need to ensure that that sound programme and project management remain in place to deliver the challenging financial, operational and quality objectives within the required timescales.	Our value for money work found that management had effective arrangements in place to deliver the challenging objectives of the force’s programme of change.

Appendix 3: Audit differences

This appendix sets out the significant audit differences.

It is our understanding that all of these will be adjusted.

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, i.e. the PCC and the CC as the corporations sole. 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.

We are pleased to report that there were no audit differences that impacted on the face of the primary statements. A number of presentational adjustments have been made to the accounts to reflect:

- the misclassification of fixed assets within note 12 of the PCC's financial statements;
- recalculating the banding disclosure within the remuneration report for senior officers earning in excess of £50,000 for the 2013/14 financial year; and
- expanding the explanation of some of the contingent liabilities recognised within both the PCC's and the CC's financial statements.

It is our understanding that these will be adjusted. However, we have not yet received a revised set of financial statements to confirm this.

Appendix 4: Declaration of independence and objectivity

The *Code of Audit Practice* requires us to exercise our professional judgement and act independently of the Commission , the PCC for West Yorkshire and the CC of West Yorkshire.

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 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 Engagement Lead 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.

Appendix 4: Declaration of independence and objectivity (continued)

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

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 for the financial year ending 31 March 2014 for the PCC for West Yorkshire and the CC of West Yorkshire, we confirm that there were no relationships between KPMG LLP and the PCC for West Yorkshire and the CC of West Yorkshire, their senior officers and management and their 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.

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