

# Annual Audit Letter

Police and Crime Commissioner for Northumbria



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 Police and Crime Commissioner for Northumbria and Group ('the Commissioner') for the year ended 31 March 2017. Although this letter is addressed to the Commissioner, 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 detailed 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 19 September 2017 we issued our opinion that the financial statements gave a true and fair view of the Commissioner's and Group's financial position as at 31 March 2017 and of its financial performance for the year then ended.
Opinions on other matters	On 19 September 2017 we issued our opinion that the Narrative Report published with the financial statements, was consistent with those financial statements.
Value for Money conclusion	On 19 September 2017 we issued our conclusion that the Commissioner had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources.
Whole of Government Accounts	We reported to the NAO, in line with their instructions, on 19 September 2017.
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 Commissioner 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 the closure of the audit on 19 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 Commissioner and whether they give a true and fair view of the Commissioner'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 Commissioner'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 Commissioner and Joint Independent Audit Committee. 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:

<b>Financial statement materiality</b>	Commissioner £5.895 million. Group £6.161 million.
<b>Specific materiality</b>	We have applied a lower level of materiality to the following items of account: <ul style="list-style-type: none"> <li>• Officer remuneration.</li> <li>• Related Party Transactions.</li> </ul>
<b>Trivial threshold</b>	Commissioner £177,000. Group £185,000.

### Our response to significant risks

As part of our continuous planning procedures we considered whether there were risks of material misstatement in the Commissioner's and Group financial statements that required special audit consideration. We reported significant risks identified at the planning stage to the Commissioner and Joint Independent Audit Committee 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 (relevant to single entity and group accounts)</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>We addressed this risk through performing audit work over:</p> <ul style="list-style-type: none"> <li>• accounting estimates impacting amounts included in the financial statements;</li> <li>• consideration of identified significant transactions outside the normal course of business; and</li> <li>• journals recorded in the general ledger and other adjustments made in preparation of the financial statements.</li> </ul>	<p>Our work provided the assurance we sought and did not highlight any material issues to bring to your attention.</p>
<p><b>Revenue Recognition (relevant to single entity and group accounts)</b></p> <p>There is a risk of fraud in the financial reporting relating to revenue recognition due to the potential to inappropriately record revenue in the wrong period. Due to there being a risk of fraud in revenue recognition we consider it to be a significant risk.</p>	<p>We tested cut off to assess whether transactions were included in the appropriate year.</p> <p>We also carried out analytical review procedures.</p>	<p>Our work provided 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><b>Pension costs and pensions liability (relevant to group accounts only)</b></p> <p>The financial statements contain material pension entries in respect of 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 discussed with key contacts significant changes to the pensions estimates prior to the preparation of the final accounts. In addition to our standard programme of work in this area, we:</p> <ul style="list-style-type: none"> <li>• evaluated the management controls you had in place to assess the reasonableness of the figures provided by the actuaries; and</li> <li>• 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.</li> </ul>	<p>Our work provided the assurance we sought and did not highlight any material issues to bring to your attention.</p>

**Internal control recommendations**

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. Our 2016/17 audit did not identify any significant deficiencies to report.

# Value for Money conclusion

Value for Money conclusion

Unqualified

## Summary of our work

We are required to form a conclusion as to whether the Commissioner 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 Commissioner 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 on our findings for 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	<ul style="list-style-type: none"> <li>• The Police and Crime Panel (hosted by Gateshead Council and independent of both the Commissioner and Chief Constable) meets 6 times per year and holds the Commissioner to account.</li> <li>• An experienced Commissioner and Chief Constable's management team has been in place for a number of years.</li> <li>• A Joint Independent Audit Committee (JIAC) is in place, which meets four times per year. Standing items on the agenda include progress reports from auditors along with Strategic Risk Management updates.</li> <li>• There is regular reporting to the Commissioner and Chief Constable of performance and financial information.</li> <li>• A Police and Crime Plan is in place for the period 2017 to 2021. The purpose, vision, values, priorities and strategic objectives of the Commissioner are developed in consultation with the Chief Constable. In turn, the Chief Constable develops the Policing Plan, for which he is responsible, from the Police and Crime Plan.</li> </ul>	Yes

Sub-criteria	Commentary	Arrangements in place?
	<ul style="list-style-type: none"> <li>• There is a Governance Framework available on the website, which is applicable to both the Commissioner and Chief Constable.</li> <li>• Performance is monitored through a robust framework based around the Chief Constable's Delivery Plan.</li> <li>• The Commissioner attends the Force's Strategic Management Board to scrutinise progress. In addition, Joint Business Meetings that are held every two weeks.</li> <li>• The Force's financial position and an MTFS update is presented to senior managers at meeting of Commanders on 12 July 2017.</li> <li>• An up to date risk register and risk management arrangements are in place and regularly reported to JIAC.</li> <li>• An Annual Governance Statement is prepared, reviewed and approved before being included in the financial statements.</li> </ul>	
Sustainable resource deployment	<ul style="list-style-type: none"> <li>• An updated MTFS, covering the period 2017/18 to 2020/21, was approved by the Commissioner in February 2017. It is clearly linked to the Police and Crime Plan.</li> <li>• The updated MTFS is used as a basis for the production of annual budgets which are set by the Commissioner and scrutinised by the Police and Crime Panel.</li> <li>• The Commissioner has a history of meeting financial targets with no previous budget deficits. The level of general fund balances is approved annually as part of the approval of the MTFS.</li> <li>• The organisation has an adequate level of reserves available for use as required.</li> <li>• An up to date asset register is in place.</li> <li>• The Capital Programme, included in the 2017/18 to 2020/21 MTFS, sets out the Commissioner's investment priorities. All capital schemes are appraised and prioritised to ensure they reflect the key investment requirements in the strategy.</li> <li>• A Workforce Strategy is in place that covers recruitment, training and development for officers and police staff.</li> </ul>	Yes
Working with partners and other third parties	<ul style="list-style-type: none"> <li>• Both the Commissioner and Chief Constable are aware of the importance of collaboration. This is evidenced in the Collaboration and Partnership Strategy which was updated during the year in May 2016.</li> <li>• Collaboration agreements to which the Commissioner and Chief Constable are parties are published under the transparency section of the Commissioner for Northumbria website.</li> <li>• Areas of collaboration with other police forces and public organisations include: <ul style="list-style-type: none"> <li>○ Co-locating with partners wherever possible – so far co-located with Northumberland Fire and Rescue Service, Tyne and Wear Fire and Rescue Service, Newcastle City Council, North Tyneside Council, South Tyneside Council, Gateshead Council, Northumberland</li> </ul> </li> </ul>	Yes

Sub-criteria	Commentary	Arrangements in place?
	<p>County Council, various National Health Service Trusts, and a number of local community groups;</p> <ul style="list-style-type: none"> <li>○ during 2016 the Commissioner and Chief Constable signed up to a 7 force Section 22A collaboration agreement with Durham, Cleveland, Humberside and the 3 Yorkshire forces. The agreement provides an overarching framework for areas of collaboration in the North East region. Currently the agreement covers the following capabilities across the seven forces: Disaster Recovery Identification and CBRN (Chemical, Biological, Radiological and Nuclear incidents; and</li> <li>○ 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.</li> <li>● The North East Regional Special Operations Unit (NERSOU) collaboration between Northumbria, Durham and Cleveland was extended to include further collaboration on covert policing (1st April 2016) and Technical Surveillance (1st October 2016).</li> <li>● The force has a number of collaboration arrangements in place with Durham Constabulary including kennel services, fingerprint enhancement services and public order training with further collaboration on forensic services planned for 2017/18.</li> <li>● Northumbria have recruited a Funding and Innovation Manager, a designated post within the Corporate Development Department to lead on the development of strategic collaborative opportunities and partnership working.</li> <li>● Northumbria participates in National Procurement Frameworks that are delivering significant recurrent savings, particularly in areas such as vehicle purchase, ICT contracts and uniform.</li> <li>● The force has written procedures for procuring products and services, which are within its Code of Corporate Governance</li> </ul>	

### Significant Value for Money risks

As part of our continuous planning processes, we carry out work to identify whether or not a risk to our VFM conclusion exists. We did not identify any significant audit risks at the planning stage of our audit, and as such did not report any in our Audit Strategy Memorandum. We kept this under review throughout our audit and were satisfied that there were no significant audit risks apparent in respect of VFM.

# 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>Whole of Government Accounts</b>	<b>Submission to NAO completed</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 Commissioner'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 Commissioner. We have the power to:

- report in the public interest; and
- make statutory recommendations to the Commissioner, 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 Commissioner. We did not exercise any of our reporting powers during our 2016/17 audit and had no matters to report to the Commissioner in relation to the Annual Governance Statement.

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

The NAO requires us to report to undertake specified work in line with their instructions. We did this and issued our return to them on 26 September 2017.

## **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 Commissioner. In our opinion, the information in the Narrative Report was consistent with the audited financial statements.

# Our fees

## Fees for work as the Commissioner's appointed auditor

We reported our proposed fees for the delivery of our work in the Audit Strategy Memorandum, presented to Joint Independent Audit Committee in March 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	2015/16 final fee
Audit of the accounts and VFM conclusion – Police and Crime Commissioner for Northumbria	£37,050	£37,050
Audit of the accounts and VFM conclusion – Chief Constable for Northumbria	£18,750	£18,750

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

We also confirm that we have not undertaken any non-audit services for the Commissioner in the year.

# Future challenges

## **Financial and operational outlook**

The financial challenge for the Commissioner and Chief Constable of Northumbria Police (the Chief Constable), along with others in the wider public sector, is ongoing. There is continued pressure on finances as a result of changes in the funding available from central government, and the desire to invest in front line and new services.

The financial challenge is likely to remain for the foreseeable future. The Commissioner and Chief Constable manage their finances carefully to balance service needs and available resources in the short and medium term. The most recent Medium Term Financial Plan 2017-18 to 2020-21 recognises the need to continue to identify cost efficiencies.

The Commissioner's Police and Crime Plan 2017-2021 sets out the direction and vision of Northumbria Police. The Plan also sets out the priorities set for the Chief Constable against which he will held to account for their delivery. Delivery of these priorities require organisational capacity, and strong governance, risk and project management arrangements.

## **How we will work with the Commissioner**

We will focus our 2017/18 audit on the risks that these challenges present to the Commissioner's financial statements and ability to maintain proper arrangements for securing value for money. We will also share with the Commissioner and appropriate staff relevant insights that we have as a national and international accounting and advisory firm with experience of working with other public sector and commercial service providers.

In terms of the technical challenges that the finance team face around the production of the statement of accounts, we will continue to work with them to share our knowledge of new accounting developments and we will be on hand to discuss any issues as and when they arise.

A key focus in the coming year will be working with officers to ensure a smooth process to an earlier accounts and audit timetable that will take effect in the 2017/18 financial year. This work has already commenced and will continue during the course of the year.