

# Annual Audit Letter

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

Year ending 31 March 2020





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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 Office of the Police and Crime Commissioner for Cleveland (and Group) and the Chief Constable for Cleveland (the PCC and Group, and CC) for the year ended 31 March 2020. Although this letter is addressed to the PCC and CC, 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 8 December 2020 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 CC's financial position as at 31 March 2020 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 2019/20.</li></ul>
Other information published alongside the audited financial statements	<p>Our auditor's report included our opinion that:</p> <ul style="list-style-type: none"><li>• the other information in the Annual Governance Statement and 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 issued an 'Adverse' qualification on the Value for Money conclusion in respect of the PCC and CC's arrangements to secure economy, efficiency and effectiveness in the use of resources. This is linked to weaknesses in proper arrangements arising from HMICFRS's report on Cleveland Police which assessed the Force's performance as Inadequate. This is explained more fully in section 3 of this report.</p>
Reporting to the group auditor	<p>In line with group audit instructions, issued by the NAO on 4 November, we reported to the group auditor in line with the requirements applicable to the PCC and Group'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 Group and CC.</p>



## 2. AUDIT OF THE FINANCIAL STATEMENTS

Opinion on the financial statements	Unqualified
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### 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 CC and whether they give a true and fair view of the PCC and Group and CC's financial position as at 31 March 2020 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 CC'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, stated that in our view, the financial statements give a true and fair view of the PCC and Group and CC's financial position as at 31 March 2020 and of its financial performance for the year then ended.

Teesside Pension Fund disclosed a 'material valuation uncertainty' in relation to the valuation of certain types of assets in the notes to its financial statements due to the outbreak of Covid-19 which has had a significant impact on global financial markets. As the PCC and Group and CC's accounts include a share of the Pension Fund assets, and the assets subject to the disclosure are above our materiality level, the PCC and Group and CC disclosed this within the notes to the financial statements in relation to sources of estimation uncertainty. We included an 'emphasis of matter' paragraph in our audit report to draw attention to this disclosure but this is not a qualification and does not modify our proposed unqualified opinion on the financial statements.

The PCC and Group's valuer followed guidance issued by the Royal Institute of Chartered Surveyors and their valuation report disclosed a "material valuation uncertainty" in relation to the valuation of the Authority's land and buildings. As noted above, we included a reference to this disclosure as an 'emphasis of matter' in our audit report. It is not a qualification and does not modify our proposed unqualified opinion on the financial statements.

There are no other matters to bring to your attention.



## 2. AUDIT OF THE FINANCIAL STATEMENTS

### 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 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 financial statements for the year ended 31 March 2020:

Financial statement materiality	Our financial statement materiality is based on 2% of Gross Operating Expenditure	£4.223 million (Group) £3.002 million (PCC) £3,877 million (CC)
Trivial threshold	Our trivial threshold is based on 3% of financial statement materiality.	£127,000 (Group) £90,000 (PCC) £116,000 (CC)
Specific materiality	We have applied a lower level of materiality to the following areas of the accounts: - Senior officer remunerations - Exit packages	£100,000 £100,000

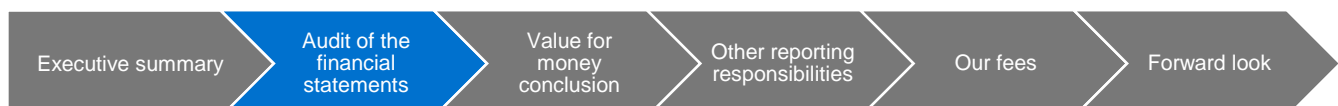


## 2. AUDIT OF THE FINANCIAL STATEMENTS

### 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 CC's financial statements that required special audit consideration. We reported significant risks identified at the planning stage to the 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
<b>Management override of controls</b> In all entities, 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. Because of the unpredictable way in which such override could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk 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 have not identified any material issues to bring to your attention.
<b>Property, Plant and Equipment Valuation</b> The financial statements contain material entries on the Balance Sheet as well as material disclosure notes in relation to the PCC and Group's holding of PPE. Although the PCC and Group uses a 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 in providing revaluations. We have therefore identified the valuation of PPE to be an area of significant risk.	<ul style="list-style-type: none"><li>We liaised with management to update our understanding on the approach taken in its valuation of land and buildings;</li><li>We considered the methodology used by the valuer as well as their competence, skills and experience; and</li><li>We considered evidence of valuation trends to assess the reasonableness of the valuations; and</li><li>We also considered the impact of COVID-19 on the valuations to gain additional assurance on their reasonableness.</li></ul>	<p>Page 3 sets out the issue relating to the 'material valuation uncertainty' due to the outbreak of Covid-19.</p> <p>We have not identified any other material issues to bring to your attention.</p>





## 2. AUDIT OF THE FINANCIAL STATEMENTS

### Our response to significant risks (continued)

Identified significant risk	Our response	Our findings and conclusions
<p><b>Defined benefits liability valuation</b></p> <p>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. In 2019/20, the local government pension assets and liabilities are subject to triennial revaluation.</p>	<p>We addressed this risk by undertaking the following procedures:</p> <ul style="list-style-type: none"> <li>• We discussed with key contacts any significant changes to the pension estimates;</li> <li>• We evaluated the management controls in place to assess the reasonableness of the figures provided by the actuaries;</li> <li>• We considered the reasonableness of each actuary's output, referring to an expert's report on all actuaries nationally; and</li> <li>• We sought assurances from the auditor of Teesside Pension Fund.</li> </ul>	<p>Page 3 sets out the issue relating to the 'material valuation uncertainty' relating to the valuation of certain types of assets within the Teesside Pension Fund due to the outbreak of Covid-19 which has had a significant impact on global financial markets.</p> <p>We have not identified any other material issues to bring to your attention.</p>



## 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 did not identify any deficiencies in internal control as part of our audit.





### 3. VALUE FOR MONEY CONCLUSION

Value for money conclusion	Qualified
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#### Our audit approach

We are required to consider whether the PCC and CC 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 CC 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; and
- working with partners and other third parties.

It is important to clarify that the arrangements we considered in reaching this year's conclusion are those in place for the 2019/20 financial year ending on 31 March 2020.

#### Overall Value for Money conclusion

In seeking to satisfy ourselves that the PCC and CC have made proper arrangements for securing economy, efficiency and effectiveness in its use of resources, we have considered reports issued by other regulators.

In September 2019, Her Majesty's Inspectorate for Constabulary and Fire and Rescue Services (HMICFRS) issued their latest Police Efficiency, Effectiveness and Legitimacy (PEEL) assessment in relation to Cleveland Police. The overall assessment from HMICFRS was that Cleveland Police's performance was inadequate and had declined considerably since the last assessment. Key causes of concern were identified as prioritising crime prevention, protecting vulnerable people, understanding demand and strategic planning, community engagement, ethical behaviour and treatment of the workforce. As a result of the assessment, Cleveland Police have been placed into HMICFRS's national oversight process.

The CC has produced a 'Road to Improvement Plan' to address the findings from the HMICFRS Report, and actions have been prioritised to address the most pressing areas of concern first. However, the significance of the issues identified means that it will take time to secure the improvements needed, embed them into the normal ways of working within Cleveland Police and ensure that the changes are sustainable.

The findings of HMICFRS's reports relate to Cleveland Police Force, and are relevant to our consideration of the arrangements to achieve economy, efficiency and effectiveness of the CC. However, as it is a key role of the PCC to oversee the work of the CC and hold the CC to account for Cleveland Police's performance, these matters are equally applicable to our conclusion in relation to the PCC.



### 3. VALUE FOR MONEY CONCLUSION

In our view, there are structures, procedures, policies and arrangements in place across all of the areas of our assessment, but the HMICFRS findings call into question the overall adequacy and effectiveness of these arrangements. One positive finding of HMICFRS was that “financial management is good”; this is an area of particular focus in our audit, and this view is consistent with our own. However, as the reported inadequacies are wide ranging and cut across many aspects of the criteria for the Value for Money conclusion, these matters are evidence of weaknesses in proper arrangements for taking informed decisions, securing sustainable resource deployment in planning finances effectively to support the sustainable delivery of strategic priorities, and working with partners and other third parties. Consequently, we are issuing an ‘Adverse’ qualification of the Value for Money conclusion.

In accordance with the NAO guidance:

- 73. *In this scenario, the auditor concludes that the weaknesses in arrangements that they have identified are either so significant in terms of their impact, or so numerous in terms of the number of different aspects of proper arrangements affected, that they are unable to satisfy themselves that the body has proper arrangements in place to secure VFM.*

*Extract from page 21 of the NAO publication AGN03, Auditors’ Work on the VFM Arrangements, issued on 16 April 2020*

Our auditor’s reports for the PCC and CC set out the wording of our ‘Adverse’ qualification of the Value for Money conclusion for the 2019/20 financial year.

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. Decisions of the Chief Constable are scrutinised by the PCC and meetings are published on the PCC’s website.</p> <p>The PCC and Chief Constable both maintain corporate risk registers along with operational risk registers. Corporate risks are 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.</p> <p>The PCC receives and scrutinises financial and performance information from the Chief Finance Officer for the PCC and also the Chief Constable and this is also reported to the Police and Crime Panel. This includes regular budget monitoring throughout the year.</p> <p>There are arrangements in place across the criteria. However, when we considered the aspects of proper arrangements specified in the NAO guidance alongside the assessment of Inadequate in the HMICFRS PEEL inspection report published in September 2019, we were unable to conclude that, in all significant respects, proper arrangements were in place.</p>	No



### 3. VALUE FOR MONEY CONCLUSION

Sub-criteria	Commentary	Arrangements in place?
Sustainable resource deployment	<p>Overall the PCC and Group delivered an underspend of £1.487m in 2019/20 which included a £512k overspend by the Chief Constable. Usable reserves have reduced by £1.2m to £16.4m including general fund balances of £5m, earmarked reserves of £9.2m and unapplied capital grants of £2m.</p> <p>There is a four year Long Term Financial Plan (LTFP) and capital plan in place up to 2023/24. 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 both the Force Executive and the Police and Crime Commissioner as part of his overall scrutiny of the Chief Constable.</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> <p>There are arrangements in place across the criteria. However, when we considered the aspects of proper arrangements specified in the NAO guidance alongside the assessment of Inadequate in the HMICFRS PEEL inspection report published in September 2019, we were unable to conclude that, in all significant respects, proper arrangements were in place.</p>	No



### 3. VALUE FOR MONEY CONCLUSION

Sub-criteria	Commentary	Arrangements in place?
Working with partners and other third parties	<p>Working with partners continues to be developed through the use of collaborative arrangements.</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 main commissioning is by 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, and youth offending boards.</p> <p>There are arrangements in place across the criteria. However, when we considered the aspects of proper arrangements specified in the NAO guidance alongside the assessment of Inadequate in the HMICFRS PEEL inspection report published in September 2019, we were unable to conclude that, in all significant respects, proper arrangements were in place.</p>	No



### 3. VALUE FOR MONEY CONCLUSION

#### Significant audit risks

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

Risk	Work undertaken	Conclusion
<p><b>HMICFRS Inspection of Cleveland Police's performance as Inadequate</b></p> <p>The Force is subject to an extensive inspection regime by Her Majesty's Inspectorate of Constabulary and Fire &amp; Rescue Services (HMICFRS). The most recent report for 2018/19 was published in September 2019 with an overall assessment that Cleveland Police's performance is inadequate and has declined considerably since its last inspection. The Force has therefore been placed into their national oversight process.</p> <p>Delivery of the Service Improvement Plan will be governed via a monthly Service Improvement Board, chaired by the 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.</p> <p>The CC and PCC have recognised this as a significant governance issue in their respective Annual Governance Statements and the PCC has expressed concern over the extent to which they can place reliance on the information provided by the Force. The PCC has also commented 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.</p>	<p>It is our normal practice to qualify the VFM conclusion in respect of any inspectorate assessments of Inadequate, until the assessment has formally been reported as improved beyond this level.</p> <p>We would not seek to duplicate the work of the inspectorate, as HMICFRS have the expertise in operational policing and lead on the matters covered in their report.</p> <p>We have reviewed the response and progress of Cleveland Police since the publication of the HMICFRS report.</p>	<p>The overall summary of the HMICFRS findings are set out below:</p> <p><b>EFFECTIVENESS – INADEQUATE</b> Comprises:</p> <ul style="list-style-type: none"> <li>Preventing crime and tackling anti-social behaviour – Inadequate</li> <li>Investigating crime – Requires Improvement</li> <li>Protecting vulnerable people – Inadequate</li> <li>Tackling serious and organised crime – Good</li> </ul> <p><b>EFFICIENCY – INADEQUATE</b> Comprises:</p> <ul style="list-style-type: none"> <li>Meeting current demands and using resources – Inadequate</li> <li>Planning for the future – Inadequate</li> </ul> <p><b>LEGITIMACY – INADEQUATE</b> Comprises:</p> <ul style="list-style-type: none"> <li>Fair treatment of the public – Inadequate</li> <li>Ethical and lawful workforce behaviour – Inadequate</li> <li>Fair treatment of the workforce – Inadequate</li> </ul> <p>The HMICFRS overall conclusion was that <i>"Cleveland Police's performance is inadequate and has declined considerably since our last inspection"</i>.</p> <p>Although we recognise that the CC has started to address many of these concerns, it will take time to secure the improvements needed, embed them into the normal ways of working within Cleveland Police and ensure that the changes are sustainable. Consequently, an 'Adverse' qualification of the Value of Money conclusion is appropriate.</p>



### 3. VALUE FOR MONEY CONCLUSION

During March 2020, the significant impact of the COVID-19 pandemic began to have far reaching implications for us all, including an impact on the PCC and Group and CC. In particular, following the lockdown from 26 March 2020, the service needed to respond to the impact of the pandemic on its communities and also needed to adapt to new ways of working.

Our 2019/20 value for money conclusion is focused on the arrangements in place during the 2019/20 financial year. Given the timing of the major impact of the pandemic one week before the end of the financial year, we did not identify an additional significant risk relating to the COVID-19 pandemic in our 2019/20 value for money conclusion work.

The PCC and Group and CC's response to the pandemic will be a major focus of our 2020/21 audit. With this in mind, we have continued to liaise with officers and gain an understanding of the arrangements that have been put in place in the new financial year.



## 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 PCC and Group and CC'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 statutory recommendations that must be considered and responded to publicly;
- apply to the court for a declaration that an item of account is contrary to law; and
- issue an advisory notice under schedule 8 of the 2014 Act.

We have not exercised any of these statutory reporting powers.

The 2014 Act also gives rights to local electors and other parties, such as the right to ask questions of the auditor and the right to make an objection to an item of account. We did not receive any such objections or questions.

### 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 8 December 2020.

### Other information published alongside the financial statements

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





## 5. OUR FEES

### Fees for work as the PCC and Group and CC's auditor

We reported our proposed fees for the delivery of our work in the Audit Strategy Memorandum, presented to the Joint Independent Audit Committee in February 2020. This was based on the scale fee set by Public Sector Audit Appointments Limited. As noted throughout the year, we highlighted that there would be additional recurring audit fees as a result of increased regulatory pressures and requirements. We also mentioned that we would review the final position on fees when the audit was concluded.

Following completion of the audit, we have revisited the fees for 2019/20. In addition to the increase in the base audit fee, there have been some one-off increases in the audit fee for the 2019/20 audit year, and mainly relate to audit issues arising from the Covid-19 pandemic and other matters.

Any variations to the final fee will also require the approval of Public Sector Audit Appointments Limited, which manages the contracts for our work.

### PCC and Group fees

Area of work	2019/20 proposed fee / PSAA scale fee (£)	2019/20 final fee (£)
Delivery of audit work under the NAO Code of Audit Practice	26,045	26,045
Recurring increases in the base audit fee arising from regulatory pressures		5,242
One-off fee increases for 2019/20 specific issues		2,724
<b>Total Audit Fees</b>	<b>26,045</b>	<b>34,011</b>

All fees are subject to VAT

### Analysis of Recurring increases in the base audit fee arising from regulatory pressures

Audit area for recurring additional work	Final fee 2019/20
Additional work on PPE and related valuations	£1,835
Additional work on pensions	£1,573
Additional work on review of journals	£1,048
Additional work in relation to the consideration of going concern	£786
<b>Total additional fee for 2019/20 (recurring in future years)</b>	<b>£5,242</b>



## 5. OUR FEES

### Analysis of One-off fee increases for 2019/20 specific issues

Additional work relating to the 2019/20 audit	Final fee 2019/20
Additional procedures in relation to issuing an 'Adverse' VFM conclusion, including clarification of report wording and VFM moderation procedures including Consultant Partner Review	£1,185
Additional procedures to review the potential impact of the proposed remedy in the McCloud case against the pension liability disclosures, and consideration of the potential impact of the Goodwin case on pension liabilities	£513
Additional procedures in relation to Material Valuation Uncertainty of the PCC's property assets, including disclosures and the inclusion of an Emphasis of Matter paragraph in the audit report, which was subject to Consultant Partner Review	£513
Additional procedures in relation to Material Valuation Uncertainty of the Pension Fund's property assets, including disclosures and the inclusion of an Emphasis of Matter paragraph in the audit report, which was subject to Consultant Partner Review	£513
<b>Total additional fee for 2019/20 (not recurring)</b>	<b>£2,724</b>

### CC fees

Area of work	2019/20 proposed fee / PSAA scale fee (£)	2019/20 final fee (£)
Delivery of audit work under the NAO Code of Audit Practice	11,550	11,550
Recurring increases in the base audit fee arising from regulatory pressures		2,360
One-off fee increases for 2019/20 specific issues		2,254
<b>Total Audit Fees</b>	<b>11,550</b>	<b>16,164</b>

All fees are subject to VAT



## 5. OUR FEES

### Analysis of Recurring increases in the base audit fee arising from regulatory pressures

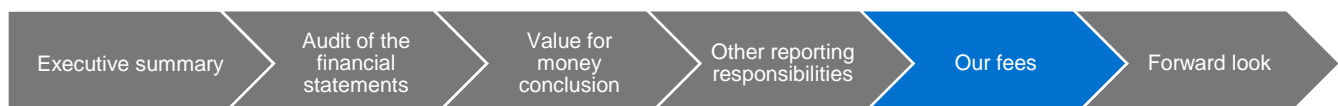
Audit area for recurring additional work	Final fee 2019/20
Additional work on pensions	£1,416
Additional work on review of journals	£590
Additional work in relation to the consideration of going concern	£354
<b>Total additional fee for 2019/20 (recurring in future years)</b>	<b>£2,360</b>

### Analysis of One-off fee increases for 2019/20 specific issues

Additional work relating to the 2019/20 audit	Final fee 2019/20
Additional procedures in relation to issuing an 'Adverse' VFM conclusion, including clarification of report wording and VFM moderation procedures including Consultant Partner Review	£1,185
Additional procedures in relation to Material Valuation Uncertainty of the Pension Fund's property assets, including disclosures and the inclusion of an Emphasis of Matter paragraph in the audit report, which was subject to Consultant Partner Review	£556
Additional procedures to review the potential impact of the proposed remedy in the McCloud case against the pension liability disclosures, and consideration of the potential impact of the Goodwin case on pension liabilities	£513
<b>Total additional fee for 2019/20 (not recurring)</b>	<b>£2,254</b>

### Fees for other work

Mazars LLP have been appointed to provide a Making Tax Digital software platform available for submitting VAT returns. The annual fee for this is £600 plus VAT. This is dealt with by the firm's tax team, which is entirely separate from the audit team.



## 6. FORWARD LOOK

### Financial outlook

Overall the PCC and Group delivered an underspend of £1.487m in 2019/20 which included a £512k overspend by the Chief Constable. Usable reserves have reduced by £1.2m to £16.4m including general fund balances of £5m, earmarked reserves of £9.2m and unapplied capital grants of £2m.

There is a four year Long Term Financial Plan (LTFP) and capital plan in place up to 2023/24. 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 both the Force Executive and the Police and Crime Commissioner as part of his overall scrutiny of the Chief Constable.

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. This will be especially important in these uncertain times.

### Operational challenges

The HMICFRS overall conclusion was that *“Cleveland Police’s performance is inadequate and has declined considerably since our last inspection”*.

Although we recognise that the CC has started to address many of these concerns, it will take time to secure the improvements needed, embed them into the normal ways of working within Cleveland Police and ensure that the changes are sustainable.

### How we will work with the PCC and Group and CC

Our 2020/21 audit will focus on the risks that the challenges noted above present to the PCC and Group and CC’s financial statements and ability to maintain proper arrangements for securing value for money. We have commented on the changes to the Value for Money requirements in the new Code of Audit Practice in the next section.

We will continue to support the PCC and Group and CC through our audit work and through our attendance at Joint Independent Audit Committee where we will inform the Committee about our progress on the audit, report our key findings and share our insight on any changes we are aware about in the sector. We will continue to offer accounting workshops to finance officers, and the audit team will continue to work with officers to share our knowledge of new accounting developments and we will be on hand to discuss any issues as and when they arise.



## 6. FORWARD LOOK

### Changes to the Code of Audit Practice

The Code of Audit Practice (the Audit Code), issued by the Comptroller and Auditor General, prescribes the way we carry out our responsibilities as your auditors. On 1<sup>st</sup> April 2020 a new Code came in to force and will apply to our work from 2020/21 onwards.

The new Audit Code continues to apply the requirements of International Standards on Auditing (ISAs) to our audit of the financial statements. While there are changes to the ISAs that are effective from 2020/21 the Audit Code has not introduced any changes to the scope of our audit of the financial statements. We will continue to give our opinion on the financial statements in our independent auditor's report.

There are however significant changes to the work on value for money arrangements, and the way we report the outcomes of our work to you.

#### The auditor's work on value for money arrangements

From 2020/21 we are still required to satisfy ourselves that you have made proper arrangements for securing the economy, efficiency and effectiveness in your use of resources, however unlike under the 2015 Audit Code, we will no longer report in the form of a conclusion on arrangements. Instead, where our work identifies significant weaknesses in arrangements, we are required to report those weaknesses to you, along with the actions that need to be taken to address those weaknesses.

Our work on value for money arrangements will focus on three criteria, specified in the revised Audit Code:

- Financial sustainability: how the body plans and manages its resources to ensure it can continue to deliver its services;
- Governance: how the body ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness: how the body uses information about its costs and performance to improve the way it manages and delivers its services.

Under the new Audit Code we will be expected to report and make recommendations as soon as we identify a significant weakness in arrangements, as opposed to reporting our conclusion on arrangements at the end of the audit cycle as has previously been the case.

#### Reporting the results of the auditor's work

We currently issue you with an Annual Audit Letter which provides a summary of our work across all aspects of our audit. From 2020/21 the Annual Audit Letter will be replaced by the Auditor's Annual Report. This will continue to provide a summary of our work over the year of audit but will also include a detailed commentary on your arrangements in place to achieve economy, efficiency and effectiveness. This commentary replaces the conclusion on arrangements that was previously provided and will include details of any significant weakness identified and reported to you, follow up of any previous recommendations made, and the our view as to whether recommendations have been implemented satisfactorily.

The guidance supporting the new Audit Code is being developed by the National Audit Office and we will provide you with any further updates to our approach arising from this guidance when it is released.



## 6. FORWARD LOOK

### Redmond Review

In September 2020, Sir Tony Redmond published the findings of his independent review into the oversight of local audit and the transparency of local authority financial reporting. The report makes several recommendations that, if implemented, could affect both the financial statements that local authorities are required to prepare and the work that we as auditors are required to do.

The report and recommendations are wide-ranging, and includes:

- the creation of the Office of Local Audit and Regulation (OLAR), be created to manage, oversee and regulate local audit;
- reviewing reporting deadlines;
- reviewing governance arrangements in local authorities, including the membership of the Audit Committee; and
- increasing transparency and reducing the complexity of local authority financial statements.

The recommendations and findings will now be considered by the Ministry of Housing, Communities and Local Government and we look forward to working with all stakeholders to implement changes to ensure the development and sustainability of local audit.

The full report is available here: [https://www.gov.uk/government/publications/local-PCC\\_and\\_Group\\_and\\_CC-financial-reporting-and-external-audit-independent-review](https://www.gov.uk/government/publications/local-PCC_and_Group_and_CC-financial-reporting-and-external-audit-independent-review)



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