

Office of the Police and Crime Commissioner for Cleveland and Chief Constable for Cleveland Audit Progress Report

December 2016



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Our reports are prepared in the context of the Public Sector Audit Appointment Limited's 'Statement of responsibilities of auditors and audited bodies'. Reports and letters prepared by appointed auditors and addressed to the Audit Committee, its Members or Officers are prepared for the sole use of the audited body and we take no responsibility to any Member or Officer in their individual capacity or to any third party.

01 Introduction

The purpose of this report is to update the Audit Committee of the Office of the Police and Crime Commissioner for Cleveland (the PCC) and the Chief Constable for Cleveland (the Chief Constable) on progress in delivering our responsibilities as your external auditors.

We have also highlighted key emerging national issues and developments which may be of interest to Committee Members.

If you require any additional information, please contact us using the details at the end of this update.

Finally, please note our website address (www.mazars.co.uk) which sets out the range of work Mazars carries out, both within the UK and abroad. It also details the existing work Mazars does in the public sector.

02 2016/17 audit progress

In the coming quarter(s) work will include the areas detailed below:

- **Audit Strategy Memorandum:** we will meet with officers ahead of drafting our 2016/17 Audit Strategy Memorandum for inclusion on the next Audit Committee agenda, in order to agree the scope and timing of work as well as any significant risks relevant to both the opinion and VFM conclusion work – including taking into account the recently published HMIC assessment.

As part of this we will update our knowledge of the both the PCC and Chief Constable and complete key high level assessments of the control environment and the fraud environment.

We will also take into account the most recently published updated VFM guidance for police bodies. <https://www.nao.org.uk/code-audit-practice/guidance-and-information-for-auditors/>

- **Review of previous year:** we are meeting with officers to discuss the previous year's audit and consider any areas for continuous improvement, ahead of the earlier deadlines for 2017/18.
- **Walkthroughs and interim visits:** we are in the process of agreeing the timing of walkthroughs of the key financial systems.
- **Run our annual accounts workshops:** once we have agreed dates, we will ensure officers receive invites.
- **Internal training:** as part of our commitment to quality, team members have already attended our annual audit training conference which includes feedback from quality reviews to take into account in the coming year (including the annual quality reports on all firms from our Regulator which we refer to further in the next section).
- **Client satisfaction surveys:** we have recently sent out client satisfaction surveys (annual requirement by our Regulator); we are grateful for feedback to enable us to continue to develop our approach and how best we can work with you to achieve mutual aims.

03 National publications and other updates

	National publications and other updates
1.	The work of the National Audit Office in the police and fire sectors , <i>National Audit Office, October 2016</i>
2.	Round-up for Audit Committees , <i>National Audit Office, October 2016</i>
3.	Performance measurement by Regulators , <i>National Audit Office, November 2016</i>
4.	Local Public Services Reform , <i>National Audit Office, September 2016</i>
5.	Alternative Delivery Models , <i>CIPFA, October 2016</i>
6.	Understanding Local Authority Financial Statements , <i>CIPFA, September 2016</i>
7.	Annual Regulatory Compliance and Quality Report , <i>Public Sector Audit Appointments Ltd, August 2016</i>
8.	Oversight of audit quality: quarterly compliance reports , <i>Public Sector Audit Appointments Ltd, Quarter 1 2016-17</i>
9.	2017/18 work programme and scale of fees , <i>Public Sector Audit Appointments Ltd, October 2016</i>
10.	Outline procurement strategy , <i>Public Sector Audit Appointments Ltd, November 2016</i>

1. The work of the National Audit Office in the police and fire sectors, *National Audit Office, October 2016*

This interactive briefing pack summarises the National Audit Office's work in the police and fire sectors since 2012. It highlights the key messages coming from a selection of our recent reports and should be of interest to Police and Crime Commissioners and their officers, senior police and fire officials and the general public.

<https://www.nao.org.uk/report/the-work-of-the-national-audit-office-in-the-police-and-fire-sectors/>

2. Round-up for Audit Committees, *National Audit Office, October 2016*

This interactive round-up of NAO publications is intended to help Audit Committees, Boards and other users by outlining the latest NAO resources for governance and oversight, risk management and strategic management issues. It also sets out how to keep in touch with NAO insight on specific issues and/or sectors.

This round-up is designed to make it easy for Audit Committees, Boards and other users to find the NAO resources most helpful for the strategic management of public sector organisations. The Round-up includes a focus on risk, summarising some of the learning points in NAO reports that provide particularly useful lessons for key aspects of risk management.

<https://www.nao.org.uk/report/round-up-for-audit-committees/>

3. Performance measurement by Regulators, National Audit Office, November 2016

This good practice guide aids improvement in performance measurement and reporting by regulators and other organisations seeking to deliver outcomes through third parties. It has been developed in collaboration with regulators and includes the NAO's experience from working with them and examples of regulators' good practice. It's complemented by 'Performance measurement: Good practice criteria and maturity model'.

<https://www.nao.org.uk/report/performance-measurement-by-regulators/>

4. Local Public Services Reform, National Audit Office, September 2016

In early 2016 the National Audit Office (NAO) undertook research to find out how local public service reform is being pursued in eight places in England, what the enablers and barriers are and how the government is supporting reform at a local level. This cross-sectoral report summarises the findings of their work and identifies sources of help that may be useful to local areas.

Reform is one of the ways local public services are responding to the challenge of reduced funding and rising demand. By working together, and with service users and citizens, to:

- prevent or reduce demand for costly services;
- make it easier for people to get access to the support they need; and
- redesign services to meet people's needs in a more integrated and effective way.

Local public services can both improve outcomes and save money. The NAO found that more action is needed at a national and local level to encourage this sort of reform and overcome the barriers to success. The report includes an interesting depiction on page 5 of the projected financial impact of local public service reform; with a prediction of £1.1 billion of benefits to the wider economy that could be made, of which just over £300 million in gross fiscal benefits (excluding net costs) arising from the NHS alone.

<https://www.nao.org.uk/report/local-public-service-reform/>

5. Alternative Delivery Models, CIPFA, October 2016

Alternative service delivery models of various shapes and sizes are increasingly being used to deliver a growing number and range of public services in many locations in the UK.

An alternative delivery model can be a different way of managing, collaborating and contracting, or it can involve the establishment of a completely new organisation that could be wholly, or partly owned by the parent body or a completely independent enterprise.

They range from small community-based initiatives, employee led spin outs (large and small), local authority companies, to substantial multi-stakeholder partnerships involving private and public sector organisations.

At their best, these new models can provide greater flexibility and dynamism, while maintaining continued commitment to public service and wellbeing.

This combination of innovation in public enterprise and public/social purpose can make them effective vehicles for improving service outcomes.

<http://www.cipfa.org/policy-and-guidance/publications/a/a-practical-guide-to-alternative-delivery-models-online>

6. Understanding Local Authority Financial Statements, CIPFA, September 2016

This publication updates previous CIPFA guidance designed to make the complex financial statements required for local (including fire) authorities more understandable. The 2016/17 Code includes a revised format that is closer to that used for management reporting during the year. The document describes the changes and identifies opportunities to simplify presentation and make the messages clearer regarding:

- comparison with budgets;
- reserves positions; and
- cash flow.

<http://www.cipfa.org/policy-and-guidance/technical-panels-and-boards/cipfa-lasaac-local-authority-code-board/simplification-and-streamlining-the-presentation-of-local-authority-financial-statements>

7. Annual Regulatory Compliance and Quality Report, Public Sector Audit Appointments Ltd, August 2016

Public Sector Audit Appointments Limited (PSAA) monitors the performance of all its audit firms. The results of their monitoring provide audited bodies and other stakeholders with assurance that auditors within their regime are delivering high-quality audits.

The audit quality and regulatory compliance monitoring for 2015/16 incorporated a range of measurements and checks comprising:

- a review of each firm's latest published annual transparency reports;
- the results of reviewing a sample of each firm's audit quality monitoring reviews of its financial statements, Value for Money (VFM) conclusion and housing benefit (HB COUNT) work;
- an assessment as to whether PSAA could rely on the results of each firm's systems for quality control and monitoring;
- a review of the Financial Reporting Council's (FRC) published reports on the results of its inspection of audits in the private sector;
- the results of the inspection of each firm by the FRC's Audit Quality Review team (AQR) as part of PSAA's commissioned rolling inspection programme of financial statements and VFM work;
- the results of each firm's compliance with 15 key indicators relating to PSAA's Terms of Appointment requirements;
- a review of each firm's systems to ensure they comply with our regulatory and information assurance requirements; and
- a review of each firm's client satisfaction surveys for 2014/15 work.

As in previous years, we are delighted with the positive findings in respect of Mazars (which show Mazars to be rated 'green' along with BDO, DT and EY).

Areas for improvement, common to all firms, detailed in the report include:

- a need for auditors to improve their scepticism in challenging the appropriateness of assumptions in key areas of audit judgment such as impairment testing and property valuation;
- a need for some improvement in the sufficiency and appropriateness of audit procedures being performed on revenue recognition;
- a need to report more thoroughly to audit committees;
- clearly justify and document materiality considerations and not default automatically to the top

- of the materiality range;
- evidence journals selected for testing by audit teams, while improving procedures to ensure the completeness of the population of journals considered for testing;
- better evidence work on asset valuations and ensure actuarial assumptions are appropriately challenged;
- ensure that VFM work covers financial resilience over an appropriate period and that the outcomes from VFM work are reporting in sufficient detail to those charged with governance.

We are already actively considering the recommendations made to further strengthen our audit approach for 2016/17.

Extract from report

Overall performance

5 The firm is meeting our standards for overall audit quality and our regulatory compliance requirements. We calculated the red, amber, green (RAG) indicator for overall audit quality and regulatory compliance using the principles detailed in Appendices 1 and 2. For 2015/16, Mazars' combined audit quality and regulatory compliance rating was green.

Figure 1: 2016 Comparative performance for audit quality and regulatory compliance

BDO	DT	EY	GT	KPMG	Mazars	PwC
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6 The firm has maintained its performance against the regulatory compliance indicators since last year, with all of the 2015/16 indicators scored as green. The firm's overall weighted audit quality score has improved from last year.

7 The satisfaction survey results show that audited bodies are satisfied with the performance of Mazars as their auditor.

The tables below also show a summary of our overall quality ratings for the preceding two years, demonstrating our overall continued excellent performance.

2015

BDO	DT	EY	GT	KPMG	Mazars	PwC
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2014

BDO	DT	EY	GT	KPMG	Mazars	PwC
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<http://www.psa.co.uk/audit-quality/principal-audits/mazars-audit-quality/>

8. Oversight of audit quality: quarterly compliance reports 2016/17, Public Sector Audit Appointments Ltd

The quarter 1 2016/17 monitoring report highlights full compliance with the Regulator's standards for Mazars LLP.

<http://www.psaa.co.uk/audit-quality/principal-audits/mazars-audit-quality/>

9. 2017/18 work programme and scale of fees, Public Sector Audit Appointments Ltd, October 2016

The consultation sets out the work that auditors will undertake at principal local government and police bodies for 2017/18, with the associated scale fees.

There are no changes to the overall work programme for 2017/18. PSAA therefore proposes that scale fees are set at the same level as the fees applicable for 2016/17. These fees reflect the significant reductions made to scale fees since 2012/13. The consultation ends on 12th January 2017.

<http://www.psaa.co.uk/audit-and-certification-fees/201718-work-programme-and-scales-of-fees/>

10. Outline procurement strategy, Public Sector Audit Appointments Ltd, November 2016

As previously reported to the Audit Committee, from 2018/19 onwards, police bodies will be required to appoint their own auditor. A collective procurement option is available via PSAA who published their outline procurement strategy recently as well as details of which bodies have signed-up to date.

<http://www.psaa.co.uk/supporting-the-transition/appointing-person/procurement-strategy/>

04 Contact details

Please let us know if you would like further information on any items in this report.

www.mazars.co.uk

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