



Audit Progress Report

Police and Crime Commissioner for Cleveland
Chief Constable of Cleveland
May 2018





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1. AUDIT PROGRESS

Purpose of this report

The purpose of this paper is to provide the Joint Audit Committee with a report on progress in delivering our responsibilities as your external auditors and to highlight key emerging national issues and developments which may be of interest to Members. If you require any additional information regarding the issues included within this briefing, please contact any member of your engagement team.

Finally, please note our website address www.mazars.co.uk which sets out the range of services Mazars provides, both within the UK and overseas. It also details the work Mazars provides in the public sector.

2017/18 audit

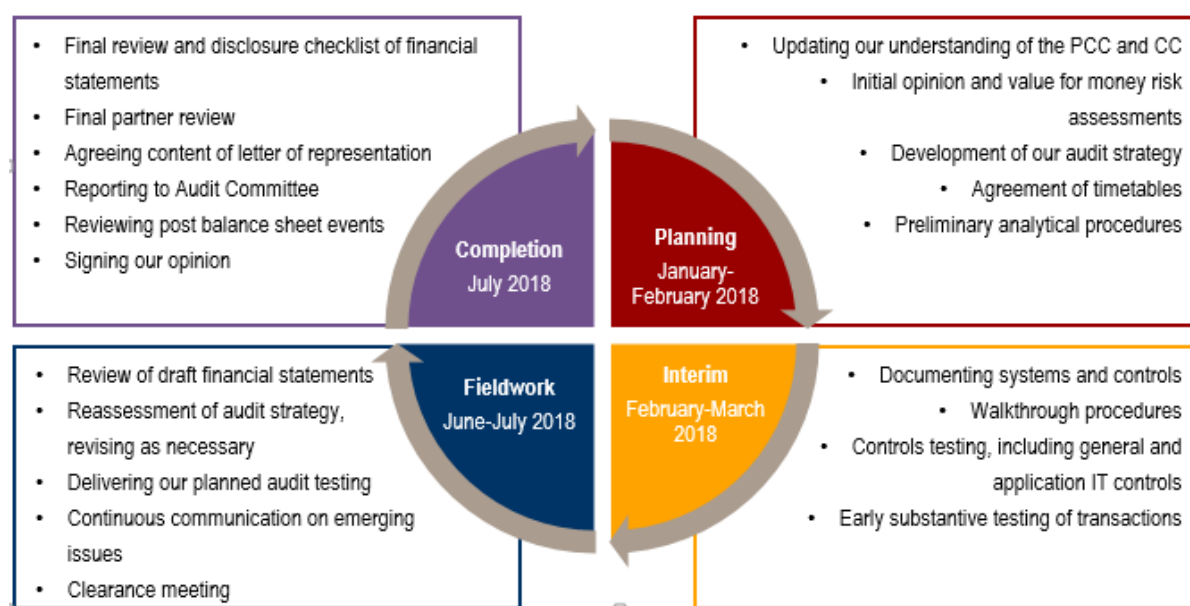
We have completed our 2017/18 planning and the results are reflected in the Audit Strategy Memorandum reported to the March 2018 Joint Audit Committee meeting. Our planning included:

- Identifying business risks, including assessing your own risk management arrangements;
- considering financial performance;
- assessing internal controls, including reviewing the control environment;
- evaluating and testing the IT control environment;
- assessing the risk of material misstatement arising from the activities and controls within the information systems; and
- completing walkthrough tests on the key controls within the material financial systems.

As part of our work, we took into account the most recently published updated VFM guidance. There are no changes in the fundamental approach to our VFM work, although there is additional information on the current issues facing Police bodies.

<https://www.nao.org.uk/code-audit-practice/guidance-and-information-for-auditors/>

We have also carried out early detailed testing of expenditure and journals. We have not identified any issues to report to you. In previous years, we request declarations from the Police and Crime Commissioner and Chief Constable and these are a separate agenda item for this meeting. We will shortly be moving into the fieldwork stage of the audit as shown in the diagram below.



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2. NATIONAL PUBLICATIONS AND TECHNICAL UPDATES

	Publication
1	Oversight of audit quality, quarterly compliance reports 2017/18 Public Sector Audit Appointments Ltd
2	Local authorities encouraged to consider local public accounts committees, February 2018
3	Preparing for full GDPR implementation by 25 May 2018
4	PFI and PF2, National Audit Office, January 2018
5	Local audit quality forum, Public Sector Audit Appointments, January 2018
6	Financial difficulties experienced by Northamptonshire County Council
7	Financial sustainability of local authorities 2018, National Audit Office, March 2018

1. PSAA Oversight of audit quality, quarterly compliance reports 2017/18

The latest quarterly 2017/18 monitoring report highlights full compliance with the Regulator's standards for Mazars LLP.

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

2. Local authorities encouraged to consider local public accounts committees, February 2018

Research published by Association for Public Service Excellence (APSE) and written and researched by the Local Governance Research Unit at De Montfort University explores how public services, and the decisions made about them by unelected bodies, can be held to account by local government as an elected governing body. Moreover, it seeks to understand the developing and expanding role of local government as both a vehicle for public accountability and in influencing and shaping the governance networks within which it exists.

The report '**Bringing Order to Chaos. How does local government hold to account agencies delivering public services?**' makes a series of recommendations including:

- A Local Public Accounts Committees should be formed by all councils and be given the same statutory powers over external agencies as has health scrutiny in relation to the NHS
- Securing public accountability must be developed as a role for all councillors and not restricted to a functional overview and scrutiny committee process
- Robust accountability processes need to be put in place for all arms-length bodies created by a council. Mechanisms must be put in place whereby all other councillors are able to challenge, question, seek justification from and influence the actions of arms-length bodies and scrutiny and full council should be engaged in such a process
- Councils should produce a local 'governance framework' policy document which identifies all those organisations with which the council interacts and which creates a shared vision of the development of public services across the councils area
- Councils should create a 'governance forum' where all those organisations with which the council interacts, can regularly meet to ensure a co-ordinated approach to public service delivery and long-term planning for service development and contribute to the 'governance framework'
- There should be a legal requirement – through an extension of the principle of a 'duty to co-operate' - on all public service providers to engage with local government, at the earliest possible time, when developing policy and taking decisions about public services

The full report is available to download for free.

<http://www.apse.org.uk/apse/index.cfm/research/current-research-programme/bringing-order-to-chaos-how-does-local-government-hold-to-account-agencies-delivering-public-services/>

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3. Preparing for full GDPR implementation by 25 May 2018

In January and February 2018, we ran two workshops on compliance with GDPR. Some of the key issues are summarised below.

The EU's General Data Protection Regulation (GDPR) is the result of four years of work by the EU to bring data protection legislation into line with new, previously unforeseen ways that data is now used. Currently, the UK relies on the Data Protection Act 1998, which was enacted following the 1995 EU Data Protection Directive, but this will be superseded by the new legislation. It introduces tougher fines for non-compliance and breaches, and gives people more say over what organisations can do with their data. It also makes data protection rules more or less identical throughout the EU.

This is the first comprehensive regulation dedicated to the European data protection rules in 20 years. It was adopted into law on 27 April 2016 and came into force on 25 May 2016. By 25 May 2018, all organisations are required to have implemented its principles, regardless of Brexit.

The key principles of GDPR are summarised below.

- **Fair and lawful** – must have legitimate grounds for collecting and using the personal data. Use in accordance with the law and regulations. Transparency.
- **Purposes** should be specified, explicit and legitimate
- **Proportionality** – must hold personal data about an individual that is sufficient for the purpose it is held for. Do not hold more information than needed for that purpose.
- **Accuracy** – carefully consider any challenges to the accuracy of information. Consider whether it is necessary to update the information.
- **Deletion** – personal data shall not be kept for longer than necessary. Only relevant data can therefore be kept.
- **Subject's access** – right of access, Right to object to processing, Right to prevent processing for direct marketing, Right to object to decisions being taken by automated means, Right to have inaccurate personal data rectified, blocked or destroyed.
- **Security measures** – take all necessary steps to ensure the data security.
- **Transfers limitation** – no transfer to a country or territory outside the EEA unless that country or territory ensures an adequate level of protection for the rights and freedoms of data subjects.

The GDPR requirements are particularly important to public sector bodies given the nature of their activities, dealing directly with citizens and holding a range of personal and sensitive data. While there has been much focus on potential financial penalties, there is a need to see this more as an opportunity for enhanced accountability, to ensure that citizens' data is processed in a secure but transparent manner, and realise the benefits to be gained by building trust with citizens through the adoption of a fair and transparent approach to the collection and use of their data. Recent high profile cases highlight the risks of what can happen if data is not adequately protected.

Key actions for organisations include:

- organisational commitment;
- privacy assessment (understanding what data is held and for what purposes it will be used including contracts with third parties);
- compliance and monitoring;
- privacy training; and
- private governance (preparation of a strategy and plan to ensure full GDPR compliance).

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4. PFI and PF2, National Audit Office, January 2018

The NAO has recently published a report on Private Finance Initiative (PFI) and the introduction of a reformed model of the PFI called PF2. There are currently over 700 operational PFI and PF2 deals, with a capital value of around £60 billion.

The report presents information on the rationale, costs, benefits, use, and the impact of PFI, and discusses the extent to which it may be able to make savings from existing PFI contracts. The report also highlights some the reasons for PFI reform and the introduction of PF2. The report does not suggest whether or not the PFI and PF2 models deliver value for money, but highlights the costs and benefits of entering into PFI and now the PF2.

This report was prepared prior to the announcement in January 2018 that the construction company Carillion was in liquidation.

Some of the key points highlighted in the report include:

- **PF2 is similar to PFI:** the fundamentals of the financing structure and contract remain the same.
- **Increased transparency:** data on forecast and actual PF2 equity returns will be published for all PF2 deals. However this does not apply to other non-PF2 PPP deals, and data on the cost of debt is not published.
- **Budgetary and balance sheet incentives remain:** as part of the PFI reform HM Treasury considered removing incentives, unrelated to VfM, which have driven the use of private finance but it chose not to. If capital and cash budgets are insufficient, private finance may be the only investment option for public bodies.
- **Lack of data on benefits:** there is still a lack of data available on the benefits of private finance procurement.

<https://www.nao.org.uk/report/pfi-and-pf2/>

5. Local audit quality forum, Public Sector Audit Appointments, January 2018

Local bodies which have opted into Public Sector Audit Appointment's national scheme will be entitled to attend Local Audit Quality Forum (LAQF) events free of charge. The LAQF will be a forum within which representatives of relevant audit bodies can work together and collaborate with others to share good practice and strive to enable improvements in the quality, efficiency and effectiveness of audit arrangements and practices in principal local authorities and police bodies in England. Public Sector Audit Appointments (PSAA) want to develop a momentum and a passion for continuous improvement in audit arrangements throughout the entities and sectors for which PSAA has a mandate.

The inaugural meeting is a one-day event in London on 18 April 2018 and PSAA have set out they hope audit committee chairs and chief finance officers will welcome the initiative.

<https://www.psaa.co.uk/local-audit-quality-forum/local-audit-quality-forum/>

2. NATIONAL PUBLICATIONS AND TECHNICAL UPDATES

6. Financial difficulties experienced by Northamptonshire County Council

There has been much media coverage of Northamptonshire County Council's financial problems, which led to the Council issuing a section 114 notice stopping all non-statutory spending (the first such notice issued anywhere for almost 20 years), and difficulties in setting a legal budget for 2018/19 which are still ongoing. These issues highlight the impact that austerity measures can have on local government (and indeed other public services), and the importance of delivering any savings needed to balance the budget, however difficult and unpalatable such decisions might be.

The three Public Finance articles (links below) provide a good summary of these issues:

<http://www.publicfinance.co.uk/news/2018/02/northants-revised-budget-finds-further-ps99m-savings1>

<http://www.publicfinance.co.uk/news/2018/02/northamptonshire-review-budget-following-audit-warning>

<http://www.publicfinance.co.uk/news/2018/02/northamptonshire-sparks-warnings-other-councils-could-fail>

7. Financial sustainability of local authorities 2018, National Audit Office, March 2018

On Thursday 8 March, the NAO published the *Financial sustainability of local authorities 2018*.

The study assesses financial and demand conditions in the sector and the implications for local authority financial and service sustainability. It also reviews the stewardship role of the Ministry of Housing, Communities and Local Government, and the role of other departments with local service responsibilities, in relation to the local government financial and service sustainability. Further details are available via the following link:

<https://www.nao.org.uk/report/financial-sustainability-of-local-authorities-2018/>

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3. CONTACT DETAILS

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

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