

Annual Audit Letter

Office of the Police and Crime Commissioner 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 Office of the Police and Crime Commissioner for Cleveland (the PCC) for the year ended 31 March 2017. Although this letter is addressed to the PCC, 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 PCC and the Group'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 PCC 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	We did not identify any matters to report in relation to: <ul style="list-style-type: none">• whether the Annual Governance Statement was in line with our understanding of the PCC and the requirements of the Delivering Good Governance in Local Government Framework 2016;• reports in the public interest or written recommendations made under s24 of the 2014 Act;• exercise of other powers under the 2014 Act.

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 PCC and whether they give a true and fair view of the PCC'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 PCC'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 (Group and PCC)	£2.794 million for the Group and £2.658 million for the PCC.
Specific materiality (Group and PCC)	We applied a lower level of materiality to the following items of account: <ul style="list-style-type: none">• Senior officer remunerations £5,000 (Group and PCC).• Exit packages £5,000 (Group and PCC).
Trivial threshold (Group and PCC)	£84,000 for the Group and £80,000 for the PCC

Our response to significant risks

As part of our continuous planning procedures we considered whether there were risks of material misstatement in the PCC's financial statements that required special audit consideration. We reported significant risks identified at the planning stage to the PCC (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>Management override of control</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"> • review of material accounting estimates which may be subject to management bias included in the financial statements; • consideration and review of unusual or significant transactions outside the normal course of business; and • testing of journal entries recorded in the general ledger and other adjustments made in preparation of the financial statements. 	<p>We reviewed key areas of management judgement including estimation techniques and concluded that, taking account of materiality, the judgements were reasonable and there was no evidence of unfair bias.</p> <p>We tested journal entries recorded in the general ledger and other adjustments made in preparing the financial statements and identified no inappropriate transactions. We found no significant transactions that we considered outside the normal course of your activities.</p> <p>Our work provided us with the assurance we sought and did not highlight any material issues to bring to your attention.</p>
<p>Revenue recognition</p> <p>There is a risk of fraud in financial reporting relating to revenue recognition due to the potential to inappropriately record income in the wrong period. This does not imply we suspect actual fraud, but that we will approach our audit maintaining due professional scepticism.</p>	<p>Our testing strategy included evaluating the design and implementation of controls to mitigate the risk of income being recognised in the wrong period. In addition, we undertook a range of substantive procedures including:</p> <ul style="list-style-type: none"> • testing receipts in March, April and May 2017 to ensure they have been recognised in the right year; • testing material year end receivables; and • testing adjustment journals. 	<p>Our work provided us with the assurance we sought and did not highlight any material issues to bring to your attention.</p>

Significant risk	How we addressed the risk	Audit conclusion
<p>Pension transactions and balances</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 for the PCC and Group. In addition to our standard programme of work in this area, we also completed the following:</p> <ul style="list-style-type: none"> • evaluating the management controls you have in place to assess the reasonableness of the figures provided by the Actuary; and • considering the reasonableness of the Actuary's output, referring to an expert's report on all actuaries nationally which is commissioned annually by NAO. 	<p>Our work provided us with the assurance we sought and did not 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 PCC 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 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>There is a comprehensive Code of Corporate Governance in place which is consistent with the principles of the CIPFA/SOLACE Framework: Delivering Good Governance in Local Government.</p> <p>Scrutiny of the performance of the Chief Constable is undertaken by the PCC who is scrutinised by the independent Police and Crime Panel. The forward plan of decisions combined with open and transparent information schemes enables the Police and Crime Panel to be properly sighted on the decisions of the PCC.</p> <p>The decision making protocol sets out principles for how decisions will be taken by the PCC and the standards to be adopted. The scheme of governance highlights the parameters for decision making, including consents, financial regulations and standing orders for contracts. It also covers the key roles within the organisation.</p>	Yes

Sub-criteria	Commentary	Arrangements in place?
	<p>The PCC receives and scrutinises financial and performance information from the Chief Finance Officer for the PCC and also the Chief Constable. The information is provided on a regular basis and is also reported to the Police and Crime Panel. The objectives of the PCC are included in the Police and Crime Plan and all monitoring and reporting is measured against these objectives. The Police and Crime Plan sets out the strategic direction and objectives and is aligned to the Long Term Financial Plan which is regularly updated.</p> <p>Budget setting and detailed monitoring ensures delivery of revenue and capital plans. The Police and Crime Plan is updated and published annually following consultation with stake holders. The PCC's communication and engagement strategies set out how local people will be involved with the PCC to ensure they are part of decision making, accountability and future direction.</p> <p>The risk management strategy establishes how risk is embedded throughout the various elements of corporate governance of the organisation. Risks are managed using strategic and operational risk registers and all strategic risks are reported to the Joint Audit Committee.</p> <p>A comprehensive internal audit plan is in place which takes into account the strategic priorities of the PCC and the different sources of assurance. There is appropriate challenge by the Joint Audit Committee over coverage and risk areas. The joint Audit Committee receives regular reports on governance issues and reviews the Code of Corporate Governance. This includes the review of the Annual Governance Statement and update reports on progress made in addressing significant governance issues.</p>	
Sustainable resource deployment	<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. The annual budgets are taken from the LTFP and are monitored monthly and reported to the Police and Crime Panel.</p> <p>There are balanced budgets in place for the next four years. 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 has been produced in liaison with the Chief Constable who is responsible for the policing service which is funded by the Police and Crime Commissioner.</p> <p>A Capital Strategy is in place which reflects the PCC's priorities. All capital schemes are appraised and prioritised to ensure they reflect the key investment requirements in the strategy.</p>	Yes

Sub-criteria	Commentary	Arrangements in place?
Working with partners and other third parties	<p>Working with third parties continues to be developed through the use of collaborative arrangements. The PCC has 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. Other collaborative arrangements include the sharing of the PCC's Chief Finance Officer and the setting up of a Major Crimes Team. The PCC also awards grant and funding to community groups to deliver services in the community. These are all approved by the PCC and 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>Services are commissioned by the PCC but the main commissioning is by the Chief Constable which is scrutinised by the PCC. The PCC ensures that the commissioning offers value for money and supports his strategic priorities and scrutinises commissioning on an individual project basis.</p> <p>The organisation has written procedures for procuring products and services, which are within its Code of Corporate Governance. The code is available to all staff and Members of the public and any varying or waiving of standing orders has to be approved by the PCC and is reported to the Police and Crime Panel. The PCC also take part in any national procurement initiatives where appropriate.</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 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 PCC 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

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

The NAO's Code of Audit Practice and the 2014 Act place wider reporting responsibilities on us, as the PCC'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 PCC. We have the power to:

- report in the public interest; and
- make statutory recommendations to the PCC, 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 PCC. We did not exercise any of our reporting powers during our 2016/17 audit and had no matters to report to the PCC 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 PCC. In our opinion, the information in the Narrative Report is consistent with the audited financial statements.

Our fees

Fees for work as the PCC'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	£33,825	£33,825

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 PCC in 2016/17.

Future challenges

Financial outlook

The Police and Crime Commissioner has established a framework whereby the Long Term Financial Plan (LTFP) will help to ensure the achievement of their priorities and objectives up to 2020/21. These are set out in more detail in the Police and Crime Plan. Without a clearer indication of what is likely to happen to the funding formula there is still some element of uncertainty to the level of grant funding to be received by the PCC from 2018/19. However, the PCC has agreed a balanced LTFP which aims to provide a stable financial platform to support the Force and enable good strategic planning, decision-making and service delivery. However, the LTFP is to a large extent dependent upon the Force achieving its planned cost reductions and savings.

Other challenges

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

- Overview of the Force's review of Professional Standards;
- Review of counter-fraud and anti-corruption arrangements;
- Review of Communications and Engagement Strategy;
- Agreement of a complaints protocol;
- Developing a framework for commissioning and grant awards; and
- Personal and capability development for PCC staff.

How we will work with the PCC

We are grateful to the PCC, 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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