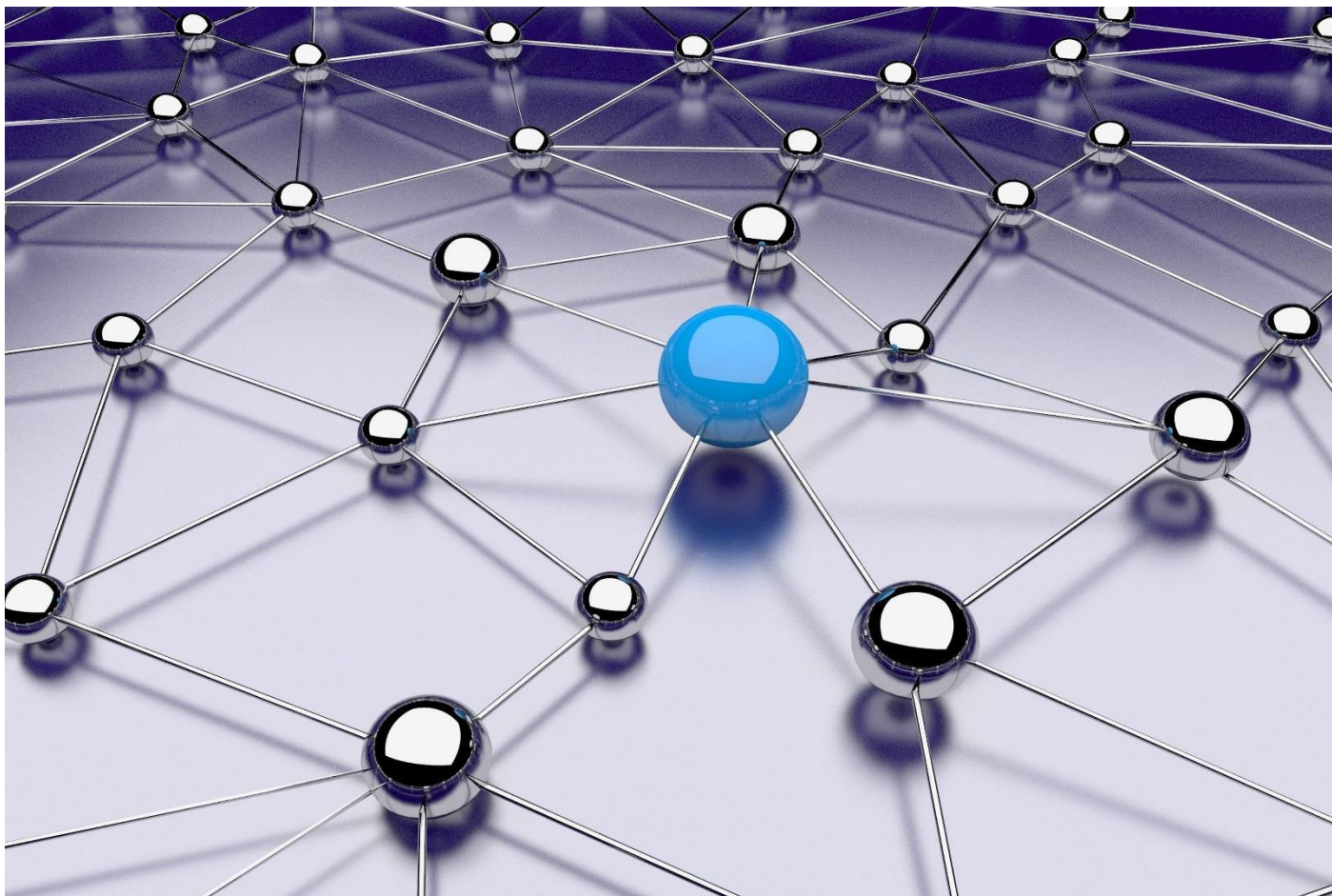


Chief Constable for Northumbria

Annual Audit Letter 2015/16

October 2016



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October 2016

Chief Constable for Northumbria
Northumbria Police Force Headquarters
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Dear Mr Ashman

Annual Audit Letter 2015/16

I am pleased to present our Annual Audit Letter for the 2015/16 audit year. The purpose of this document is to summarise the outcome of the external audit of the Chief Constable for Northumbria Police's 2015/16 financial statements and our review of your arrangements for securing economy, efficiency and effectiveness (VfM).

We carried out our audit in accordance with the Code of Audit Practice prepared by the Comptroller and Auditor General as required by the Local Audit and Accountability Act 2014.

I would like to express my thanks for the assistance of all the finance team as well as management and the Joint Independent Audit Committee.

If you would like to discuss any matters in more detail, please do not hesitate to contact me on 0191 383 6314.

Yours sincerely

Cameron Waddell
Partner
Mazars LLP

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01 Key messages

In 2015/16 our audit of the Chief Constable for Northumbria Police (the Chief Constable) was made up of two elements:

- auditing your financial statements, including a review of the Annual Governance Statement; and
- assessing your arrangements for achieving value for money (VfM) in your use of resources.

We reported the detailed findings from our audit work to the Chief Constable (as those charged with governance) in our Audit Completion Report and follow up letter, and to the Joint Independent Audit Committee.

The key conclusions for each element are summarised below.

Audit of the financial statements

We issued an audit report including an unqualified opinion on the Chief Constable's financial statements on 23 September 2016. The audit progressed smoothly and we did not encounter any significant issues whilst undertaking our work. All errors identified were corrected by management. Further details are set out in section 02.

We would like to highlight the support we received from staff in undertaking our work.

Value for money

We carried out our work in line with updated National Audit Office guidance and concluded that the Chief Constable had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources. We therefore issued an unqualified value for money conclusion on 23 September 2016.

Our other responsibilities

As the Chief Constable's appointed external auditor, we have other powers and responsibilities as set out in the Local Audit and Accountability Act 2014. These include responding to questions on the accounts raised by local electors as well as a number of reporting powers such as reporting in the public interest. We did not receive any questions about the accounts or valid objections in relation to your 2015/16 accounts from local electors, nor did we exercise our wider reporting powers.

Certificate

We issued our certificate, closing this year's audit, 23 September 2016.

02 Financial statements

Audit of the financial statements

We audited the Chief Constable's financial statements in line with auditing standards and we reported the detailed findings of the audit to the Chief Constable in our Audit Completion Report on 15 September 2016. We issued an update letter along with our audit report including an unqualified opinion on the Chief Constable's financial statements on 23 September 2016.

As in previous years, the audit progressed smoothly. The draft financial statements presented to us for audit were of good quality, as were the working papers. The audit was largely complete by early September.

Two main errors were identified during our work in relation to assigning the valuations of assets between the land and buildings components. The errors related to the Follingsby Training Centre and the Market Street Police Station.

In the Chief Constable's accounts the error resulted in capital charges for the use of assets being over stated and the income due from the PCC for financing of police services being over stated by the same amount (£4.6 million). The net impact on the Deficit on the Provision of Services was nil.

Other matters identified were not significant in nature, relating to disclosures or minor typographical errors. All identified errors were amended by management.

Our work on the Chief Constable's accounts is designed to provide reasonable assurance that they are free from material misstatement. In performing our audit, we apply the concept of materiality, following the requirements of International Standard on Auditing (UK & Ireland) (ISA) 320: Materiality in planning and performing an audit. The standard states that 'misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'. We consider materiality when planning and performing our work and in assessing audit results.

At the planning stage, we made a judgement about the size of misstatements which we would consider to be material and which gave a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures. We determined overall materiality to be £3.3 million (being 2% of gross revenue expenditure), with a clearly trivial threshold of £99,000 below which identified errors will not usually be reported. We also set lower materiality values for accounting entries we consider to be more sensitive, for example, senior officer's remuneration.

We updated our materiality calculation when we received the draft accounts and set the overall level at £3.2 million (being 2% of gross revenue expenditure) with a clearly trivial threshold of £97,000. Appendix A provides more information on our approach.

Having considered the risks of material misstatement, we identified two areas of significant risk, along with one area of management judgement. Our findings in these areas are summarised below:

Management override of controls

Description of the risk

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 override could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits.

How we addressed this risk

We addressed this risk through performing audit work over:

- accounting estimates affecting amounts included in the financial statements;
- consideration of identified significant transactions outside the normal course of business; and
- journals recorded in the general ledger and other adjustments made in preparation of the financial statements.

Audit conclusion

Our work provided the assurance we sought and did not highlight any material issues to report.

Pension costs and pensions liability

Description of the risk

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

How we addressed this risk

We discussed with key contacts any significant changes to the pension estimates prior to the preparation of the final accounts.

In addition to our standard programme of work in this area, we:

- evaluated the management controls you have in place to assess the reasonableness of the figures provided by the actuaries; and
- considered the reasonableness of the actuaries' outputs, referring to an expert's report on all actuaries nationally which is commissioned annually by the National Audit Office.

Audit conclusion

Our audit provided the assurance we sought, and did not highlight any material issues to report.

Key area of management judgement

Year-end annual leave accrual

Description of the area of management judgement

Accounting standards require that an estimate be made of the value of accumulated absences awarded but not taken as at 31 March 2016.

How we addressed this area of management judgement

We examined the method used for producing this estimate and compared it against that used in previous years and reviewed the detail of the calculation for accuracy.

Audit conclusion

Our audit provided the assurance we sought and did not highlight any material issues to report.

Annual Governance Statement

The aim of the Annual Governance Statement is to give an overview of the governance arrangements in place during the year as well as any potential significant governance issues arising.

We reviewed the Annual Governance Statement to see whether it complied with relevant guidance and whether it was misleading or inconsistent with what we know about the Chief Constable. We found no areas of concern to report in this context.

Weaknesses in internal control

We did not identify any significant deficiencies in the accounting and internal control systems during the course of the audit.

Certificate

We issued our certificate, closing this year's audit, on 23 September 2016.

03 Economy, efficiency and effectiveness

We are required to conclude whether the Chief Constable has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources by considering one overall criterion which is made up of three sub-criteria.

The overall criterion set out by the NAO is:

'In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.'

The three sub-criteria are set out below.

Sub-criteria
Informed decision making
Sustainable resource deployment
Working with partners and other third parties

We identified one significant risk relevant to the value for money conclusion. We detail below how we addressed the risk and our conclusion.

Financial resilience
<p>Description of the risk</p> <p>The financial resilience of the Chief Constable for Northumbria is under considerable pressure due to continued financial pressures which included proposed 2015/16 budget savings of £16.2 million.</p> <p>The risk is that the action taken by the Chief Constable for Northumbria is insufficient to deliver quality services in line with the policing plan and within available resources.</p>
<p>How we addressed this risk</p> <p>We carried out the following work:</p> <ul style="list-style-type: none">• reviewed the Medium-Term Financial Strategy;• reviewed budget monitoring reports and other finance updates; and• reviewed the progress made in identifying and delivering the savings required.
<p>Key findings and Conclusion</p> <p>Review of the Medium Term Financial Strategy (MTFS)</p> <p>The latest MTFS covers the four year period of 2016/17 to 2019/20. The Strategy includes a budget savings target of £38.5 million along with planned use of reserves of £6.2 million over the period.</p> <p>When assessing the robustness of the MTFS, the Chief Finance Officer (CFO) carried out a Risk Assessment before it was submitted for approval. The MTFS was subsequently approved on 11 February 2016.</p>

Work is continuing in relation to identifying budget savings initiatives to support the proposed savings included in the MTFS.

As part of our detailed work, we challenged officers to supply us with evidence that the savings figures included in the MTFS were fully supported.

More than £33 million of the £38.5 million savings identified in the MTFS relate to workforce savings, split £27.5million officers and £5.5m staff savings. Given these figures, we challenged finance officers to provide evidence to support the annual staffing savings figures included in the MTFS. Our work identified that there are detailed plans in place to allow the savings to be achieved. We will revisit these annually.

Other main areas of potential savings included:

- Officer savings of approx. £1.8 million due to retirements and phasing out of individual allowances.
- Estates rationalisation saving of £1.0 million as a result of building closures.
- IT savings of £1.5 million due to building closures and contract savings

We are satisfied that plans are in place to achieve the savings required

Review of budget monitoring reports and other finance updates

The 2015/16 budget was approved by the Chief Constable and PCC on 19 February 2015.

The annual budgets for both bodies are reviewed and determined based on the same timetable and principles. The precept and budget report can be found on the individual websites.

During the year, budget monitoring reports were presented to the Chief Constable's Executive Board on a monthly basis and the Joint Business meeting quarterly.

The risk that expenditure will exceed budget is reduced by the existence of a robust revenue monitoring framework. The key responsibilities are outlined in Governance Framework and is available on the website.

The systems of budget monitoring and control during 2015/16 have been reviewed by Internal Audit and found to be Operating Well.

Achievement of 2015/16 savings

As outlined above, the Force are considering a number of budget saving initiatives to meet the on-going financial challenges.

The 2015/16 Budget highlighted savings of £16.2 million, by far the biggest element of which was savings in salaries and wages of £12 million, split Police Officers £9.5 million and Police Staff £2.5 million.

We challenged finance officers to provide evidence to support that the above savings had been achieved in 2015/16. Our audit testing provided assurance that savings had been achieved in line with original plans.

The remaining required savings of £4.2 million were realised by a combination of:

- Rationalisation of Estates and new operating model of three Area Commands: The new area command structure went live on 1 April 2015. Approx. £1.5 million savings made from energy, rates, repairs and cleaning budgets as buildings are sold.
- Fleet costs: A total of £0.6 million saved as a result of £0.5 million saving in fuel as a result of price reductions. Other savings in Vehicle Parts and Outside Firms budgets resulting from disposal of older vehicles and capital vehicle replacement programme.
- Other miscellaneous savings, for example, Commissioners Fund: Third party contributions reduced by £0.5 million.

The group revenue outturn position for 2015/16 was an under spend of £1.946 million. As the identified savings were built into the base budget then the savings overall have been successfully delivered.

Based on the work we have carried out, we are satisfied we have mitigated the audit risk we identified for our value for money conclusion.

As part of our work, we also:

- reviewed the Chief Constable's Annual Governance Statement;

- reviewed the work of other relevant regulatory bodies or inspectorates to the extent the results of the work have an impact on our responsibilities; and
- carried out risk-based work we determined appropriate.

Our review of these areas did not identify any further risks, or matters that impact on our value for money conclusion.

A brief summary of our findings against each of the sub-criteria and our overall assessment is set out in the sections that follow.

Informed decision making

Proper arrangements	Arrangements for the Chief Constable for Northumbria	Audit Assurance obtained?
<p>Acting in the public interest, through demonstrating and applying the principles and values of sound governance</p>	<ul style="list-style-type: none"> • There is a Governance Framework available on the website, which applicable to both the Chief Constable and the Police and Crime Commissioner (PCC). • There is a Police and Crime Plan in place for the period 2013 to 2018. The purpose, vision, values, priorities and strategic objectives of the PCC are developed in consultation with the Chief Constable. In turn, the Chief Constable draws the Policing Plan, for which he is responsible, from the Police and Crime Plan. • Performance is monitored through a robust framework based around the Chief Constable’s Delivery Plan. The PCC attends the Force’s Strategic Management Board to scrutinise progress. In addition, Joint Fortnightly Business Meetings manage progress on specific issues. • The Police and Crime Panel (hosted by Gateshead Council and independent of both the PCC and Chief Constable) hold the PCC to account. • The Chief Constable and PCC’s management team have been in post for a number of years. • There is a Joint Independent Audit Committee (JIAC) in place which meets four times per year. Standing items on the agenda include the JIAC reviewing Strategic Risk via the risk register along with progress reports by both Internal and External Audit. 	<p>Yes</p>
<p>Understanding and using appropriate and reliable financial and performance information (including, where relevant, information from regulatory/monitoring bodies) to support informed decision making and performance management.</p>	<ul style="list-style-type: none"> • There is regular reporting to the Chief Constable and PCC of both performance and financial information. • The latest Medium Term Financial Strategy (MTFS) covers the four year period of 2016/17 to 2019/20 and is subject to an annual update and linked to the Police and Crime Plan. This was approved by the PCC on 11 February 2016. 	<p>Yes</p>

Proper arrangements	Arrangements for the Chief Constable for Northumbria	Audit Assurance obtained?
Reliable and timely financial reporting that supports the delivery of strategic priorities.	<ul style="list-style-type: none"> • There is a Police and Crime Plan in place for the period 2013 to 2018. • There is regular reporting to the Chief Constable and PCC of both performance and financial information. • The latest Medium Term Financial Strategy (MTFS) covers the four year period of 2016/17 to 2019/20 and is subject to an annual update and linked to the Police and Crime Plan. This was approved by the PCC on 11 February 2016. 	Yes
Managing risks effectively and maintaining a sound system of internal control.	<ul style="list-style-type: none"> • Risk register and risk management arrangements in place. Risks reported to JIAC and regular reporting by Internal Audit. • Annual governance statement prepared, reviewed and approved. 	Yes

Sustainable resource deployment

Proper arrangements	Arrangements for the Chief Constable for Northumbria	Audit Assurance obtained?
Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions.	<ul style="list-style-type: none"> • There is a MTFS 2016/17 - 2019/20 in place which is subject to an annual update and linked to the Police and Crime Plan. This was approved by the PCC on 11 February 2016. • The MTFS is used for the annual budgets which are set by the PCC and scrutinised by the Police and Crime Panel. • The organisation has an adequate level of reserves available. • There is a history of meeting financial targets with no previous sustained or excessive budget deficits. The level of general fund balances is approved annually as part of the approval of the MTFS. 	Yes
Managing and utilising assets effectively to support the delivery of strategic priorities.	<ul style="list-style-type: none"> • An up to date Asset register in place. • 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. • The Capital programme is included in the MTFS which was approved by the Police & Crime Panel on 11 February 2016. 	Yes
Planning, organising and developing the workforce effectively to deliver strategic priorities.	<ul style="list-style-type: none"> • A Workforce Strategy is in place that includes recruitment, training and development of officers and police staff whilst continuing to manage necessary change through the prudent use of reserves. 	Yes

Working with partners and other third parties

Proper arrangements	Arrangements for the Chief Constable for Northumbria	Audit Assurance obtained?
Working with third parties effectively to deliver strategic priorities.	<ul style="list-style-type: none"> Both the Chief Constable and PCC are aware of the importance of collaboration which led to the introduction of the Collaboration Strategy in September 2014 	Yes
Commissioning services effectively to support the delivery of strategic priorities.	<ul style="list-style-type: none"> A Partnership Toolkit is also in place, the purpose of which is to highlight key factors that should be considered when establishing future partnerships. A Strategic Partnership Team is in place to act as the focal point for further advice and support at any stage of considering, establishing, or working in partnership. The force has a Collaboration and Partnership Delivery Plan which outlines all of the arrangements in which it is currently involved. Areas of collaboration with other police forces and public organisations include: <ul style="list-style-type: none"> co-locating with partners wherever possible – so far co-located with Northumberland Fire and Rescue Service, Newcastle City Council, North Tyneside Council, and Northumberland County Council, with plans progressing to co-locate with Tyne and Wear Fire and Rescue Service, and two local community trusts; a collaborative working agreement between the legal teams of Northumbria Police and North Tyneside Council in order to provide advice, support and resilience to one another; and an arrangement in place with Northumberland County Council with regard to the provision of ICT support and maintenance. Further collaboration opportunities are being explored with Durham Constabulary in a number of other areas of operational policing. 	Yes
Procuring supplies and services effectively to support the delivery of strategic priorities.	<ul style="list-style-type: none"> The organisation has written procedures for procuring products and services, which are within its Code of Corporate Governance. 	Yes

Having gathered evidence of the Chief Constable’s arrangements for each of the sub-criterion we conducted a ‘reality check’, building upon our existing knowledge of the Chief Constable and considering the robustness of our assessment by referring to:

- reports by statutory inspectorates or other regulators;
- achievement of performance and other targets; and
- performance against budgets and other financial targets.

Evidence	Auditor assessment
Reports by statutory inspectorates or other regulators	<p>We considered reports by any statutory inspectorates (HMIC) or other regulatory bodies during the year which might impact on our conclusion.</p> <p>We reviewed the value for money profiles (based on data from Public Sector Audit Appointments Ltd). Based on this review, there were no indicators which would suggest weaknesses in the Chief Constable's arrangements, or any information contrary to our knowledge of the Chief Constable.</p>
Achievement of performance and other targets	<p>Performance is good overall and Northumbria does not appear to be an outlier.</p>
Performance against budgets and other financial targets	<p>The Chief Constable has a history of achieving budget targets.</p>

Conclusion

Having completed our assessment, and having carried out a 'reality check', we concluded that the Chief Constable had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources and issued an unqualified value for money conclusion on 23 September 2016.

04 Future challenges

The main challenge for Northumbria Police, along with others and the wider public sector, is the continued pressure on finances and the need to plan for further reductions in spending power which will make it increasingly difficult to maintain the existing level of service provision.

At this time of increasing pressure on public sector funding, the next few years will be a period of business change and innovation for the Chief Constable as, together with the Commissioner, they strive to continue to deliver improvements in services they provide to the public of Northumbria whilst also achieving value for money.

The Medium Term Financial Plan 2016/17 to 2019/20 includes delivering savings to reinvest in services, such as the continued investment in IT and recruitment of more police officers. The Chief Constable and Commissioner continue to explore and implement further collaboration and partnership working, for example with Durham Constabulary, as a method to achieve better service provision and also as an efficiency measure.

Our 2016/17 audit will continue to focus on the risks that these and other challenges present to the Chief Constable's financial statements, and ability to maintain proper arrangements for securing value for money.

We will continue to work with finance officers to share our knowledge of new accounting developments and we will be on hand to discuss any issues as and when they arise. We will also work with them to plan for the forthcoming technical challenges that finance officer's face around changes in the production and format of the statement of accounts.

05 Fees and closing remarks

We can confirm the final audit fee for 2015/16 was £18,750 plus VAT. We did not undertake any non-audit work in 2015/16.

We have discussed and agreed this letter with officers and will issue it to the Chief Constable (as those charged with governance), and present it to the Joint Independent Audit Committee on 5 December 2016.

During the audit year we have continued to support the Chief Constable in other ways, including attendance at Joint Independent Audit Committees where we inform the Committee about progress on the audit, report our key findings and update it about developments in the sector and the wider environment, and hosting events for staff, such as our Accounts workshops, or more focused accounts update sessions, as appropriate.

Further detailed findings, conclusions and recommendations in the areas covered by the audit are included in the reports issued to the Chief Constable during the year, which are summarised below.

Report	Date issued
2015/16 Audit Fee Letter	April 2015
Audit Strategy Memorandum	February 2016
Progress reports to Joint Independent Audit Committee	To each meeting
Audit Completion report, and follow up letter	September 2016
Auditor's Report (opinion, VfM conclusion and certificate)	September 2016
Annual Audit Letter	October 2016

The Chief Constable has continued to take a positive and constructive approach to our audit and I wish to thank him and the Joint Independent Audit Committee for their continued support and co-operation throughout the year. We would also like to record our appreciation for the assistance and co-operation provided to us during our audit by finance staff.

We are committed to supporting the Chief Constable to move forward with clarity of purpose and strong governance and accountability arrangements. We will meet with the officers to identify learning from the 2015/16 audit and will continue to share our insights from other client and relevant knowledge from the wider public and private sector.

Cameron Waddell
Partner
October 2016

Appendix A – Materiality

Materiality is an expression of the relative significance or importance of a particular matter in the context of financial statements as a whole.

Misstatements in financial statements are considered to be material if they, individually or in aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Judgements on materiality are made in light of surrounding circumstances and are affected by the size and nature of a misstatement, or a combination of both. Judgements about materiality are based on consideration of the common financial information needs of users as a group and not on specific individual users.

The assessment of what is material is a matter of professional judgement and is affected by our perception of the financial information needs of the users of the financial statements. In making our assessment we assumed that users:

- have a reasonable knowledge of business, economic activities and accounts;
- have a willingness to study the information in the financial statements with reasonable diligence;
- understand that financial statements are prepared, presented and audited to levels of materiality;
- recognise the uncertainties inherent in the measurement of amounts based on the use of estimates, judgement and the consideration of future events; and
- will make reasonable economic decisions on the basis of the information in the financial statements.

We considered materiality whilst planning and performing our audit.

Whilst planning, we made judgements about the size of misstatements which we considered to be material and which provided a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures.

In 2015/16 we set materiality at the planning stage at £3.3 million (2% of gross revenue expenditure) with a clearly trivial threshold of £99,000 below which identified errors will not usually be reported. We set lower materiality levels for the accounting entries we consider to be more sensitive, for example, senior officer's remuneration, as we considered these items to be of specific interest to users of the accounts sufficient to warrant audit procedures which would not otherwise be applied based on the materiality level for the audit as a whole. The materiality determined at the planning stage did not necessarily establish an amount below which uncorrected misstatements, either individually or in aggregate, would be considered as immaterial.

We revised materiality for the financial statements as our audit progressed. Our closing assessment of materiality in 2015/16, based upon the final version of the financial statements, was £3.2 million with a clearly trivial threshold of £95,000 below which identified errors were not reported.

We discussed with management any significant misstatements or anomalies that we identified during the course of the audit, all of which were adjusted.

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

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This Annual Audit Letter is prepared in the context of the ‘Statement of responsibilities of auditors and audited bodies 2015-16’ issued by Public Sector Audit Appointments Ltd. It is addressed to the Chief Constable for Northumbria Police as ‘those charged with governance’. We, as appointed auditor, take no responsibility to any third party.

Mazars LLP is the UK firm of Mazars, an international advisory and accountancy organisation, and is a limited liability partnership registered in England with registered number OC308299. A list of partners’ names is available for inspection at the firm’s registered office, Tower Bridge House, St Katharine’s Way, London E1W 1DD.

We are registered to carry on audit work in the UK by the Institute of Chartered Accountants in England and Wales. Details about our audit registration can be viewed at www.auditregister.org.uk under reference number C001139861.