24th May 2018

Mr C Waddell

Director

Mazars LLP

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Durham

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Dear Cameron

Audit of the Cleveland Police Force Financial Statements for the year ended 31 March 2018 - understanding how you gain assurance from management

I write in response to your letter of 16 April 2018 requesting confirmation regarding the matters listed. My comments are as follows:

**Cleveland Police**

**Audit 2017/18 – Understanding management processes and arrangements**

1) **How do you exercise oversight of management's processes in relation to:**

* **Undertaking an assessment of the risk that the financial statements may be materially misstated due to fraud or error (including the nature, extent and frequency of these assessments?);**

The Force has a well-established system of internal control in this regard. This is reviewed annually and reported on in the Annual Governance Statement. Areas for improvement are identified and improvement plans put in place and implemented.

* The financial statements are a product of individual transactions and controls are in place around these transactions
* Financial regulations are in place to ensure proper governance in respect of individual transactions
* There are also schemes of delegation in place for senior officers to ensure good overall governance.
* Contract standing orders and procurement guidance is in place to regulate the purchase of good and services.
* The ‘procurement to payment’ process ensures that items within the financial statements of the Force are valid payments.
* A number of control accounts are reconciled on a monthly basis to ensure integrity of financial reporting.
* Regular budget monitoring reports, including an analytical review, are produced for all budget holders and Corporate Financial Monitoring reports for the Chief Constable/ PCC. These cover both revenue and capital and are underpinned by ‘budget clinics’.
* Internal audit carry out a number of regulatory audits to ensure sound governance is in place and provide the Section 151 Officer and the Joint Audit Committee, an opinion on the adequacy and effectiveness of the organisation’s governance, risk management and key financial control arrangements.

The Risk and Governance Board ensure that risk, audit and inspection issues are considered at a strategic level and that co-ordinated activity is taken in the areas of risk, audit and inspection to ensure that the Force is able to deliver an efficient and effective service to its communities.

The Joint Audit Committee also provides further assurance on the effectiveness of the control framework.

* **Identifying and responding to risks of fraud in the Force, including any specific risks of fraud which management have identified or that have been brought to its attention, or classes of transactions, account balances, or disclosure for which a risk of fraud is likely to exist?;**

The Force has a Counter Fraud and Corruption Policy which contains the Fraud Response Plan.

A number of controls are in place including:

* Budgetary control
* Procurement controls
* Cash management controls and regular audits
* Internal audit reviews
* Professional Standards Department investigations
* The force also participates in the National Fraud Initiative review and responds to any issues raised.
* **Communicating to employees its view on business practice and ethical behavior (e.g. by updating, communicating and monitoring against the code of conduct?);**

There are codes of practice for Police Officers and Police Staff. Police Staff within professional bodies must also adhere to their professional code of practice.

The Force has signed up to the national Code of Ethics for Policing.

The embedding of an ethical approach is led by the Chief Constable, the force has both an internal and external ethics committee the former is currently led by the Deputy Chief Constable.

The Force’s approach to Ethical Policing has been communicated to all supervisors (sergeants and above) in face to face briefing sessions. HMIC indicated strong support in their 2016 inspections as to the ethical practice and approaches across the organization.

The Transforming Professional Standards programme was established to undertake a formal review of the Professional Standards Department. One of the overarching principles of this work was to have constructive and positive stakeholder engagement, by maintaining and enhancing relationships with stakeholders, especially those who have least confidence in the police complaints and misconduct system; and a willingness to respond to constructive commentary and to influence improvements in policing standards. In developing the newly created Directorate of Standards and Ethics, the review team engaged widely with internal and external stakeholders, including national bodies and representatives from other public sector organisations to identify and develop good practice. To support this work an External Reference Group was established to provide external critique, challenge and support to the transformational process. Group members are drawn from independent external bodies as well as internal staff. The Transforming Professional Standards programme commenced in January 2017 as a result of a need for Cleveland Police to fundamentally change how it responds to complaints from the public, how it deals with internally raised allegations of misconduct and how it ensures the integrity of its workforce.

* **Communicating to you the processes for identifying and responding to fraud or error?**

Whilst the controls set out above mitigate the risk of fraud, there a number of routes for any member of staff to raise concerns to the Chief Finance Officer, the wider Chief Officer Team or Professional Standards Department including a confidential email system.

* There is a whistle blowing procedure that is used by officers and staff to raise issues which are initially investigated by Professional Standards department. This is called the Reporting Standards and Ethics Concerns and Protected Disclosure Policy**.**
* The force also participates in the National Fraud Initiative review and responds to any issues raised.
* The Fraud Response Plan is contained within the Joint Corporate Governance Framework as part of the Counter Fraud and Corruption Policy.
* The ‘Ask the Exec’ email system

2) **How do you oversee management processes for identifying and responding to the risk of fraud and possible breaches of internal control? Are you aware of any breaches of internal control during 2017-18?**

This is covered in question 1.

There have been no breaches of internal control during 2017-18.

**3) How do you gain assurance that all relevant laws and regulations have been complied with? Are you aware of any instances of non-compliance during 2017-18?**

All relevant laws and regulations are outlined in various procedures across the Force e.g. financial regulations, standing orders, corporate governance framework. It is expected that officers and staff follow these procedural guides and that any deviation from them will be picked up through the normal checks and balances processes which exist. I am not aware of any non-compliance during 2017/18.

4**) Are you aware of any actual or potential litigation or claims that would affect the financial statements?**

The following list of potential litigation has been included in the Statement of Accounts 2017/18 and is the only known areas of litigation that could affect the financial statements.

**Contingent Liabilities**

**Police Pension Scheme 2015 Leigh Day Police Pension Challenge**

The Chief Constable of Cleveland Police along with other Chief Constables and the Home Office, currently has 48 claims lodged against them with the Central London Employment Tribunal.  The claims are in respect of alleged unlawful discrimination arising from the Transitional Provisions in the Police Pension Regulations 2015.

Claims of unlawful discrimination have also been made in relation to the changes to the Judiciary and Firelighters Pension regulations and in 2016/17 these claims were heard in the Employment Tribunal.

In 2017/18 the Judiciary and Firelighter claims were heard in the Appeal Tribunal. Subsequent to this the respondents are appealing against the Appeal Tribunal judgements. In the case of the Firelighters the claimants are also appealing against aspects of the judgement. The outcome of these further appeals may influence the outcome of the Police claims. The Tribunal has agreed to stay the Police hearing and the Home Office has requested that the stay is extended in light of the further appeals. In the event that the Police claims are successful it is unclear what remedy would be applied, whether this would require further legislation and who it would impact.

Given the fact that the Judiciary and Firelighter claims are subject to further appeal and the Police claims are yet to be heard, and the uncertainty regarding remedy and quantum at this point in time it is not possible to provide an estimate of the financial effect in the event that the claims are partially or fully successful. Therefore it has been assessed that the Chief Constable has no liability at the Balance Sheet date.

**Guaranteed Minimum Pension**

Guaranteed Minimum Pension (GMP) is a portion of pension that was accrued by individuals who were contracted out of the State Second Pension prior to 6 April 1997.  At present there is an inequality of benefits between male and female members who have GMP.

Although the Government intends that GMP should be equalised, at present it is not clear how this equalisation will be implemented.  In July 2014 the Government stated an intention to develop fully considered proposals and to publish guidance when this work is completed, but no target date was given.

Until it is known how GMP equalisation will be carried out, the impact of allowing for it on liabilities is uncertain.  As such, the potential increase in benefits is a contingent liability.  No specific allowance has been made in the pension figures disclosed in these accounts.

It is anticipated that the Home Office would fund any liability that may arise should this contingent liability materialise.

5) **Have you carried out a preliminary assessment of the going concern assumption and if so have you identified any events which may cast significant doubt on the Force’s ability to continue as a going concern?**

The going concern assumption is reflected within financial statements. I am content that there is no significant doubt relating to going concern post the December 2017 budget announcement. The Long Term Financial Plan 2018-22 is sustainable and resilient.

The PCC also holds adequate levels of reserves which may be used to assist the Force in terms of service delivery.

The assumptions underpinning the construction of the budget and LTFP are reviewed by the Chief Finance Officer of the PCC and reported on formally and specifically in his ‘Robustness of Estimates’ Report. His conclusion is that “The PCC will see from the Budget and LTFP report that based on the current funding assumptions, that the budget for 2018/19 will balance providing the savings plans are delivered. There are little risks from these savings plans and the financial estimates are robust.”

6) **How do you ensure that management have identified and disclosed all relevant related party transactions in the financial statements?**

Annually senior officers and staff are requested to sign a declaration in respect of related party transactions.

7) **How do you ensure that management have adopted appropriate assumptions for accounting estimates in the financial statements?**

The assumptions underpinning the construction of the budget and LTFP are reviewed by the Chief Finance Officer of the PCC and reported on formally and specifically in his ‘Robustness of Estimates’ Report. His conclusion is that “The PCC will see from the Budget and LTFP report that based on the current funding assumptions, that the budget for 2018/19 will balance providing the savings plans are delivered. There are little risks from these savings plans and the financial estimates are robust.”

The financial statements are prepared in line with approved accounting practices as detailed in the Statement of Accounts. These have been adopted in line with recommended practice and legislative requirements. The Statement of Accounts is signed by my professionally qualified CFO to certify that they represent a ‘true and fair’ view. They are also subject to External Audit.

**Appendix 1**

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| No. | Questions for those charged with governance. | Those charged with governance response |
| 1 | Are you aware of any instances of actual, suspected or alleged fraud during the period 1 April 2017 – 31 March 2018? | No. |
| 2 | Do you suspect fraud may be occurring within the organisation?   * Have you identified any specific fraud risks within the organisation? * Do you have any concerns that there are areas within your organisation that are at risk of fraud? * Are there particular locations within the organisation where fraud is more likely to occur? | No.  No.  No.  No. |
| 3 | Are you satisfied that internal controls, including segregation of duties, exist and work effectively?   * If not where are the risk areas? * What other controls are in place to help prevent, deter or detect fraud? | Yes, based on assurances gained from internal and external audit and my statutory officers, overall I am content with the level of internal control.  Other controls include a whistle blowing procedure, codes of conduct, disciplinary procedures, financial regulations and standing orders. |
| 4 | How do you encourage staff to report their concerns about fraud?   * What concerns about fraud are staff expected to report? | Staff can raise any issue with their line manager, staff association or use the confidential whistle blowing procedure. |
| 5 | From a fraud and corruption perspective, what are considered to be high risk posts within your organisation?   * How are the risks relating to these posts identified, assessed and managed? | In all organisations management at various levels are in a unique position to override some controls.  However, the overall system of controls in place, including separation of duties, described in this document should minimise those risks. |
| 6 | Are you aware of any related party relationships or transactions that could give rise to instances of fraud?   * How do you mitigate the risks associated with fraud related to related party relationships and transactions? | No.  Senior officers and staff sign the relevant declaration annually. |
| 7 | Are you aware of any entries made in the accounting records of the organisation that you believe or suspect are false or intentionally misleading?   * Are there particular balances where fraud is more likely to occur? * Are you aware of any assets, liabilities or transactions that you believe were improperly included or omitted from the accounts of the organisation? * Could a false accounting entry escape detection? If so, how? * Are there any external fraud risk factors, such as benefits payments or collection of tax revenues, which are high risk of fraud? | No.  No.  No  Analytical review as part of budgetary control should highlight significant entries.  No. |
| 8 | Are you aware of any organisational, or management pressure to meet financial or operating targets?   * Are you aware of any inappropriate organisational or management pressure being applied, or incentives offered, to you or colleagues to meet financial or operating targets? | No. The clear message to the Force is that performance management activity should be proportionate |
| 9 | What arrangements has the Chief Constable put in place in response to the Bribery Act 2010? | Our Pre-Qualification Questionnaire includes pass/fail questions in regards to the Bribery Act 2010.  The Bribery Act 2010 is referred to within our Force Counter Fraud and Corruption Policy which is included within the Joint Corporate Governance Framework (JCGF). The JCGF is taken to the Audit Committee and Management Board on an annual basis for ratification and training is given to managers on it. |
| 10 | Please detail any other areas of concern in relation to management processes and arrangements you wish to raise with us. | None identified |