



# Annual Audit Letter

Office of the Police and Crime Commissioner for  
Cleveland and Chief Constable for Cleveland

Year ending 31 March 2019





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# 1. EXECUTIVE SUMMARY

## Purpose of the Annual Audit Letter

Our Annual Audit Letter summarises the work we have undertaken as the auditor for the Police and Crime Commissioner for Cleveland and Group (PCC and Group) and Chief Constable for Cleveland (Chief Constable) for the year ended 31 March 2019. Although this letter is addressed to the PCC and Chief Constable, it is designed to be read by a wider audience including members of the public and other external stakeholders.

Our responsibilities are defined by the Local Audit and Accountability Act 2014 (the 2014 Act) and the Code of Audit Practice issued by the National Audit Office (the NAO). The detailed sections of this letter provide details on those responsibilities, the work we have done to discharge them, and the key findings arising from our work. These are summarised below.

Area of responsibility	Summary
Audit of the financial statements	<p>Our auditor's report issued on 31 July 2019 included our opinion that the financial statements:</p> <ul style="list-style-type: none"><li>• give a true and fair view of the PCC and Group and Chief Constable's financial position as at 31 March 2019 and of its expenditure and income for the year then ended; and</li><li>• have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.</li></ul>
Other information published alongside the audited financial statements	<p>Our auditor's report issued on 31 July 2019 included our opinion that:</p> <ul style="list-style-type: none"><li>• The other information in the Statement of Accounts is consistent with the audited financial statements.</li></ul>
Value for Money conclusion	<p>Our auditor's report concluded that we are satisfied that in all significant respects, the PCC and Chief Constable have put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.</p>
Reporting to the group auditor	<p>In line with group audit instructions issued by the NAO, on 31 July 2019 we reported to the group auditor in line with the requirements applicable to the PCC and Group and Chief Constable's WGA return.</p>
Statutory reporting	<p>Our auditor's report confirmed that we did not use our powers under s24 of the 2014 Act to issue a report in the public interest or to make written recommendations to the PCC and Chief Constable.</p>

## 2. AUDIT OF THE FINANCIAL STATEMENTS

### Opinion on the financial statements

Unqualified

### The scope of our audit and the results of our work

The purpose of our audit is to provide reasonable assurance to users that the financial statements are free from material error. We do this by expressing an opinion on whether the statements are prepared, in all material respects, in line with the financial reporting framework applicable to the PCC and Group and Chief Constable and whether they give a true and fair view of the PCC and Group and Chief Constable's financial position as at 31 March 2019 and of its financial performance for the year then ended.

Our audit was conducted in accordance with the requirements of the Code of Audit Practice issued by the NAO, and International Standards on Auditing (ISAs). These require us to consider whether:

- the accounting policies are appropriate to the PCC and Group and Chief Constable's circumstances and have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management in the preparation of the financial statements are reasonable; and
- the overall presentation of the financial statements provides a true and fair view.

Our auditor's report, issued to the PCC and Group and Chief Constable on 31 July 2019, stated that, in our view, the financial statements give a true and fair view of the PCC and Group and Chief Constable's financial position as at 31 March 2019 and of its financial performance for the year then ended.

### Our approach to materiality

We apply the concept of materiality when planning and performing our audit, and when evaluating the effect of misstatements identified as part of our work. We consider the concept of materiality at numerous stages throughout the audit process, in particular when determining the nature, timing and extent of our audit procedures, and when evaluating the effect of uncorrected misstatements. An item is considered material if its misstatement or omission could reasonably be expected to influence the economic decisions of users of the financial statements.

Judgements about materiality are made in the light of surrounding circumstances and are affected by both qualitative and quantitative factors. As a result we have set materiality for the financial statements as a whole (financial statement materiality) and a lower level of materiality for specific items of account (specific materiality) due to the nature of these items or because they attract public interest. We also set a threshold for reporting identified misstatements to the PCC and Group and Chief Constable which is our trivial threshold.

The table below provides details of materiality levels applied in the audit of the financial statements for the year ended 31 March 2019:

		Group £000's	PCC £000's	Chief Constable £000's
Financial statement materiality	Our financial statement materiality is based on 2% of Gross Revenue Expenditure	4,480	3,021	3,922
Trivial threshold	Our trivial threshold is based on 3% of financial statement materiality.	134	91	118
Specific materiality	We have applied a lower level of materiality to the following areas of the accounts:			
	- Senior officer remunerations	192	52	137
	- Exit packages	100	100	100

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## 2. AUDIT OF THE FINANCIAL STATEMENTS

### Our response to significant risks

As part of our continuous planning procedures we considered whether there were risks of material misstatement in the PCC and Group and Chief Constable's financial statements that required special audit consideration. We reported significant risks identified at the planning stage to the PCC and Group and Chief Constable within our Audit Strategy Memorandum and provided details of how we responded to those risks in our Audit Completion Report. The table below outlines the identified significant risks, the work we carried out on those risks and our conclusions.

Identified significant risk	Our response	Our findings and conclusions
<b>Management override of controls (PCC and Group and Chief Constable)</b> Management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur there is a risk of material misstatement due to fraud on all audits.	We addressed this risk through performing audit work over: <ul style="list-style-type: none"> <li>Accounting estimates impacting on amounts included in the financial statements;</li> <li>Consideration of identified significant transactions outside the normal course of business; and</li> <li>Journals recorded in the general ledger and other adjustments made in preparation of the financial statements.</li> </ul>	We found no evidence of management override of controls
<b>Defined benefit liability valuation (PCC and Group and Chief Constable)</b> The financial statements contain material pension entries in respect of retirement benefits. The calculation of these pension figures, both assets and liabilities, can be subject to significant volatility and includes estimates based upon a complex interaction of actuarial assumptions. This results in an increased risk of material misstatement.	We addressed this risk by discussing with key contacts any significant changes to the pension estimates prior to the preparation of the financial statements. In addition to our standard programme of work, we also: <ul style="list-style-type: none"> <li>evaluated the management controls in place to assess the reasonableness of the figures provided by the actuaries; and</li> <li>considered the reasonableness of the actuaries' outputs, referring to an expert's report on all actuaries nationally which is commissioned annually by the National Audit Office.</li> </ul>	The material amendments relating to the impact of national legal cases on the pension liabilities have been amended by the PCC and Group and Chief Constable. Our audit work has not identified any further material issues to report.
<b>Property, plant and equipment valuation (PCC and Group)</b> The Commissioner's financial statements contain material entries on the Balance Sheet as well as material disclosure notes in relation to the Commissioner's holding of buildings. Although the Commissioner employs an external valuation expert to provide information on valuations, there remains a high degree of estimation uncertainty associated with the revaluation of PPE due to the significant judgements and number of variables involved.	We addressed this risk by undertaking the following: <ul style="list-style-type: none"> <li>considering the PCC's arrangements for ensuring that PPE values are reasonable and we engaged our own expert to provide data to enable us to assess the reasonableness of the valuations provided by the PCC's valuer. We also assessed the competence, skills and experience of the valuer.</li> <li>performing further audit procedures on individual assets to ensure that the basis and level of valuation was appropriate.</li> </ul>	Our work has provided us with the assurance we sought and has not highlighted any material issues to bring to your attention.

## 2. AUDIT OF THE FINANCIAL STATEMENTS

### Internal control recommendations

As part of our audit we considered the internal controls in place that are relevant to the preparation of the financial statements. We did this to design audit procedures that allow us to express our opinion on the financial statements, but this did not extend to us expressing an opinion on the effectiveness of internal controls. Our work has not identified any significant deficiencies in our 2018/19 audit to report, and there were none in 2017/18 to follow up.

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### 3. VALUE FOR MONEY CONCLUSION

Value for Money conclusion

Unqualified

#### Our approach to Value for Money

We are required to consider whether the PCC and Chief Constable has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out in order to form our conclusion, and sets out the criterion and sub-criteria that we are required to consider.

The overall criterion is that, 'in all significant respects, the PCC and Chief Constable had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.' To assist auditors in reaching a conclusion on this overall criterion, the following sub-criteria are set out by the NAO:

- Informed decision making
- Sustainable resource deployment
- Working with partners and other third parties

Our auditor's report, issued to the PCC and Chief Constable on 31 July 2019, stated that, in all significant respects, the PCC and Chief Constable put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31<sup>st</sup> March 2019.

Sub-criteria	Commentary	Arrangements in place?
Informed decision making	<p>There is a Code of Corporate Governance in place for the PCC and Chief Constable, supported by Contract Standing Orders, Financial Regulations and Schemes of Delegation.</p> <p>Decisions of the Chief Constable are scrutinised by the PCC and consideration is given to the appropriate legal, financial, human resources and other professional advice.</p> <p>The Annual Governance Statement of the PCC and Chief Constable includes an assessment of the effectiveness of the governance arrangements and identifies areas for further improvement.</p> <p>The PCC and Chief Constable both maintain corporate risk registers along with operational risk registers.</p> <p>The PCC scrutinises financial and performance information from the Chief Finance Officer for the PCC and the Chief Constable and this is reported to the Police and Crime Panel.</p> <p>The objectives of the PCC are included in the Police and Crime Plan which is aligned to the Long Term Financial Plan.</p> <p>An internal audit plan is in place which takes into account the strategic priorities of the PCC and the different sources of assurance. There is challenge by the Joint Independent Audit Committee over coverage and risk areas.</p>	Yes

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### 3. VALUE FOR MONEY CONCLUSION

Sub-criteria	Commentary	Arrangements in place?
Sustainable resource deployment	<p>Overall the PCC and Group delivered a surplus of £3.3 million in 2018/19 before contributions to/from reserves. As part of this overall performance, the Force achieved a break even position for 2018/19. Usable reserves have increased by £3.1 million to £17.6 million including general fund balances of £6 million, earmarked reserves of £10.1 million and unapplied capital grants of £1.5 million.</p> <p>There is a four year Long Term Financial Plan (LTFP) in place up to 2022/23 which is regularly updated and is linked to the strategic priorities in the Police and Crime Plan. The LTFP is produced jointly by the PCC and Chief Constable as the latter is responsible for the policing service funded by the Police and Crime Commissioner. The annual budgets are taken from the LTFP and are monitored monthly and reported to the Police and Crime Panel where they are scrutinised and challenged.</p> <p>The LTFP and Capital Plan was agreed in February 2019. The Force produces monthly reports on progress against the plan which are reviewed by the Force's Management Board, and discussed with the PCC's Chief Finance Officer. In addition, the Force reports directly to the PCC on progress on a quarterly basis.</p> <p>The strategic priorities of the PCC are detailed in the Police and Crime Plan. The Police and Crime Plan is linked to the LTFP and hence ensures that there are sufficient financial resources for the delivery of the Plan.</p> <p>Regular budget monitoring reports are produced for all budget holders and are underpinned by monthly 'budget clinics' between the budget holder and Finance Business Partner.</p> <p>There are balanced budgets in place for the next four years although this is challenging and does rely on the delivery of efficiency savings as in previous years. However, the PCC and Chief Constable have a good record of delivering on efficiency targets and has sufficient reserves in place to manage any shortfall over the LTFP.</p>	Yes



### 3. VALUE FOR MONEY CONCLUSION

Sub-criteria	Commentary	Arrangements in place?
Working with partners and other third parties	<p>Working with third parties continues to be developed through the use of collaborative arrangements. The PCC supports over 70 areas of collaboration locally, regionally and nationally ranging from a shared dog unit with North Yorkshire and Durham to a national air support service, and other aspects of the National Strategic Policing Requirement. The PCC has a broad framework of partners which includes statutory partners and partners from the local authority/voluntary sector and the private sector.</p> <p>The PCC awards grant and funding to community groups to deliver services in the community which are linked to the strategic objectives in the Police and Crime Plan. It has supported over 100 local community safety projects and continues to work with communities to draw up new plans for the future.</p> <p>The organisation has written procurement policies in place which are included within its Code of Corporate Governance. Services are commissioned by the PCC but the majority of expenditure is with the Chief Constable which is scrutinised by the PCC.</p> <p>The Chief Constable has regular meetings with each of the Chief Executives of the local councils, and the Chief Fire Officer. In addition, the Force works in partnership with other stakeholders on a range of issues, for example: multi-agency children's hub, community safety partnerships, local safeguarding boards, health and wellbeing boards, youth offending boards and the strategic contest delivery group.</p> <p>Cleveland Police is part of the North East Regional Special Operations Unit (NERSOU) which provides additional specialist capacity to deliver an increased response to tackling serious organised crime that transcends force borders. The mission of the unit is to tackle those organised crime groups causing the greatest levels of harm to communities in the North East. The Force is also part of a national collaboration for the provision of air support, the National Police Air Service (NPAS).</p>	Yes

#### Significant Value for Money risks

The NAO's guidance requires us to carry out work to identify whether or not a risk to the Value for Money conclusion exists. Risk, in the context of our Value for Money work, is the risk that we come to an incorrect conclusion rather than the risk of the arrangements in place at the PCC and Chief Constable being inadequate. In our Audit Completion Report, we reported that we had not identified any significant Value for Money risks.



### 3. VALUE FOR MONEY CONCLUSION

#### Other matters to report in respect of our Value for Money Conclusion

The Force is subject to an extensive inspection regime by Her Majesty's Inspectorate of Constabulary and Fire & Rescue Services (HMICFRS) and the results of these are published on their website to ensure appropriate scrutiny of decision making. Whilst the formal outcome of the Integrated PEEL Assessment carried out by HMICFRS in May 2019 is not anticipated until later in the year, the new Chief Constable and the Chief Officer team have already recognised that performance needs to be improved and a detailed service improvement plan is currently being developed. The key areas of focus within the plan include:

- Protection of vulnerable people;
- Neighbourhood policing; and
- Professional standards

Delivery of the Service Improvement Plan will be governed via a monthly Service Improvement Board, chaired by the Deputy Chief Constable. A force wide Operational Performance Board will also meet on a monthly basis to consider current and emerging performance threats and agree what remedial action is required to bring about the required performance improvement. This is reflected in the Chief Constable's Annual Governance Statement as a significant governance issue.

The PCC has also recognised this as a significant governance issue in the Annual Governance Statement and has emphasised a concern over the extent to which the PCC can place reliance on the information provided by the Force. The PCC also comments that the Governance, Assurance and Scrutiny arrangements that are currently in place need to be revisited to provide independent assurance to the PCC on the performance of the Force.

The identified improvements are clearly very important issues that need to be a priority and focus for both the PCC and Chief Constable in the coming year.

## 4. OTHER REPORTING RESPONSIBILITIES

Exercise of statutory reporting powers	No matters to report
Completion of group audit reporting requirements (WGA)	Below testing threshold
Other information published alongside the audited financial statements	Consistent

The NAO's Code of Audit Practice and the 2014 Act place wider reporting responsibilities on us, as the PCC and Group and Chief Constable's external auditor. We set out below, the context of these reporting responsibilities and our findings for each.

### Matters on which we report by exception

The 2014 Act provides us with specific powers where matters come to our attention that, in our judgement, require reporting action to be taken. We have the power to:

- Issue a report in the public interest;
- Make a referral to the Secretary of State where we believe that a decision has led to, or would lead to, unlawful expenditure, or an action has been, or would be unlawful and likely to cause a loss or deficiency; and
- Make written recommendations to the PCC and Group and Chief Constable which must be responded to publicly.

We have not exercised any of these statutory reporting powers.

### Reporting to the NAO in respect of Whole of Government Accounts consolidation data

Given the PCC and Group and Chief Constable are below the threshold for detailed testing, the NAO, as group auditor, requires us only to complete the WGA Assurance Statement in respect of its consolidation data. We submitted this information to the NAO on 31 July 2019.

### Other information published alongside the financial statements

The Code of Audit Practice requires us to consider whether information published alongside the financial statements is consistent with those statements and our knowledge and understanding of the PCC and Group and Chief Constable. In our opinion, the other information in the Statement of Accounts is consistent with the audited financial statements.

## 5. OUR FEES

### Fees for our work as the PCC and Chief Constable's auditor

We reported our proposed fees for the delivery of our work in the Audit Strategy Memorandum, presented to the PCC and Chief Constable in February 2019.

We have completed our work for the 2018/19 financial year, but at the time of producing this report, we have not yet finalised our audit fees for the year. If the final fee varies from that in the table below, we will write to the Chief Financial Officer setting out the proposed variation and any reasons for the variation, and seeking agreement to it. Any variations to the final fee will also require the approval of Public Sector Audit Appointments Limited, which manages the contracts for our work.

Area of work	2018/19 proposed fee	2018/19 final fee***
Delivery of audit work under the NAO Code of Audit Practice – Office of the Police and Crime Commissioner for Cleveland	£26,045	£26,045
Delivery of audit work under the NAO Code of Audit Practice – Chief Constable for Cleveland	£11,550	£11,550

\*\*\* Please note that at the time of producing this report, the audit fees have not yet been finalised.

### Fees for other work

We confirm that we have not undertaken any non-audit services for the PCC and Chief Constable in the year.

## 6. FORWARD LOOK

### Financial outlook

As noted in our Value for Money Conclusion, there are balanced budgets in place for the next four years but this is challenging and does rely on the delivery of efficiency savings as in previous years. However, the PCC and Chief Constable have a good record of delivering on efficiency targets and has sufficient reserves in place to manage any shortfall over the four-year LTFP.

### Operational challenges

As noted in our Value for Money Conclusion, whilst the outcome of the Integrated PEEL Assessment carried out by HMICFRS in May 2019 is not anticipated until later in the year, the new Chief Constable and the Chief Officer team have already recognised that performance needs to be improved and a detailed service improvement plan is currently being developed.

The PCC has also recognised this as a significant governance issue in the Annual Governance Statement and has emphasised a concern over the extent to which the PCC can place reliance on the information provided by the Force. The PCC also comments that the Governance, Assurance and Scrutiny arrangements that are currently in place need to be revisited to provide independent assurance to the PCC on the performance of the Force.

The identified improvements are clearly very important issues that need to be a priority and focus for both the PCC and Chief Constable in the coming year.

Other operational challenges identified as requiring continued focus in the Annual Governance Statements include:

- developing the capacity and capability of leadership and individuals;
- ensuring openness and stakeholder engagement;
- managing risks and performance through robust internal control and strong public financial management;
- further enhancement of scrutiny arrangements; and
- delivering the 'Everyone Matters Equality Diversity and Human Rights Strategy 2017–2020.

### How we will work with the PCC and Chief Constable

We will focus our work on the risks that your challenges present to your financial statements and your ability to maintain proper arrangements for securing value for money. In the coming year we will continue to support the PCC and Chief Constable by:

- continued liaison with your Internal Auditors to minimise duplication of work;
- attending Joint Independent Audit Committee meetings and presenting an Audit Progress Report including updates on regional and national developments; and
- hosting events for staff, such as our accounts workshop.

We will also meet with officers to identify any learning from the 2018/19 audit and will continue to share our insights from across your sector and relevant knowledge from the wider public and private sector.

In terms of the technical challenges that officers face around the production of the statement of accounts, we will continue to work with them to share our knowledge of new accounting developments and we will be on hand to discuss any issues as and when they arise.

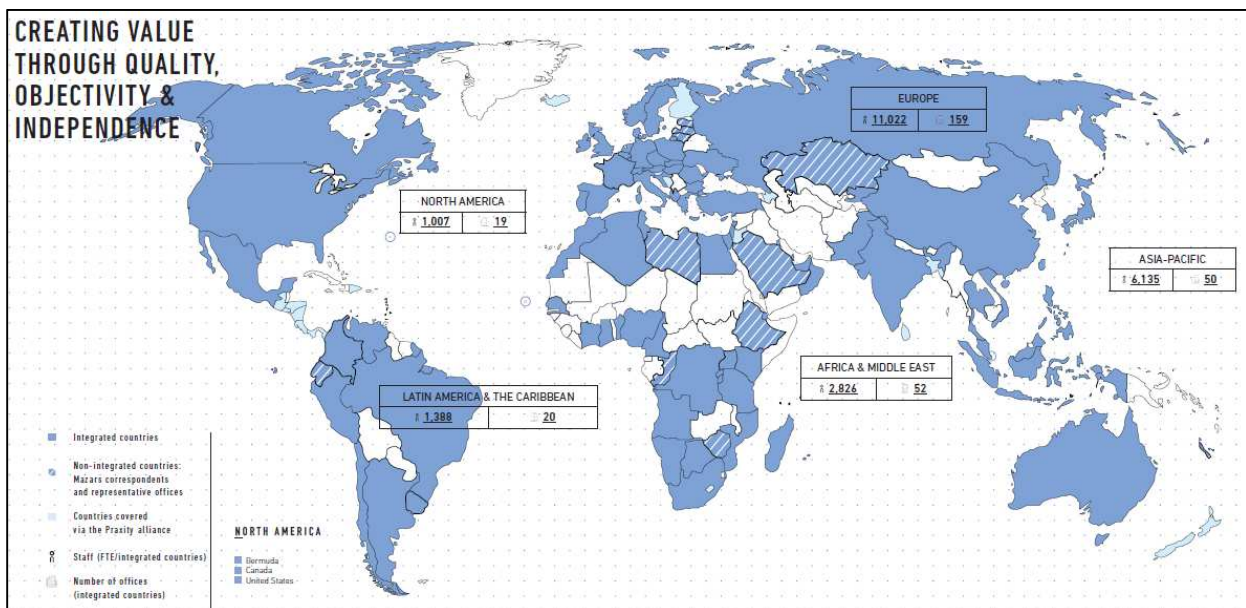
The PCC and Chief Constable has taken a positive and constructive approach to our audit and we wish to thank Members and officers for their support and co-operation during our audit.

# MAZARS AT A GLANCE

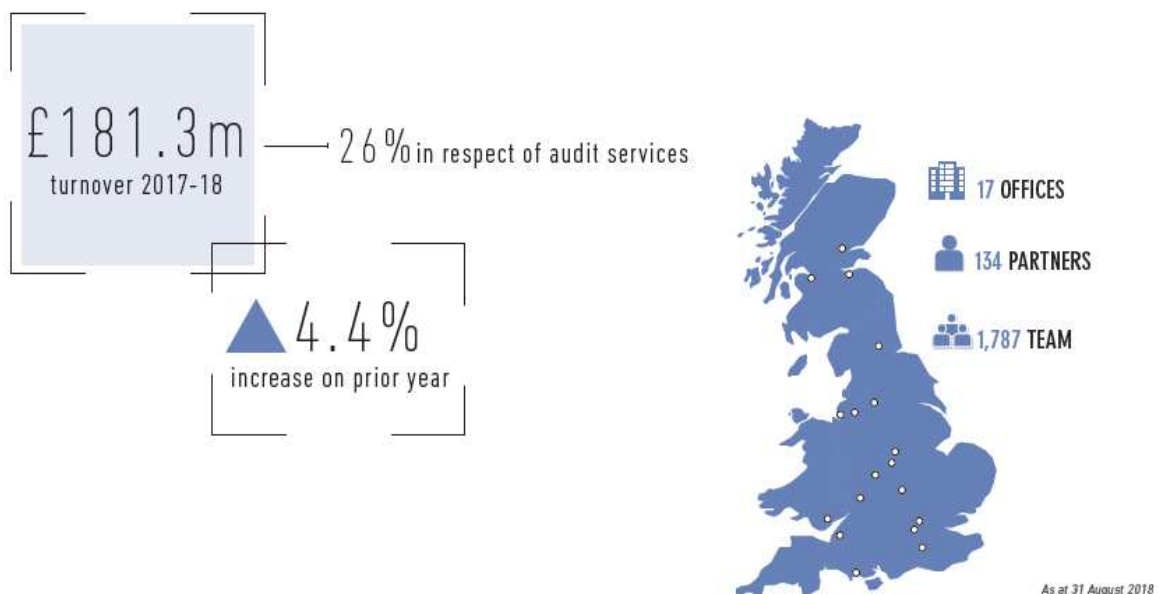
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