

# Annual Audit Letter

Chief Constable for Cleveland



For the year ended 31 March 2017



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# Executive summary

## Purpose of this report

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 2017. 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 individual 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 work	Summary
Financial statements opinion	On 21 September 2017 we issued our opinion that the financial statements gave a true and fair view of the Chief Constable's financial position as at 31 March 2017 and of its financial performance for the year then ended.
Opinions on other matters	On 21 September 2017 we issued our opinion that the Narrative Report published with the financial statements, was consistent with the financial statements.
Value for Money conclusion	On 21 September 2017 we issued our conclusion that the Chief Constable had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources.
Whole of Government Accounts	On 21 September 2017, we completed our work on your whole of government accounts in line with the instructions issued by the National Audit Office (NAO). There were no matters arising.
Matters that we report by exception	<p>We did not identify any matters to report in relation to:</p> <ul style="list-style-type: none"><li>• whether the Annual Governance Statement was in line with our understanding of the Chief Constable and the requirements of the Delivering Good Governance in Local Government Framework 2016;</li><li>• reports in the public interest or written recommendations made under s24 of the 2014 Act;</li><li>• exercise of other powers under the 2014 Act.</li></ul>

As we have discharged all of our responsibilities under the 2014 Act for the 2016/17 audit, we certified completion of the audit on 21 September 2017.

# Audit of the financial statements

## Financial statements opinion

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 2017 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 for the UK and Ireland (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 Audit and Risk Committee as 'those charged with governance'. 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 2017:

Financial statement materiality	£2.605 million
Specific materiality	We applied a lower level of materiality to the following items of account: <ul style="list-style-type: none"><li>• Senior officer remunerations £5,000.</li><li>• Exit packages £5,000.</li></ul>
Trivial threshold	£78,000

### 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 (as those charged with governance) 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.

Significant risk	How we addressed the risk	Audit conclusion
<p><b>Management override of control</b></p> <p>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. Due to the unpredictable way in which such overrides could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits.</p>	<p>Our testing strategy included the following:</p> <ul style="list-style-type: none"> <li>• review of material accounting estimates which may be subject to management bias included in the financial statements;</li> <li>• consideration and review of unusual or significant transactions outside the normal course of business; and</li> <li>• testing of journal entries recorded in the general ledger and other adjustments made in preparation of the financial statements.</li> </ul>	<p>Our work provided us with the assurance we sought and did not highlight any material issues to bring to your attention.</p>
<p><b>Pension Estimates for IAS 19 disclosures</b></p> <p>The financial statements contain material pension entries in respect of the 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.</p>	<p>We addressed this risk by discussing with key contacts any significant changes to the pension estimates prior to the preparation of the financial statements. In addition to our standard programme of work in this area, we also completed the following:</p> <ul style="list-style-type: none"> <li>• evaluating the management controls you have in place to assess the reasonableness of the figures provided by the Actuary; and</li> <li>• considering the reasonableness of the Actuary's output, referring to an expert's report on all actuaries nationally which is commissioned annually by NAO.</li> </ul>	<p>Our work provided us with the assurance we sought and did highlight any material issues to bring to your attention.</p>

### Internal control

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 significant weaknesses in internal control in 2016/17 and there were no issues raised in previous years to follow up.

# Value for Money conclusion

Value for Money conclusion

Unqualified

## Summary of our work

We are required to form a conclusion as to whether the Chief Constable 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.

The following table provides commentary of our findings in respect of each of the sub-criteria and an indication as to whether proper arrangements are in place.

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. Decisions and performance of the Chief Constable are scrutinised by the PCC and scrutiny meetings are published on the PCC's website.</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 Police and Crime Plan is aligned to the Long Term Financial Plan which is regularly updated and includes the budget that is delegated to the Chief Constable.</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</p>	Yes

	<p>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 HMIC inspection activity: organisational effectiveness; organisational efficiency; leadership &amp; people, and legitimacy &amp; integrity.</p> <p>The Force maintains Strategic and Corporate Risk Registers along with operational risk registers for each service unit. Risk management updates are presented to the Joint Independent Audit Committee on a six monthly basis. Strategic risks are reviewed on a quarterly basis at the Risk, Audit &amp; Inspection Monitoring Board (RAIMB). A comprehensive 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 Joint Audit Committee reviews the Code of Corporate and the Annual Governance Statement.</p>	
Sustainable resource deployment	<p>The force has agreed a balanced Long Term Financial Plan (LTFP) and sustainable scalable policing model over the next four years which is linked to the Police and Crime Plan. The financial balance is dependent upon the delivery of a programme of reviews and cost reduction initiatives. Budgets are monitored monthly and reported to the PCC and also the Police and Crime Panel.</p> <p>The LTFP is built on a service model that can effectively respond to threat, harm and risk and bring about safer and stronger communities. 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 Chief Constable has a plan in place for the recruitment and retention of officers who are key to the delivery of the Police and Crime Plan.</p> <p>The strategic priorities of the PCC are detailed in the Police and Crime Plan. The Police and Crime Plan is linked to the LTFP and hence ensures that there are sufficient financial resources for the delivery of the Plan. The HMIC report notes that the force has made a good start in developing its capability to predict likely future demand, and has an innovative resource and service modelling capability. In addition, the force has developed a comprehensive policing plan, 'Towards 2020', which sets out its strategic intent in relation to planning service provision and reshaping services along with partner organisations to make them more efficient and effective.</p>	Yes
Working with partners and other third parties	<p>Working with third parties continues to be developed through the use of collaborative arrangements. The PCC and Chief Constable have a collaborative agreement with North Yorkshire and Durham for the Evolve Programme where there has been the introduction of an integrated dogs unit for the three Forces.</p> <p>Cleveland Police and Durham Constabulary have an established Specialist Operations Unit incorporating: armed response; road policing; collision investigation; motorcycles; camera enforcement and traffic management. They also work closely on their public order teams,</p>	Yes

	<p>training, and chemical, biological, radioactive and nuclear (CBRN) capacity. During the year, the Force entered into a collaborated Major Investigation Team with North Yorkshire Police, significantly increasing the level of resources available to tackle some of the most complex and serious incidents.</p> <p>Cleveland Police is part of the North East Regional Special Operations Unit which provides additional specialist capacity to deliver an increased response to tackling serious organised crime that transcends force borders.</p> <p>The Force is also part of a national collaboration for the provision of air support, the National Police Air Service.</p> <p>All collaborative arrangements are subject to Section 22 agreements and are formally approved by the PCC once operationally agreed by the Chief Constable. All arrangements are linked to the strategic objectives in the Police and Crime Plan. Collaboration arrangements with other Police and Crime Commissioners and Chief Constables are being actively pursued as are arrangements with other emergency service providers.</p> <p>The main commissioning of services by the Chief Constable has been the outsourcing of the back office services to Steria in 2010. The contract was reviewed in 2015/16 with significant savings achieved. The contract is monitored monthly and key performance indicators are measured. The Chief Constable ensures that the commissioning offers value for money and supports strategic priorities and scrutinises commissioning on an individual project basis.</p> <p>Procuring supplies and services is regulated by the Code of Corporate Governance.</p> <p>The HMIC report notes that the force is managing its resources well and collaborates with other blue light services, local authorities and private sector firms. The force has reviewed its contracts with private sector providers in the context of a changing financial position. For example, in 2016/17, there has been the re-tendering of custody services with additional savings made.</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>	
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### **Significant Value for Money risks**

The NAO's guidance requires us to carry out work to identify whether or not a risk to the Value for Money conclusion exists. Risk, in the context of our 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. We did not identify any significant Value for Money audit risks.

### **Our overall Value for Money conclusion**

Following completion of our work, we issued an unqualified Value for Money conclusion for the 2016/17 financial year.



# Other reporting responsibilities

<b>Exercise of statutory reporting powers</b>	<b>No matters to report</b>
<b>Annual Governance Statement</b>	<b>No matters to report</b>
<b>Other information published alongside the financial statements</b>	<b>Consistent</b>

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 reporting powers where matters come to our attention that require reporting to parties other than the Chief Constable. We have the power to:

- report in the public interest; and
- make statutory recommendations to the Chief Constable, which must be responded to publicly.

In addition we must respond to any objections or questions on items contained within the accounts raised by a local government elector. We did not receive any such objections or questions.

We are also required to report if, in our opinion, the Annual Governance Statement does not comply with the guidance issued by CIPFA in 'Delivering Good Governance in Local Government; Framework 2016' or is inconsistent with our knowledge and understanding of the Chief Constable. We did not exercise any of our reporting powers during our 2016/17 audit and had no matters to report to the Chief Constable in relation to the Annual Governance Statement.

## **Reporting to the NAO in respect of Whole of Government Accounts**

In line with instructions issued by the National Audit Office (NAO), we reported that your activity was below the threshold set by the NAO, meaning we were not required to review the WGA return.

## **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 information in the Narrative Report is consistent with the audited financial statements.

# Our fees

## **Fees for work as the Chief Constable's appointed auditor**

We reported our proposed fees for the delivery of our work in the Audit Strategy Memorandum, presented to the Audit and Risk Committee in February 2017.

Having completed our work for the 2016/17 financial year, we can confirm that our final fees are as follows:

Area of work	2016/17 proposed fee	2016/17 final fee
Code audit work	£15,000	£15,000

We confirm that these fees are in line with the scale fee set by Public Sector Audit Appointments Ltd.

We have not undertaken any non-audit services for the Chief Constable in 2016/17.

# Future challenges

## **Financial outlook**

Following CSR 2015 and the 'protection' of police service funding, the Force has worked with the Police and Crime Commissioner to agree a level of funding that will sustain the 'Towards 2020' operating model over the lifetime of the plan. However, it should be noted that the police settlement was for one year only pending introduction of a new funding allocation formula. Based on the current position, the Force has agreed a balanced Long Term Financial Plan (LTFP) and a sustainable scalable policing model for the next four years up to 2020/21. This approach is consistent with the stated policy of maintaining financial stability and protecting service provision. Although the financial pressures have eased, the Force will continue to operate in a challenging fiscal climate and there is a need to deliver savings plans for future years. Cost reductions of £3 million have been identified over the Long Term Financial plan including:

- A series of rapid improvement, 'deep dive' reviews;
- Rationalisation of management structures;
- Workforce modernisation;
- Cessation of fixed term contracts;
- Targeted reduction along non-pay lines;
- Delivery of the estates blueprint; and
- Fleet management

The achievement of these cost reductions is required to ensure the continued development of new initiatives, for example, managing future changes in demand, increasing collaborative networking for specialisation capabilities and increasing the effectiveness of local collaboration to strengthen disadvantaged communities.

## **Other challenges**

The Chief Constable's annual governance statement also highlighted the following as areas of focus in future years:

- review of the Professional Standards Department;
- delivering the 'Everyone Matters Equality Diversity and Human Rights Strategy 2017 – 2020'; and
- improving data integrity

## **How we will work with the Chief Constable**

We are grateful to the Chief Constable, the Joint Audit Committee and officers for the cooperation and open dialogue during the year and look forward to continuing to work closely with them in delivering our Code of Audit Practice responsibilities.

# Contact details

Should you require any further information, please do not hesitate to contact us.

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