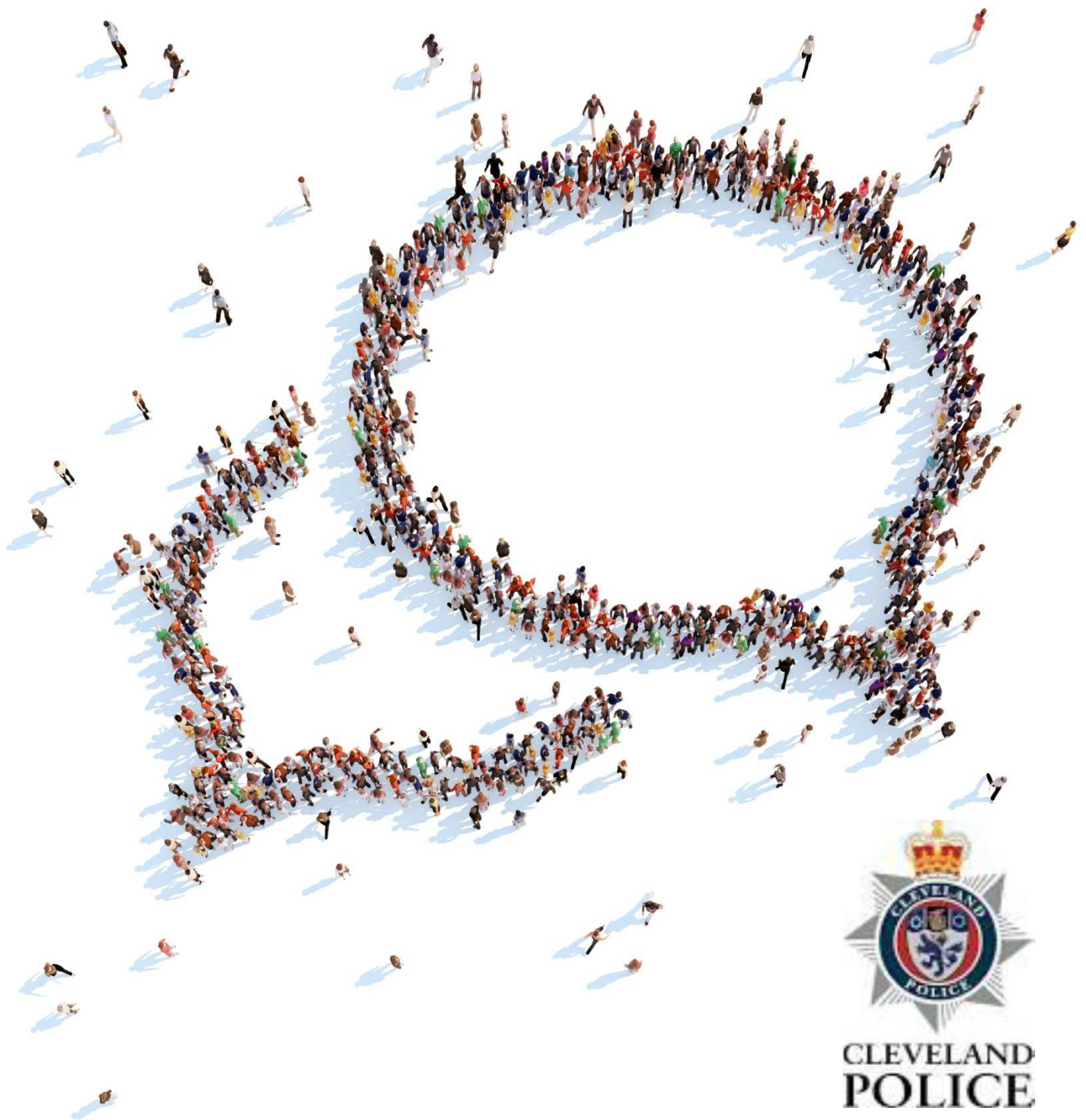




Annual Audit Letter

Chief Constable for Cleveland
Year ending 31 March 2018





CONTENTS

1. Executive summary
2. Audit of the financial statements
3. Value for Money conclusion
4. Other reporting responsibilities
5. Our fees
6. Forward look

Our reports are prepared in the context of the 'Statement of responsibilities of auditors and audited bodies' issued by Public Sector Audit Appointments Ltd. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the Chief Constable for Cleveland and we take no responsibility to any member or officer in their individual capacity or to any third party.

Mazars LLP is the UK firm of Mazars, an international advisory and accountancy group. Mazars LLP is registered by the Institute of Chartered Accountants in England and Wales.

1. EXECUTIVE SUMMARY

Purpose of the Annual Audit Letter

Our Annual Audit Letter summarises the work we have undertaken as the auditor for the Chief Constable for Cleveland (the Chief Constable) for the year ended 31 March 2018. Although this letter is addressed to the 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 27 July 2018 included our opinion that the financial statements:</p> <ul style="list-style-type: none">gave a true and fair view of the Chief Constable's financial position as at 31 March 2018 and of its expenditure and income for the year then ended; andhad 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	<p>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.</p>
Value for Money conclusion	<p>Our auditor's report concluded that we were satisfied that in all significant respects, the Chief Constable had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.</p>
Statutory reporting	<p>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 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 Chief Constable and whether they give a true and fair view of the Chief Constable'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 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 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 Chief Constable 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 Chief Constable's financial statements for the year ended 31 March 2018:

Financial statement materiality	Our financial statement materiality was based on 2% of gross operating expenditure.	£2.684 million
Trivial threshold	Our trivial threshold was based on 3% of financial statement materiality.	£0.081 million
Specific materiality	<p>We applied a lower level of materiality to the following areas of the accounts:</p> <ul style="list-style-type: none"> Officer remuneration Exit packages 	<p>£0.168 million</p> <p>£0.020 million</p>

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 Chief Constable's financial statements that required special audit consideration. We reported significant risks identified at the planning stage to the Chief Constable 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: <ul style="list-style-type: none"> • 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 highlight any material issues in respect of management override.
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: <ul style="list-style-type: none"> • discussions with key contacts on any significant changes to the pensions estimates prior to the preparation of the final accounts; • Evaluation of the management controls in place to assess the reasonableness of the figures provided by the actuaries; and • consideration of 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

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 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 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 Chief Constable on 27 July 2018, stated that, in all significant respects, the Chief Constable 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	<p>A Code of Corporate Governance is in place which jointly applies to the Police and Crime Commissioner (PCC) and the Chief Constable. All decision making is carried out in line with the Corporate Governance Framework including Contract Standing Orders, Financial Regulations and Schemes of Delegation. Decisions of the Chief Constable are scrutinised by the PCC and scrutiny meetings are published on the PCC's website. The 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 Statement. The Force maintains strategic and corporate risk registers along with operational risk registers for each service unit. The risk management process is managed by the Head of Corporate Services with strategic risks being reviewed on a bi-monthly basis at the Risk and Governance Board as well as being presented to the Joint Independent Audit Committee on a six monthly basis. An internal audit plan is in place which takes into account the strategic priorities of the Chief Constable and the different sources of assurance available.</p> <p>The objectives of the Chief Constable are included in the Police and Crime Plan and all monitoring and reporting is measured against these objectives. The Plan is aligned to the Long Term Financial Plan which is regularly updated and includes the budget that is delegated to the Chief Constable. 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. The HMICFRS has highlighted that the force also has strong governance arrangements for all of the services it has outsourced. It manages the performance and contracts associated with outsourced services well, which allows the benefits to be seen and problems to be raised with an agreed resolution.</p> <p>The Chief Constable produces monthly finance reports which are scrutinised by the PCC and Police and Crime Panel. The PCC considers the financial reports alongside the performance reports and the performance is measured in terms of the delivery of the Police and Crime Plan. The Force Performance Management Framework is well established through the monthly Tactical Performance Group, and the quarterly Strategic Performance Group. The Force has developed a performance 'dashboard' to take a holistic view to assessing performance and outcomes. The 'dashboard' takes a balanced scorecard approach and links directly to the areas of HMICFRS inspection activity: organisational effectiveness; organisational efficiency; leadership & people, and legitimacy & integrity.</p>	Yes

1. Executive summary

2. Audit of the financial statements

3. Value for Money conclusion

4. Other reporting responsibilities

5. Our fees

6. Forward look

3. VALUE FOR MONEY CONCLUSION CONTINUED

Sub-criteria	Commentary	Arrangements in place?
Sustainable resource deployment	<p>The Force reported a £0.35 million overspend for the 2017/18 financial year. This was mainly due to cost pressures associated with the 1% bonus payable to Police Officers and the increase in insurance costs due to the Ogden ruling. However, there is no history of significant overspends for the force.</p> <p>There is a Long Term Financial Plan (LTFP) in place which is regularly updated and is linked to the strategic priorities in the Police and Crime Plan. This covers a four year period up to 2021/22 and has been produced in liaison with 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>There are balanced budgets in place for the next four years although there are a number of pressures and assumptions built into the plan. To deliver against the 2018/19 budget, the Force will need to deliver £0.25 million of savings within the year. Beyond 2018/19 this increases to £0.3m across the remainder of the plan.</p> <p>To support the delivery of the LTFP, the Force has agreed a Financial Sustainability Plan which examines some of the key assumptions and outlines the corporate development work streams that will deliver further savings. Despite the pressures, it has a good record of delivering efficiency savings, with the majority of significant reductions already achieved in previous years. The Force continues to transform its service delivery model through a programme of organisational change.</p>	Yes

3. VALUE FOR MONEY CONCLUSION CONTINUED

Sub-criteria	Commentary	Arrangements in place?
Working with partners and other third parties	<p>The Chief Constable is committed to collaboration to improve services and performance and continues to explore possibilities of partnership working with a range of stakeholders including other emergency services as well as the private and voluntary sectors. The force has four strategic collaborative arrangements:</p> <ul style="list-style-type: none"> • Cleveland Durham Special Operations Unit; • Cleveland Durham North Yorkshire integrated Dog Support Unit; • North East Regional Special Operations Unit; and • Cleveland North Yorkshire Major Incident Team. <p>Some other good examples of partnership arrangements include:</p> <ul style="list-style-type: none"> • Implementation of a fully collaborated Legal Services as part of the Evolve Programme; • national collaboration for the provision of air support, the National Police Air Service; • Firearms training - Private Finance Initiative (PFI); • District and custody accommodation (PFI); • Street Triage initiative with the NHS; and • Collaborating with Cleveland Fire in the use of estate, fleet and training facilities. <p>The Chief Constable is also involved in a number of groups including the Young People Services Strategic Planning Group and the Victims Strategic Planning Group.</p> <p>Procuring supplies and services is regulated by the Code of Corporate Governance. The main commissioning of services by the Chief Constable has been the outsourcing of back office services to Steria in 2010. There is a governance schedule for all strategic contracts, including regular contract and performance meetings to ensure that it continues to offer value for money and support strategic priorities.</p> <p>The HMICFRS report notes that the force is managing its resources well and collaborates with other blue light services, local authorities and private sector firms. It also comments that the force has developed positive relationships with its communities through its neighbourhood policing teams, community cohesion co-ordinators and working with its partner organisations.</p> <p>The force is working with partners to develop its understanding of likely future demand and has set out its strategic intent up to the year 2020. The force has medium and long-term financial plans in place as well as a people strategy, workforce plan and a recruitment plan</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 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 Chief Constable 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
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 Chief Constable'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 Chief Constable which must be responded to publically.

We have not exercised any of these statutory reporting powers.

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 Chief Constable. 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 Chief Constable's auditor

We reported our proposed fees for the delivery of our work in the Audit Strategy Memorandum, presented to Chief Constable 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	£15,000	£15,000

Fees for other work

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

6. FORWARD LOOK

Financial outlook

As noted earlier, the Chief Constable reported a £0.35 million overspend for the 2017/18 financial year. However, there is no history of significant overspends and the Chief Constable has a good record of delivering efficiency savings, with the majority of significant reductions already achieved in previous years. The Chief Constable continues to transform its service delivery model through a programme of organisational change.

There are balanced budgets in place across the Long Term Financial Plan although there are a number of pressures and assumptions built into the plan. To deliver against the 2018/19 budget, the Chief Constable will need to deliver £0.25 million of savings within the year increasing to £0.3m across the remainder of the plan.

Operational challenges

The Chief Constable 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 Chief Constable 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 Chief Constable will need to consider the impact these new standards will have on its financial reporting.

How we will work with the Chief Constable

Our 2018/19 audit will focus on the risks that these challenges present to the Chief Constable'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.

CONTACT

Cameron Waddell

Partner

0191 383 6300

cameron.waddell@mazars.co.uk

Campbell Dearden

Manager

0191 383 6304

campbell.dearden@mazars.co.uk



MAZARS