Annual Audit Letter

Police and Crime Commissioner for Cleveland

Year ending 31 March 2018

POLICE AND CRIME
COMMISSIONER
FOR CLEVELAND

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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 (the Commissioner) and Group for the year ended 31 March 2018. Although this letter is addressed to the Commissioner, 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	Our auditor's report issued on 27 July 2018 included our opinion that the financial statements: • gave a true and fair view of the Commissioner and Group's financial position as at 31 March 2018 and of its expenditure and income for the year then ended; and • had been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18
Other information published alongside the audited financial statements	Our auditor's report issued on 27 July 2018 included our opinion that the other information in the Statement of Accounts was consistent with the audited financial statements.
Value for Money conclusion	Our auditor's report concluded that we were satisfied that in all significant respects, the Commissioner had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.
Reporting to the group auditor	In line with group audit instructions issued by the NAO, on 27 July 2018 we reported to the group auditor in line with the requirements applicable to the Commissioner's WGA return.
Statutory reporting	Our auditor's report confirmed that we did not use our powers under section 24 of the 2014 Act to issue a report in the public interest or to make written recommendations to the Commissioner.

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 Commissioner and Group and whether they give a true and fair view of the Commissioner and Group's financial position as at 31 March 2018 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 Commissioner'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 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 Commissioner and Joint Independent Audit Committee. We call this our trivial threshold.

The table below provides details of the materiality levels applied in the audit of the Commissioner and Group financial statements for the year ended 31 March 2018:

Financial statement materiality	Our financial statement materiality was based on 2% of gross operating expenditure.	Commissioner: £2.604 million Group: £2.881 million
Trivial threshold	Our trivial threshold was based on 3% of financial statement materiality.	Commissioner: £0.078 million Group: £0.086 million
Specific materiality	We applied a lower level of materiality to the following areas of the accounts: • Officer remuneration • Exit Packages	 £0.232 million £0.020 million

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 Commissioner and Group's financial statements that required special audit consideration. We reported significant risks identified at the planning stage to the Commissioner and Joint Independent Audit Committee 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
Management override of controls 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: • accounting estimates impacting on amounts included in the financial statements; • consideration of identified significant transactions outside the normal course of business; and • journals recorded in the general ledger and other adjustments made in preparation of the financial statements.	Our work provided the assurance we sought and did not highlighted any material issues in respect of management override.
Revenue recognition There is a risk of fraud in the financial reporting relating to revenue recognition due to the potential to inappropriately record revenue in the wrong period. Due to there being a risk of fraud in revenue recognition we consider it to be a significant risk.	We completed the following audit work: • tested cut-off to assess whether transactions were included in the appropriate year; • tested material year end receivables; and • tested adjustment journals.	Our work provided the assurance we sought and did not highlight any material issues in respect of revenue recognition.
Defined benefit liability valuation 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.	In addition to our standard audit programme we addressed this risk through the following procedures: • discussed with key contacts any significant changes to the pensions estimates prior to the preparation of the final accounts; • evaluated the management controls you have in place to assess the reasonableness of the figures provided by the actuaries; and • 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.	Our work provided the assurance we sought and did not highlight any material issues. Our work identified no indication of material estimation error in respect of pensions.

2. AUDIT OF THE FINANCIAL STATEMENTS

Identified significant risk	Our response	Our findings and conclusions
Valuations of buildings The 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 a valuation expert to provide information on valuations, there remains a high degree of estimation uncertainty associated with the revaluation of buildings due to the significant judgements and number of variables involved in providing revaluations. We have therefore identified the revaluation of buildings to be an area of enhanced risk.	We addressed this risk through the following procedures: • considered the Commissioner's arrangements for ensuring that building valuations are reasonable and engaged our own expert to provide data to enable us to assess the reasonableness of the valuations provided by the Commissioner's valuer. We also assessed the competence, skills and experience of the valuer; and • We also performed further audit procedures on individual assets to ensure that the basis and level of valuation was appropriate.	We identified one significant matter to report. The Valuer used the incorrect floor area for three PFI assets resulting in an increase of £2.825 million in the net book value of PFI assets and a decrease of £0.217 million in other land and buildings. The Comprehensive Income and Expenditure Statement and Balance Sheet were amended as well as related notes.

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.

We identified no deficiencies in internal control as part of our audit which required reporting.

3. VALUE FOR MONEY CONCLUSION

Value for Money conclusion	Unqualified

Our approach to Value for Money (VFM)

We are required to consider whether the Commissioner 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 Commissioner 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 Commissioner on 27 July 2018, stated that, in all significant respects, the Commissioner put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31st March 2018.

Sub-criteria	Commentary	Arrangements in place?
Informed decision making	There is a comprehensive Code of Corporate Governance in place, consistent with the principles of the CIPFA/SOLACE Framework: Delivering Good Governance in Local Government. In addition, the Policing Protocol 2011 requires all parties to abide by the 7 Nolan Principles. The Financial Management Code of Practice also requires the Commissioner to ensure that the good governance principles are embedded within the way that the organisations operate. The scheme of governance highlights the parameters for decision making, including consents, financial regulations and standing orders for contracts and covers the key roles within the organisation. The Commissioner's Annual Governance Statement includes a balanced assessment of the effectiveness of the governance arrangements and identifies areas for further improvement where appropriate. The Joint Independent Audit Committee review the governance issues contained within the Annual Governance Statement. Scrutiny of the performance of the Chief Constable is undertaken by the Commissioner who is scrutinised by the independent Police and Crime Panel. The forward plan of decisions combined with open and transparent information schemes enables the Police and Crime Panel to be properly sighted on the decisions of the Commissioner. The decision making protocol sets out principles for how decisions will be taken by the Commissioner and the standards to be adopted. The Commissioner has developed arrangements for effective engagement with key stakeholders, ensuring that where appropriate they remain closely involved in the decision making process. The Commissioner receives and scrutinises financial and performance information from the Chief Finance Officer for the Commissioner and also the Chief Constable and this is also reported to the Police and Crime Panel. This includes regular budget monitoring throughout the year. The objectives of the Commissioner are included in the Police and Crime Plan and all monitoring and reporting is measured against these objectives. The Police and Crime Plan sets out the strategic direction and objectives and is aligned to the Long Term Financial Plan. The risk management strategy establishes how risk is embedded throughout the various elements of corporate governance of the organisation. Risks are managed using strategic and operational risk registers and all strategic risks are reported to the Joint Independent Audit Committee. An internal audit plan is in place which takes into account the strategic priorities of the Commissioner and the different sources of assurance. There is appropriate challenge by the Joint Independent Audit Committee over coverage and risk areas.	Yes

3. VALUE FOR MONEY CONCLUSION *CONTINUED*

Sub-criteria	Commentary	Arrangements in place?
Sustainable resource deployment	The Commissioner's outturn for the 2017/18 financial year was an underspend of £1.9 million. There is a four year Long Term Financial Plan (LTFP) in place up to 2021/22 which is regularly updated and is linked to the strategic priorities in the Police and Crime Plan. The LTFP is produced jointly by the Commissioner and Chief Constable as the latter is responsible for the policing service funded by the 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. The LTFP and Capital Plan up to 2021/22 were agreed in February 2018. The Force produces monthly reports on progress against the plan which are reviewed by the Force's Management Board, and discussed with the Commissioner's Chief Finance Officer. In addition, the Force reports directly to the Commissioner on progress on a quarterly basis. The strategic priorities of the Commissioner 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. 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. 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, it has a good record of delivering on its efficiency targets and has reserves in place to manage any shortfall over the LTFP. However, the level of general fund reserves is expected to reduce to £4.2 million by 2019/20 and by 2021/22 this would reach the target of 3%. This would be the level at which it would not be prudent to draw any further on the reserves. All capital schemes are appraised and prioritised to ensure they reflect the key investment requirements in the strategy. The capital programme to 2021/22 is based on spending just under £14m over the next 4 years. However, the funding of the programme is factored into the LTFP and are considered to be affordable.	Yes

3. VALUE FOR MONEY CONCLUSION *CONTINUED*

Sub-criteria	Commentary	Arrangements in place?
Working with partners and other third parties	Working with third parties continues to be developed through the use of collaborative arrangements. The Commissioner 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. Collaboration arrangements with other Police and Crime Commissioners and Chief Constables are being actively pursued as are arrangements with other emergency service providers. The Commissioner has a broad framework of partners which includes statutory partners and partners from the local authority/voluntary sector and the private sector. Some other examples of partnership arrangements include • Firearms training - Private Finance Initiative (PFI) • District and custody accommodation (PFI) • Special Operations Unit collaboration • Street Triage initiative with the NHS. The Commissioner is also involved in a number of groups including the Young People Services Strategic Planning Group and the Victims Strategic Planning Group. The Commissioner 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. The organisation has written procurement policies in place which are included within its Code of Corporate Governance. Services are commissioned by the Commissioner, the main one being the Chief Constable. The Commissioner ensures that any commissioning offers value for money and supports his strategic priorities on an individual project basis.	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 VFM conclusion exists. Risk, in the context of our VFM work, is the risk that we come to an incorrect conclusion rather than the risk of the arrangements in place at the Commissioner being inadequate.

In our Audit Strategy Memorandum, we reported that we had identified no significant VFM risks. We kept this under review throughout our audit and were satisfied that there were no significant audit risks apparent in respect of VFM for 2017/18.

4. OTHER REPORTING RESPONSIBILITIES

Exercise of statutory reporting powers	**No matters to report**
Completion of group audit reporting requirements	**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 Commissioner and Group's external auditor. We set out below, the context of these reporting responsibilities and our findings for each.

Matters 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 Commissioner which must be responded to publically.

We have not exercised any of these statutory reporting powers.

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

The NAO, as group auditor, requires us to complete the WGA Assurance Statement in respect of its consolidation data. We submitted this information to the NAO on 27 July 2018.

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 Commissioner and Group. In our opinion, the other information in the Statement of Accounts was consistent with the audited financial statements.

5. OUR FEES

Fees for work as the Commissioner and Group's auditor

We reported our proposed fees for the delivery of our work in the Audit Strategy Memorandum, presented to Commissioner and Joint Independent Audit Committee in March 2018.

Having completed our work for the 2017/18 financial year, we can confirm that our final fees are as follows:

Area of work	2017/18 proposed fee	2017/18 final fee
Delivery of audit work under the NAO Code of Audit Practice	£33,825	£33,825

Fees for other work

We confirm that we have not undertaken any non-audit services for the Commissioner in the year.

6. FORWARD LOOK

Financial outlook

As reported, the Commissioner's outturn for the 2017/18 financial year delivered an underspend of £1.9 million. 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, it has a good record of delivering on its efficiency targets and has reserves in place to manage any shortfall over the Long Term Financial Plan. The Commissioner's reserves are planned to reduce to £4.2 million by 2019/20 and by 2021/22 this would reach the planned target of 3%. This would be the level at which it would not be prudent to draw any further on the reserves.

Operational challenges

The delivery of the Police and Crime Plan will continue to be a challenge given the overall financial environment.

Cleveland Police has received a good overall assessment from its 2017/18 HMICFRS inspection. However, there are still some areas for improvement to address in 2018/19 and beyond.

The Group successfully delivered the 2017/18 Statement of Accounts to the new earlier deadline. New challenges in 2018/19 include the adoption in the Code of new accounting standards IFRS 9 and IFRS 15. The Commissioner will need to consider the impact these new standards will have on its financial reporting.

How we will work with the Commissioner

Our 2018/19 audit will focus on the risks that these challenges present to the Commissioner's financial statements and ability to maintain proper arrangements for securing value for money.

We will continue to offer accounting workshops to finance officers and the audit team 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.

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