



# The Joint Audit Findings for The Police and Crime Commissioner for Cumbria and The Chief Constable for Cumbria Constabulary

**Year ended 31 March 2017**

July 2017

**Robin Baker**

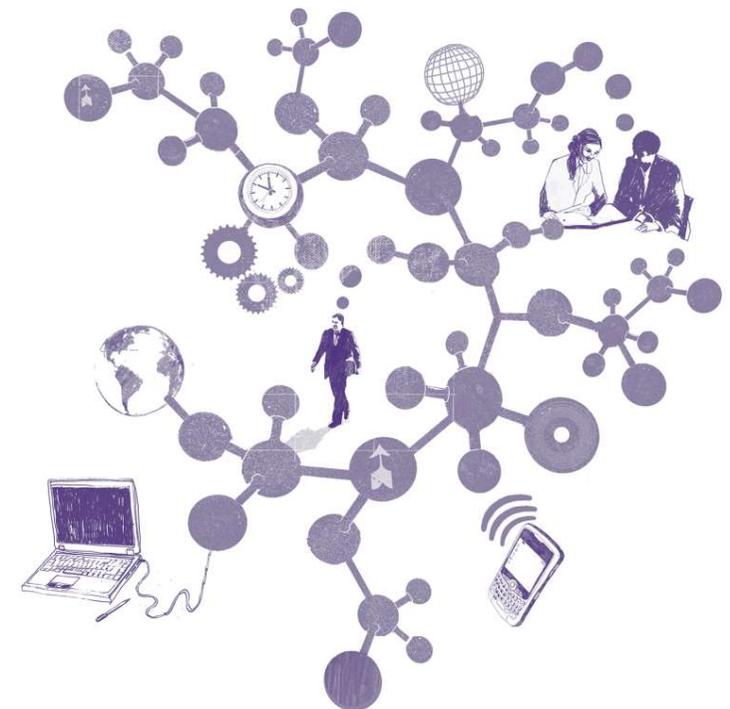
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July 2017

Dear Mr McCall and Mr Graham

### **Audit Findings for Cumbria Police and Crime Commissioner and Cumbria Chief Constable for the year ending 31 March 2017**

This Audit Findings report highlights the key findings arising from the audits of the Police and Crime Commissioner and Chief Constable for the benefit of those charged with governance, as required by International Standard on Auditing (UK & Ireland) 260, the Local Audit and Accountability Act 2014 and the National Audit Office Code of Audit Practice. For police bodies, those charged with governance are the Police and Crime Commissioner and the Chief Constable for the respective corporations sole. The contents of the report have been discussed with officers.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements and giving a value for money conclusion. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

We would like to take this opportunity to record our appreciation for the kind assistance provided by management, the finance team and other staff during our audit.

Yours sincerely

Robin Baker

Engagement Lead

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# Section 1: Executive summary

**01. Executive summary**

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**03. Value for Money**

**04. Other statutory powers and duties**

**05. Fees, non audit services and independence**

**06. Communication of audit matters**

## Purpose of this report

This report highlights the key issues affecting the results of Cumbria Police and Crime Commissioner ('the PCC') and Cumbria Chief Constable and the preparation of the financial statements of the group, the PCC and the Chief Constable for the year ended 31 March 2017. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing (UK & Ireland) 260, and the Local Audit and Accountability Act 2014 ('the Act').

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the PCC's and the Chief Constable's financial statements give a true and fair view of the financial position of the respective bodies and their income and expenditure for the year and whether the financial statements have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting.

We are also required to consider other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report), whether it is consistent with the financial statements or materially inconsistent with our knowledge of the PCC and the Chief Constable.

We are required to carry out sufficient work to satisfy ourselves on whether the PCC and the Chief Constable have each made proper arrangements to secure economy, efficiency and effectiveness in their use of resources ('the value for money (VFM) conclusion'). Auditor Guidance Note 7 (AGN07) clarifies our reporting requirements in the Code and the Act. We are required to provide conclusions whether in all significant respects, the PCC and the Chief Constable have each put in place proper arrangements to secure value for money through economic, efficient and effective use of their resources for the relevant period.

The Act also details the following additional powers and duties for local government auditors, which we are required to report to you if applied:

- a public interest report if we identify any matter that comes to our attention in the course of the audits that in our opinion should be considered by the PCC or the Chief Constable or both, or brought to the public's attention (section 24 of the Act);
- written recommendations which should be considered by the PCC or the Chief Constable or both and responded to publicly (section 24 of the Act);
- application to the court for a declaration that an item of account is contrary to law (section 28 of the Act);
- issue of an advisory notice (section 29 of the Act); and
- application for judicial review (section 31 of the Act).

We are also required to give electors the opportunity to raise questions about the accounts and consider and decide upon objections received in relation to the accounts under sections 26 and 27 of the Act.

## Introduction

In the conduct of our audit we have not had to alter or change our audit approach, which we communicated to you in our Joint Audit Plan dated 2 March 2017.

Our audit is substantially complete although we are finalising our procedures in the following areas:

- Information on the movements in pension membership data during the 2016/17 year;
- Receipt of a response to our request for information from the auditor of the Local Government Pension Fund;
- Review of the final version of the financial statements;
- Review of revised versions of the Annual Governance Statements;
- Review of the management letters of representation; and
- Update of our post balance sheet events review, to the date of signing the opinion.

We received draft financial statements and excellent accompanying working papers at the commencement of our work, in accordance with the agreed timetable.

## Key audit and financial reporting issues

### Financial statements opinion

We have identified no adjustments affecting either the Chief Constable's or the PCC's reported financial position. The financial statements for the group for the year ended 31 March 2017 recorded net expenditure on the provision of services of £25.62 million. We have recommended a small number of adjustments to improve the presentation of the financial statements.

The key messages arising from our audit of the PCC's and Chief Constable's financial statements are:

- The draft financial statements were prepared and provided to the audit team by 31 May 2017, in advance of the statutory timetable;
- The financial statements were of a very high standard, with only minor amendments required;
- The accounts were supported by excellent quality working papers which supported the figures in the accounts and clearly evidenced the judgements made; and
- The finance team were proactive in engaging with the audit team in order to complete significant amounts of audit work before our visit in June 2017.

Further details are set out in section two of this report.

At this stage there are no material errors or uncertainties arising from our audit. We anticipate providing a unqualified audit opinion in respect of the PCC's financial statements, including the group financial statements, which consolidate the financial activities of the Chief Constable (see Appendix A). We also anticipate providing an unqualified opinion in respect of the Chief Constable's financial statements (see Appendix B).

### Other financial statement responsibilities

As well as an opinion on the financial statements, we are required to give an opinion on whether other information published together with each of the audited financial statements is consistent with the financial statements. This includes considering if the Annual Governance Statements do not meet the disclosure requirements set out in the CIPFA / SOLACE guidance or are misleading or inconsistent with the information of which we are aware from our audits.

Based on our review of the PCC's and Chief Constable's Narrative Reports and AGSs we are satisfied that they are consistent with the audited financial statements. We are also satisfied that the AGSs meet the requirements set out in the CIPFA / SOLACE guidance and that the disclosures included in the Narrative Reports are in line with the requirements of the CIPFA Code of Practice.

## Controls

### Roles and responsibilities

The PCC's and Chief Constable's management are responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the systems of internal control.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to the PCC and Chief Constable.

### Findings

Our work has not identified any control weaknesses which we wish to highlight for your attention.

Further details are provided within section two of this report.

## **Value for Money**

Based on our review, we are satisfied that, in all significant respects, the PCC and Chief Constable each had proper arrangements in place to secure economy, efficiency and effectiveness in their use of resources.

The PCC and Chief Constable have appropriate arrangements in place to manage their financial position and the Constabulary has considered the potential impact of changes to the Police Funding Formula and how it would respond. The Constabulary has been assessed as good in Her Majesty's Inspectorate of Constabulary's (HMIC's) Police effectiveness, efficiency and legitimacy (PEEL) review 2016 and has arrangements in place to respond to HMIC reports.

Further detail of our work on Value for Money are set out in section three of this report.

## **Other statutory powers and duties**

We have not identified any issues that have required us to apply our statutory powers and duties under the Act.

Further details of our work on other statutory powers and duties is set out in section four of this report.

## **The way forward**

Matters arising from the financial statements audits and our review of the PCC's and Chief Constable's arrangements for securing economy, efficiency and effectiveness in their use of resources have been discussed with the Joint Chief Finance Officer of the PCC and Chief Constable, as well as with the PCC and Chief Constable as the two individuals charged with overall governance for the office of the PCC and the Constabulary respectively.

## **Acknowledgement**

We would like to take this opportunity to record our appreciation for the assistance provided by management, the finance team and other officers in both the office of the PCC and the police force during our audits.

**Grant Thornton UK LLP**  
**July 2017**

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## Section 2: Audit findings

01. Executive summary

**02. Audit findings**

03. Value for Money

04. Other statutory powers and duties

05. Fees, non audit services and independence

06. Communication of audit matters

# Materiality

In performing our audits, 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'.

As we reported in our joint audit plan, we determined overall materiality for the financial statements as a proportion of the smaller of gross revenue expenditure of the PCC and the gross revenue expenditure of the Chief Constable. This was £2,750,000 (being 2% of gross revenue expenditure of the PCC (Single Entity)). We have considered whether this level remained appropriate during the course of the audits and have made no changes to our overall materiality.

We also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulated effect of such amounts would have a material impact on the financial statements. We have defined the amount below which misstatements would be clearly trivial to be £137,000. This remains the same as reported in our audit plan.

As we reported in our audit plan, we identified the following items where we decided that separate materiality levels were appropriate. These remain the same as reported in our audit plan.

Balance/transaction/disclosure	Explanation	Materiality level
Disclosures of officers' remuneration, salary bandings and exit packages in notes to the statements	Due to public interest in these disclosures and the statutory requirement for them to be made.	£10,000
Related Party Transactions	Due to public interest in these disclosures and the statutory requirement for them to be made.	£10,000 – individual misstatements will also be evaluated with reference to how material they are to the other party.

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; Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered. (ISA (UK&I) 320)

# Audit findings against significant risks

In this section we detail our response to the significant risks of material misstatement which we identified in the Joint Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

	Risks identified in our audit plan	Relevant to PCC / Chief Constable / Both?	Work completed	Assurance gained and issues arising
1	<p><b>The revenue cycle includes fraudulent transactions</b></p> <p>Under ISA (UK&amp;I) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	Both	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams, we have determined that the risk of fraud arising from revenue recognition can be rebutted for both the PCC and Chief Constable because:</p> <ul style="list-style-type: none"> <li>• there is little incentive to manipulate revenue recognition;</li> <li>• for the PCC opportunities to manipulate revenue recognition are very limited as revenue is principally grant allocations from central and local government;</li> <li>• for the Chief Constable opportunities to manipulate revenue recognition are very limited as revenue is principally an inter-group transfer from the PCC, with no cash transactions; and</li> <li>• the culture and ethical frameworks of local authorities, including Cumbria PCC and Chief Constable, mean that all forms of fraud are seen as unacceptable.</li> </ul>	Our audit work has not identified any issues in respect of revenue recognition.
2	<p><b>Management over-ride of controls</b></p> <p>Under ISA (UK&amp;I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.</p>	Both	<ul style="list-style-type: none"> <li>• review and challenge of accounting estimates, judgements and decisions made by management</li> <li>• review of journal entry process and selection of unusual journal entries for testing back to supporting documentation</li> <li>• review of unusual significant transactions</li> </ul>	<p>Our audit work has not identified any evidence of management over-ride of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgements.</p>

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty." (ISA (UK&I) 315) . In making the review of unusual significant transactions "the auditor shall treat identified significant related party transactions outside the entity's normal course of business as giving rise to significant risks." (ISA (UK&I) 550)

# Audit findings against significant risks continued

We have also identified the following significant risk of material misstatement from our understanding of the entities. We set out below the work we have completed to address this risk.

	Risks identified in our audit plan	Relevant to PCC / Chief Constable / Both?	Work completed	Assurance gained and issues arising
3	<p><b>Valuation of pension fund net liability</b></p> <p>The Local Government Pension Scheme (LGPS) pension net liability as reflected in the balance sheet, and asset and liability information disclosed in the notes to the accounts, represent significant estimates in the financial statements.</p> <p>The Police Officer Pension Schemes pension fund liability as reflected in its balance sheet and notes to the accounts represent significant estimates in the financial statements.</p> <p>These estimates by their nature are subject to significant estimation uncertainty, being very sensitive to small adjustments in the assumptions used.</p>	Both	<ul style="list-style-type: none"> <li>documentation of the key controls that were put in place by management to ensure that the pension fund liability was not materially misstated.</li> <li>walkthrough of the key controls to assess whether they were implemented as expected and mitigate the risk of material misstatement in the financial statements.</li> <li>review of the competence, expertise and objectivity of the actuaries who carried out the pension fund valuations. This was Mercer for the LGPS and the Government Actuary Department (GAD) for the Police Officer Pension Scheme</li> <li>gaining an understanding of the basis on which the IAS 19 valuations were carried out, undertaking procedures to confirm the reasonableness of the actuarial assumptions made.</li> <li>review of the consistency of the pension fund asset, (LGPS only) and liability and disclosures in notes (LGPS and Police Officer Pension Scheme) to the financial statements with the actuarial reports from your actuaries (Mercer and GAD).</li> </ul>	<p>Our audit work has not identified any issues in respect of the valuation of the pension fund net liability.</p> <p>We are satisfied that the entries and disclosures in the PCC, PCC Group and Chief Constable's accounts for pension fund asset (LGPS only), liability and disclosures in notes (LGPS and Police Officer Pension Scheme) are consistent with the actuarial reports from Mercer and GAD.</p>

# Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Joint Audit Plan. Recommendations, together with management responses are attached at appendix A.

Transaction cycle	Description of risk	Relevant to PCC / Chief Constable / Both?	Work completed	Assurance gained & issues arising
<b>Employee remuneration</b>	Employee remuneration accruals understated	Both	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>documented our understanding of processes and key controls over the transaction cycle</li> <li>undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding</li> <li>tested the reconciliation of payroll expenditure recorded in the general ledger to the subsidiary systems and interfaces</li> <li>analysed trends and relationships to identify any anomalous areas for further investigation</li> <li>tested the completeness of payroll transactions and appropriate cut-off</li> </ul>	Our audit work has not identified any significant issues in relation to the risk identified.
<b>Operating expenses</b>	Creditors understated or not recorded in the correct period.	Both	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>documented our understanding of processes and key controls over the transaction cycle</li> <li>undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding</li> <li>tested the reconciliation of operating expenditure recorded in the general ledger to the subsidiary systems and interfaces</li> <li>tested payments made after the year-end to identify potential unrecorded liabilities and gain assurance over the completeness of the payables balance in the account</li> </ul>	Our audit work has not identified any significant issues in relation to the risk identified.

"In respect of some risks, the auditor may judge that it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures. Such risks may relate to the inaccurate or incomplete recording of routine and significant classes of transactions or account balances, the characteristics of which often permit highly automated processing with little or no manual intervention. In such cases, the entity's controls over such risks are relevant to the audit and the auditor shall obtain an understanding of them." (ISA (UK&I) 315)

# Audit findings against other risks continued

Transaction cycle	Description of risk	Relevant to PCC / Chief Constable / Both?	Work completed	Assurance gained & issues arising
<p><b>Police Pensions Benefits Payable</b></p>	<p>Benefits improperly computed / Claims liability understated</p>	<p>Both</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>documented our understanding of processes and key controls over the transaction cycle</li> <li>undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding</li> <li>tested the reconciliation of benefit payments recorded in the general ledger to subsidiary systems and interfaces</li> <li>analytically reviewed pensions paid, with reference to pensioner numbers and pension changes in year to ensure that any unexpected changes are satisfactorily explained</li> <li>substantive testing of lump sum payments and monthly benefit payments made in year</li> </ul>	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p>
<p><b>Valuation of Property, plant and equipment</b></p>	<p>The PCC revalues its assets on a rolling basis over a five year period. The Code requires that the PCC ensures that the carrying value at the balance sheet date is not materially different from the current value. This represents a significant estimate by management in the financial statements.</p>	<p>PCC</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>reviewed management's processes and assumptions for the calculation of the estimate</li> <li>reviewed the competence, expertise and objectivity of management's expert (Carigiet Cowen)</li> <li>reviewed the instructions issued to the valuer (Carigiet Cowen) and the scope of their work</li> <li>discussed with the valuer about the basis on which the valuation was carried out and challenge of the key assumptions</li> <li>reviewed and challenged the information used by the valuer to ensure it was robust and consistent with our understanding</li> <li>tested revaluations made during the year to ensure they were input correctly into the PCC's asset register</li> <li>evaluated the assumptions made by management for those assets not revalued during the year, and how management has satisfied themselves that their values are not materially different to current value</li> </ul>	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p> <p>The PCC revalued 47% of its land and buildings in 2016/17. We are satisfied that the value of those assets not revalued during the year was not materially different to their reported value at 31 March 2017.</p>

## Audit findings against other risks continued

### **Going concern**

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK&I) 570).

We reviewed management's assessment of the going concern assumption for each of the PCC and the Chief Constable and are satisfied with their assessment that the going concern basis is appropriate for the 2016/17 financial statements.

# Group audit scope and risk assessment

ISA (UK&I) 600 requires that as Group auditors we obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

Component	Significant?	Level of response required under ISA 600	Work completed	Assurance gained & issues raised
Police and Crime Commissioner (parent)	Yes	Comprehensive	Full scope UK statutory audit performed by Grant Thornton	Our audit work has not identified any issues in respect of the risks on pages 10 to 14.
Chief Constable (subsidiary)	Yes	Comprehensive	Full scope UK statutory audit performed by Grant Thornton	Our audit work has not identified any issues in respect of the risks on pages 10 to 14.

# Accounting policies, estimates and judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the PCC's and Chief Constable's financial statements.

Accounting area	Summary of policy	Comments	Assessment
<b>Revenue recognition</b>	<p><b>PCC</b></p> <ul style="list-style-type: none"> <li>Revenue from the provision of services is recognised when the percentage completion of the transaction can be reliably measured and that it is probable that economic benefits or service potential associated with the transaction will flow.</li> <li>Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due when there is reasonable assurance of:                             <ul style="list-style-type: none"> <li>- compliance with the conditions attached to the payments, and</li> <li>- the grants or contributions will be received.</li> </ul>                             Amounts recognised as due are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied.                         </li> </ul> <p><b>Chief Constable</b></p> <ul style="list-style-type: none"> <li>In accordance with the statutory responsibility of the Commissioner to maintain the Police Fund outlined in the Police and Social Responsibility Act 2011, all grants and contributions are attributable to the Commissioner and recorded in his accounts.</li> </ul>	<p>Our review of accounting policies for each of the PCC and Chief Constable has not highlighted any issues which we wish to bring to your attention.</p> <p>Policies are in accordance with the requirements of the CIPFA Code of Practice.</p>	 <b>GREEN</b>
<b>Judgements and estimates</b>	<p><b>PCC</b></p> <ul style="list-style-type: none"> <li>Key judgements and estimates are set out in notes 1 and 3 respectively and include:                             <ul style="list-style-type: none"> <li>- uncertainty over future police funding;</li> <li>- treatment of assets and liabilities under PFI contracts;</li> <li>- PPE valuations; and</li> <li>- pensions liability valuations.</li> </ul> </li> </ul> <p><b>Chief Constable</b></p> <ul style="list-style-type: none"> <li>Key judgements and estimates are set out in notes 1 and 3 respectively and include:                             <ul style="list-style-type: none"> <li>- uncertainty over future police funding;</li> <li>- calculation of provisions;</li> <li>- pensions liability valuations.</li> </ul> </li> </ul>	<p>We have reviewed the PCC's and Chief Constable's judgements and estimates against the requirements of the CIPFA Code of Practice.</p> <ul style="list-style-type: none"> <li>Where the PCC or Chief Constable has made judgements or estimates in the financial statements these have been supported with robust and clear explanation of the assumptions applied.</li> <li>Provisions estimates added into PCC Group disclosures</li> <li>PPE valuations and pension liability valuations are considered separately on the next page.</li> </ul>	 <b>GREEN</b>

**Assessment**

● Marginal accounting policy which could potentially attract attention from regulators  
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● Accounting policy appropriate but scope for improved disclosure

● Accounting policy appropriate and disclosures sufficient

# Accounting policies, estimates and judgements continued

Accounting area	Summary of policy	Comments	Assessment
<p><b>Judgements - changes to the presentation of local authority financial statements</b></p>	<p>CIPFA has been working on the 'Telling the Story' project to streamline the financial statements and improve accessibility to the user and this resulted in changes to the 2016/17 CIPFA Code of Practice.</p> <p><b>PCC &amp; Chief Constable</b></p> <p>The changes affect the presentation of income and expenditure in the financial statements and associated disclosure notes. A prior period adjustment (PPA) to restate the 2015/16 comparative figures was also required.</p> <p>Previously the PCC and Chief Constable chose to report expenditure and income in the Comprehensive Income and Expenditure Statement on the basis of descriptors provided by the Police Objective Analysis.</p> <p>This reporting is now required to be on the same segmental basis as that used for internal reporting and resource management.</p> <p>Neither the PCC nor the Chief Constable report on a segmental basis internally. Reporting is instead performed on a subjective basis. Both entities therefore consider that they are a single reportable segment for the purposes of the new requirements.</p> <p>Disclosure of this prior period adjustment is made in Note 22 to the Chief Constable's financial statements, and 35 in the PCC's group financial statements.</p>	<p>We have documented and evaluated the process for the recording the required financial reporting changes to the 2016/17 financial statements.</p> <p>We have confirmed that a single reporting segment is in line with the PCC's and Chief Constable's internal reporting structure, and we have tested the completeness of income and expenditure transactions by reviewing the reconciliation of the CIES to the general ledger.</p> <p>We have reviewed the restatement of the figures included in the 2015/16 Comprehensive Income and Expenditure Statement, and confirmed that the classification of income and expenditure for 2016/17 is consistent with this.</p> <p>We have tested the classification of income and expenditure reported within the new Expenditure and Funding Analysis note to the financial statements.</p> <p>We have reviewed the appropriateness of the revised grouping of entries within the Movement In Reserves Statement.</p> <p>We are satisfied that the Chief Constable's and PCC's 2016/17 financial statements meet the requirements of the CIPFA Code of Practice, and fairly reflects the reporting and decision-making structure in place at Cumbria Police.</p>	<p style="text-align: center;">   <b>GREEN</b> </p>

**Assessment**

● Marginal accounting policy which could potentially attract attention from regulators  
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● Accounting policy appropriate but scope for improved disclosure

● Accounting policy appropriate and disclosures sufficient

# Accounting policies, estimates and judgements continued

Accounting area	Summary of policy	Comments	Assessment
<p><b>Judgements - pension fund liability</b></p>	<p><b>PCC &amp; Chief Constable</b></p> <p><b>Local Government Pension Scheme (LGPS)</b></p> <p>The LGPS is the pension scheme for police staff. This is a funded defined benefit scheme.</p> <p>The scheme is administered by Cumbria County Council.</p> <p>The liability showing the underlying long term commitment to fund future retirement benefits is shown on the relevant PCC and CC balance sheet with a corresponding pension reserve.</p> <p><b>Police Officers Pension Schemes</b></p> <p>The Chief Constable operates three pension schemes for police officers. These are the Police Pension Scheme, the 2008 Police Pension Scheme, and the 2015 Police Pension Scheme. All of these are unfunded defined benefit schemes.</p> <p>The financial liability for these schemes appears on the Chief Constable's balance sheet with a corresponding pension reserve.</p> <p>The liabilities relating to these schemes increased by £230.7 million in 2016/17. The liability stood at £1,243.1 million at 31 March 2017.</p>	<p>For both LGPS and the three police officer pension schemes we have undertaken a review of the relevant actuary's (Mercer for LGPS and GAD for police schemes) work to satisfy ourselves that the pension liabilities are fairly stated in the financial statements. In doing so we engaged our own independent actuary to assess the methodology and assumptions used by the schemes' actuaries.</p> <p>For LGPS we have confirmed with the external auditor of the pension fund that the controls over membership data were operating as intended. For the three police pension schemes we have performed audit procedures on membership data to ensure it is consistent with our expectations.</p> <p>For both LGPS and the police pension schemes we have reviewed the information submitted to the actuaries to confirm that it is consistent with underlying records.</p> <p>The pension fund liabilities are most sensitive to changes in the following key assumptions:</p> <ul style="list-style-type: none"> <li>• Discount rate;</li> <li>• Mortality;</li> <li>• Inflation; and</li> <li>• Future salary increases.</li> </ul> <p>For both LGPS and the police pension schemes we have reviewed the assumptions used for each of these variables. Our own independent actuary has also confirmed that they are comfortable that the assumptions used by both Mercer and GAD are reasonable for the purpose of valuing the liabilities at 31 March 2017.</p>	<p style="text-align: center;">   <b>GREEN</b> </p>

**Assessment**

● Marginal accounting policy which could potentially attract attention from regulators  
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● Accounting policy appropriate but scope for improved disclosure

● Accounting policy appropriate and disclosures sufficient

# Accounting policies, estimates and judgements continued

Accounting area	Summary of policy	Comments	Assessment
<b>Judgements - property, plant and equipment</b>	<p><b>PCC</b></p> <p>The CIPFA Code requires that authorities revalue their land and building assets on a regular basis. The PCC engaged Carigiet Cowen, a firm of chartered surveyors, to provide land and building valuations for financial reporting purposes.</p> <p>The PCC revalues its PPE assets on a rolling programme. For the land and building assets not revalued in 2016/17, the external valuer undertook a review to determine whether it was necessary to increase or decrease the value of all the properties in aggregate. The valuer concluded that properties were not materially misstated at 31 March 2017.</p>	<p>We have undertaken a detailed review of the work performed by Carigiet Cowen to provide land and building valuations for financial reporting purposes.</p> <p>We are satisfied from our review that the methodology and assumptions used by Carigiet Cowen were reasonable.</p> <p>We are satisfied that the PCC's non-current assets are not materially misstated as at 31 March 2017.</p>	<p style="text-align: center;"> <b>GREEN</b></p>
<b>Intra-Group funding arrangements and cost recognition</b>	<p><b>PCC &amp; Chief Constable</b></p> <p>The costs of overheads and support services are incorporated within the cost of Policing and Crime Services line of the comprehensive income and expenditure statement in accordance with the principles of the CIPFA Code of practice on Local Authority Accounting which requires costs to shown on the same basis as used for resource management.</p> <p>Under the Commissioner's funding arrangement to the Chief Constable premises costs (except where they are directly attributable to the Chief Constable) are initially recorded in the accounts of the Commissioner and a recharge is made to the Chief Constable in the single entity Comprehensive Income and Expenditure Statements on an appropriate basis. Transport and supplies and services costs (except where they are directly attributable to the Commissioner) are initially recorded in the accounts of the Chief Constable and a recharge is made to the Commissioner in the single entity Comprehensive Income and Expenditure Statements on an appropriate basis</p>	<p>Our review of accounting policies for each of the PCC and Chief Constable has not highlighted any issues which we wish to bring to your attention.</p> <p>Policies are in accordance with the requirements of the CIPFA Code of Practice.</p>	<p style="text-align: center;"> <b>GREEN</b></p>
<b>Other accounting policies</b>	<p><b>PCC &amp; Chief Constable</b></p> <p>We have reviewed the PCC's and Chief Constable's policies against the requirements of the CIPFA Code of Practice. The accounting policies are appropriate and consistent with previous years.</p>	<p>Our review of accounting policies for each of the PCC and Chief Constable has not highlighted any issues which we wish to bring to your attention.</p>	<p style="text-align: center;"> <b>GREEN</b></p>

**Assessment**

● Marginal accounting policy which could potentially attract attention from regulators  
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● Accounting policy appropriate but scope for improved disclosure

● Accounting policy appropriate and disclosures sufficient

# Other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

	Issue	Commentary
1.	<b>Matters in relation to fraud</b>	We have previously discussed the risk of fraud with the Joint Audit and Standards Committee, the PCC and the Chief Constable. We have not been made aware of any incidents in the period and no other issues have been identified during the course of our audit procedures.
2.	<b>Matters in relation to related parties</b>	From the work we carried out, we have not identified any related party transactions which have not been disclosed.
3.	<b>Matters in relation to laws and regulations</b>	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
4.	<b>Written representations</b>	A standard letter of representation has been requested from each of the PCC and Chief Constable, with the PCC's including specific representations in respect of the Group.
5.	<b>Confirmation requests from third parties</b>	We requested from management permission to send confirmation requests to the PCC's bank and investment counter-parties. This permission was granted and the requests were sent. The majority of these requests were returned with positive confirmation, however 2 requests were not received so we undertook alternative procedures, including review of initial investment agreements and correspondence, and review of online banking facilities.
6.	<b>Disclosures</b>	Our review found no material omissions in the financial statements.
7.	<b>Matters on which we report by exception</b>	We are required to report on a number of matters by exception in a number of areas. We have not identified any issues we would be required to report by exception in the following areas: <ul style="list-style-type: none"> <li>• If the Annual Governance Statements do not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audits</li> <li>• The information in the Narrative Reports is materially inconsistent with the information in the audited financial statements or our knowledge of the PCC and Chief Constable acquired in the course of performing our audit, or otherwise misleading.</li> </ul>
8.	<b>Specified procedures for Whole of Government Accounts</b>	We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. Note that detailed work is not required as the PCC Group does not exceed the threshold.

## Internal controls

The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

The controls were found to be operating effectively and we have no matters to report to the Joint Audit and Standards Committee.

We are currently finalising our work on the Oracle E-business suite system. No issues have been identified which would be likely to have a material impact on the accounts but we are likely to make some suggested improvements to user access controls and passwords.

"The purpose of an audit is for the auditor to express an opinion on the financial statements.

Our audit included consideration of internal control relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control.

The matters being reported are limited to those deficiencies that the auditor has identified during the audit and that the auditor has concluded are of sufficient importance to merit being reported to those charged with governance." (ISA (UK&I) 265)

## Adjusted misstatements – Chief Constable, Police and Crime Commissioner and Group

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

We have not identified any adjustments to the Chief Constable's or the PCC's draft accounts during the audit process. No such adjustments have been made by management.

## Unadjusted misstatements – Chief Constable, Police and Crime Commissioner and Group

Those charged with governance are required to approve management's proposed treatment of any adjustments that are not adjusted.

There are no such unadjusted items as a result of our audit.

# Impact of uncorrected misstatements in the prior year – Chief Constable, PCC and Group

Detail	Action taken in 2016/17 Accounts
<p><b>1</b> In 2015/16 the Chief Constable became liable for commutation redress payments totalling £2,541,000 as a result of the pensions Ombudsman's findings in Milne vs. the Government Actuary's Department (GAD).                      These payments were correctly treated in the Police Pension Fund Account, but the increase in the liability and the subsequent benefit payments had been omitted from the actuarial adjustments in the Chief Constable's main financial statements and the PCC Group accounts.                      The adjustments would only have impacted on the Comprehensive Income and Expenditure Statement, by changing which line in the statement contained the cost of the payments. They would have had no impact on the Chief Constable's Total Comprehensive Income for 2015/16, the Chief Constable's year end pension liability, or the Chief Constable's reserve balances.                      These adjustments would have had no impact on the single entity accounts of the PCC, however they would have flowed through to the consolidated group accounts.</p>	<p>This related to a single issue that was specific to 2015/16. It has no impact on the 2016/17 accounts.</p>

## Misclassifications and disclosure changes – Chief Constable, PCC and Group

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Relevant to PCC / Chief Constable / Both?	Adjustment type	Value £'000	Account balance	Impact on the financial statements				
1 Both	Disclosure	n/a	Expenditure and Funding Analysis (EFA)	The Expenditure and Funding Analysis (EFA) has been included within the primary statements in the draft accounts for both the Chief Constable and the PCC. The Code does not classify the EFA as a statement, however Management consider that its placement, within the primary statements, best meet the Code requirement to give the EFA due prominence. After discussion it was agreed that the Expenditure and Funding Analysis should be moved from the primary statements section to the section for notes to the accounts for both the PCC and Chief Constable.				
2 PCC (Group)	Disclosure	n/a	Note 4 – Assumptions made about the future and other sources of estimation uncertainty	The disclosures made within the Chief Constable’s accounts about estimation uncertainty on provisions have now been included within the disclosures for the PCC Group.				
3 Both	Disclosure	4,360	Annex B - Financial Instruments	<p>Intra-group balances have been omitted from the single-entity financial instruments disclosures. In accordance with the funding arrangement in place between the PCC and the Chief Constable, the PCC owes the Chief Constable funding at 31 March 2017 to cover the Chief Constable’s share of financial liabilities.</p> <p>Balances have been added as follows:</p> <table style="margin-left: 40px;"> <tr> <td>Chief Constable Financial Asset</td> <td style="text-align: right;">£4,360,000</td> </tr> <tr> <td>PCC Financial Liability</td> <td style="text-align: right;">£4,360,000</td> </tr> </table> <p>In addition, reference has been added within the narrative in Annex B to the fair value hierarchy, so that the disclosures are compliant with the Code.</p>	Chief Constable Financial Asset	£4,360,000	PCC Financial Liability	£4,360,000
Chief Constable Financial Asset	£4,360,000							
PCC Financial Liability	£4,360,000							

## Misclassifications and disclosure changes continued – Chief Constable, PCC and Group

	Relevant to PCC / Chief Constable / Both?	Adjustment type	Value £'000	Account balance	Impact on the financial statements
4	Both	Disclosure	n/a	Annex D – Annual Governance Statements (AGS)	To ensure full compliance with the requirements one minor change was made to the PCC AGS. Several changes made to the Chief Constable’s AGS to provide commentary on how compliance with relevant laws and procedures is ensured, that they promptly consider external audits findings and recommendations and arrangements in place for good governance for partnerships and joint working.
5	Both	Disclosure	n/a	Various	A small number of minor changes have been made to the wording and presentation of disclosure notes throughout the Financial Statements to improve their clarity.

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## Section 3: Value for Money

01. Executive summary

02. Audit findings

**03. Value for Money**

04. Other statutory powers and duties

05. Fees, non-audit services and independence

06. Communication of audit matters

## Background

We are required by section 21 of the Local Audit and Accountability Act 2014 ('the Act') and the NAO Code of Audit Practice ('the Code') to satisfy ourselves that the PCC and Chief Constable have each put in place proper arrangements for securing economy, efficiency and effectiveness in their use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at both the Office of the PCC and the Force. The Act and NAO guidance state that for local government bodies, auditors are required to give a conclusion on whether the PCC and Chief Constable have put proper arrangements in place.

In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2016. AGN 03 identifies one single criterion for auditors to evaluate:

*In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.*

AGN03 provides examples of proper arrangements against three sub-criteria but specifically states that these are not separate criteria for assessment purposes and that auditors are not required to reach a distinct judgement against each of these.

## Risk assessment

We carried out an initial risk assessment in February 2017 and identified the following significant risks, which we communicated to you in our Joint Audit Plan dated 2 March 2017.

- Financial sustainability
- Response to PEEL review

We identified risks in respect of specific areas of proper arrangements using the guidance contained in AGN03.

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

We carried out further work only in respect of the significant risks we identified from our initial and ongoing risk assessment.

### **Significant qualitative aspects**

AGN 03 requires us to disclose our views on significant qualitative aspects of the PCC's and Chief Constable's arrangements for delivering economy, efficiency and effectiveness. We have focused our work on the significant risks that we identified in the PCC's and Chief Constable's arrangements. In arriving at our conclusion, our main considerations were:

- the reasonableness of the assumptions in the 2018-19 to 2020-21 financial forecasts,
- how the Constabulary has considered various scenarios about the potential impact resulting from Police Funding Formula (PFF) changes and how it might address any impact,
- how the Constabulary develops its improvement plans for each of Her Majesty's Inspectorate of Constabulary (HMIC) reports and how it monitors their implementation.

We have set out more detail on the risks we identified, the results of the work we performed and the conclusions we drew from this work later in this section.

### **Overall conclusion – Police and Crime Commissioner**

Based on the work we performed to address the significant risks, we concluded that the PCC had proper arrangements in all significant respects to ensure they delivered value for money in their use of resources. The text of our report which confirm this, can be found at Appendix A.

### **Overall conclusion – Chief Constable**

Based on the work we performed to address the significant risks, we concluded that the Chief Constable had proper arrangements in all significant respects to ensure they delivered value for money in their use of resources. The text of our report which confirm this, can be found at Appendix B.

## Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Work to address	Findings and conclusions
<p><b>Financial sustainability</b></p> <p>The PCC has set a balanced budget for 2017/18 but even so there is still a need to find around £2 million of savings between 2018/19 and 2020/21. At the end of December 2016 the Constabulary was projecting an overspend for 2016/17 of £1.079 million. Even though Cumbria Police has a good record of delivering savings through its 'Change Strategy' delivering further savings of £2 million and ensuring that the Constabulary can continue to delivery policing services but within budget represents a significant challenge.</p>	<p>We will review the PCC's and Chief Constable's arrangements for updating, agreeing and monitoring its financial plans including the assumptions within them. We will also consider the arrangements in place to monitor the delivery of the Change Strategy and how the Constabulary has planned to ensure it can stay within budget in future years.</p>	<p>The PCC and the Constabulary continue to face financial challenges but the Medium Term Financial Strategy (MTFS) 2016 – 2020 and updated forecasts 2018/19 to 2020/21 demonstrates their long-term financial viability. Key planning assumptions cover both internal and external factors such as Government funding, pay inflation, non-pay inflation and council tax increases. These assumptions appear reasonable. There is a sound process in place to produce the MTFS and update projections.</p> <p>The PCC set the 2017/18 budget and Council tax requirement on 22 February 2017. This resulted in a balanced revenue budget for 2017/18 of £131.4 million and a Council Tax increase of 1.91%. As part of the annual budget setting process, the PCC's CFO provides an assessment of the adequacy of balances and reasonableness of assumptions and estimates used to produce the budget. There is also a formal process of challenge by the Police and Crime Panel.</p> <p>As part of the budget setting for 2017/18, the projections for 2018/19 to 2010/21 were updated and considered. This showed that savings of £2.09 million were required between 2018/19 and 2020/21. However, it was clear in the report that this excludes the potential impact of any changes to the Police Funding Formula (PFF). The position on the timing, amount and transitional arrangements of any Police funding formula changes is still to be confirmed but both the PCC and Chief Constable are well aware of the potential impact. The Constabulary has continued to work on various scenarios and how it might address any impact. This approach is reasonable and provides further evidence of on-going updating of financial plans.</p> <p>Historically, the MTFS is updated as part of a mid-year review but due to the uncertainty around the impact of the Police Funding Formula (PFF), this has not been updated during the year but only for the budget setting process in February 2017. We are satisfied this is a reasonable approach and we were present when the PCC Chief Finance Officer briefed Joint Audit and Standards Committee (JASC) members on progress on the funding formula and potential impact.</p> <p>Previously the Constabulary specifically monitored progress on delivery of the 'Change Strategy 2010' to ensure it remained on track. However, for 2016/17 approximately £2.5 million was removed from the base budget for Change Programme savings from major reviews of the Communications Centre, Criminal Justice and Neighbourhood Policing Teams. In addition, another £1.5 million of savings removed from non-pay budgets identified through the star chambers and zero based budget exercises. This meant that no specific monitoring of the delivery of savings was required as reviewed as part of the Constabulary's regular arrangements for budget monitoring, which was also reported to the PCC.</p> <p>The Constabulary overspent its 2016/17 budget by £1.129 million of which £0.354 million related to core budgets and a further provision of £0.775 million for historic employee claims. The Constabulary has looked in detail at its budgets and the 2017/18 budget includes provision to resource the 2016/17 overspend and, where required, the 2017/18 budget has increased for areas such as Criminal Justice where a combination of new systems and legislation has required an additional staffing.</p> <p><b>Both the PCC and Chief Constable have in place robust arrangements to monitor and update their financial plans including the delivery of the required savings. They still face significant financial changes from any formula funding decisions. On this basis for we are able to conclude that the PCC and Chief Constable have proper arrangements in place for ensuring they plan finances effectively to support its strategic functions and their arrangements for ensuring informed decision making.</b></p>

Significant risk	Work to address	Findings and conclusions
<p><b>Police effectiveness, efficiency and legitimacy (PEEL) review</b></p> <p>The PEEL review 2016 has assessed Cumbria Constabulary overall as 'Good' with individual assessments for effectiveness, efficiency and legitimacy all rated as 'Good'. This represents an overall improvement in respect of effectiveness which was assessed in 2015 as 'Requires improvement'. However, the key area within Her Majesty's Inspectorate of Constabulary's (HMIC's) effectiveness inspection still requiring improvement relates to protecting vulnerable people. The Constabulary has arrangements to monitor the delivery of the required improvements. The risk is that these arrangements are not sufficiently robust to deliver the required improvements.</p>	<p>We will review how the Constabulary has monitored delivery of plans to address the findings of Her Majesty's Inspectorate of Constabulary (HMIC) reviews.</p>	<p>Cumbria Constabulary has a clear process in place to respond to the outcome of HMIC inspections. HMIC reports are considered in detail in terms of recommendations, Areas for Improvement (AFIs) and the observations in the reports. The detailed improvement plan for a report tends to have more actions in it than the number of recommendations and AFIs in the HMIC report but, by being more comprehensive, it facilitates better management and accurate progression of actions.</p> <p>The Constabulary has a strategic HMIC improvement plan. Progress against the overall HMIC improvement plan is reported on a monthly basis to the Operations Programme Board and every two to three months to Force Strategic Delivery Board, chaired by the Deputy Chief Constable (DCC). This process was introduced in 2015/16 and recommendations were reviewed going back to 2013. For high-risk areas the Business Improvement Unit reality checks actions identified as complete to confirm that actions have been implemented. In March 2017 the Joint Audit and Standards Committee (JASC) were provided with a useful summary of progress on implementing HMIC recommendations. This outlined the governance arrangements for HMIC reports, who had responsibility for implementing improvements and how progress was being monitored.</p> <p>The processes put in place by Cumbria Constabulary to implement HMIC recommendation, as part of its overall improvement agenda, has been key in delivering the improved PEEL assessment. The areas in the 2015 PEEL review in respect of vulnerable people were still being shown as 'being progressed' in the Constabulary's March 2017 improvement plan so not unexpected that these were raised in the 2016 PEEL review as still requiring improvement.</p> <p><b>There are arrangements in place to respond to HMIC reports and to develop and monitor action plans from the reviews. On this basis for we are able to conclude that the PCC and Chief Constable have proper arrangements in place for acting in the public interest through demonstrating and applying the principles of good governance.</b></p>

**Any other matters**

There were no other matters from our work which were significant to our consideration of your arrangements to secure value for money in your use of resources.

**Significant difficulties in undertaking our work**

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

**Significant matters discussed with management**

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

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## Section 4: Other statutory powers and duties

01. Executive summary

02. Audit findings

03. Value for Money

**04. Other statutory powers and duties**

05. Fees, non audit services and independence

06. Communication of audit matters

## Other statutory powers and duties

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We set out below details of other matters which we, as auditors, are required by the Act and the Code to communicate to those charged with governance.

	<b>Issue</b>	<b>Commentary</b>
1.	<b>Public interest report</b>	<ul style="list-style-type: none"><li>• We have not identified any matters that would require a public interest report to be issued.</li></ul>
2.	<b>Written recommendations</b>	<ul style="list-style-type: none"><li>• We have not made any written recommendations that the Group, PCC or Chief Constable is required to respond to publicly.</li></ul>
3.	<b>Application to the court for a declaration that an item of account is contrary to law</b>	<ul style="list-style-type: none"><li>• We have not used this duty.</li></ul>
4.	<b>Issue of an advisory notice</b>	<ul style="list-style-type: none"><li>• We have not used this duty.</li></ul>
5.	<b>Application for judicial review</b>	<ul style="list-style-type: none"><li>• We have not used this duty.</li></ul>

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## Section 5: Fees, non-audit services and independence

01. Executive summary

02. Audit findings

03. Value for Money

04. Other statutory powers and duties

**05. Fees, non audit services and independence**

06. Communication of audit matters

We confirm below our final fees charged for the audit and provision of non-audit services.

### Fees

	Proposed fee £	Final fee £
Police and Crime Commissioner audit	30,338	30,338
Chief Constable audit	15,000	15,000
<b>Total audit fees (excluding VAT)</b>	<b>45,338</b>	<b>45,338</b>

The proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA)

### Fees for other services

Service	Fees £
<b>Non-audit services</b>	
Provision of tax helpline	2,500
VAT healthcheck / review of VAT Manual	8,700

### Independence and ethics

Ethical Standards and ISA (UK&I) 260 require us to give you timely disclosure of matters relating to our independence. We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the PCC, PCC Group and Chief Constable. The table above summarises all non-audit services which were identified.

# Independence and non-audit services

We have considered whether non-audit services might be perceived as a threat to our independence as the PCC's and Chief Constable's auditor and have ensured that appropriate safeguards are put in place

	Service provided to	Fees	Threat?	Safeguard
Provision of tax helpline	The Police and Crime Commissioner for Cumbria	2,500	We have considered the possible threats to our independence in respect of self-interest, self review, management, advocacy, familiarity and intimidation. We concluded that no threats exist.	None required.
VAT healthcheck / review of VAT Manual	The Police and Crime Commissioner for Cumbria	8,700	We have considered the possible threats to our independence in respect of self-interest, self review, management, advocacy, familiarity and intimidation. We concluded that no threats exist.	None required.
	<b>TOTAL</b>	£,11,200		

The above non-audit services are consistent with the PCC's and Chief Constable's policy on the allotment of non-audit work to your auditor.

## Ethical Standard – June 2016

We must abide by ethical standards to ensure that appropriate safeguards are in place to preserve auditor independence. The tax services we provided to you in 2016/2017 are subject to the ethical standards that applied pre 17 June 2016. From 17 June 2016, the new ethical standards apply although in the case of the services we provided to you, this took effect from 1 April 2017. The new ethical standards introduced a list of non-audit services which cannot be provided to a public body while the firm is, or is proposed to be, the auditor. These prohibited services are set out in the Annex to the Auditor Guidance Note 1 (AGN 01) and include tax advice. Therefore, we are unable to provide you with tax helpline after 31 March 2017.

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## Section 6: Communication of audit matters

01. Executive summary

02. Audit findings

03. Value for Money

04. Other statutory powers and duties

05. Fees, non audit services and independence

**06. Communication of audit matters**

# Communication to those charged with governance

International Standards on Auditing ISA (UK&I) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

This document, The Audit Findings, outlines those key issues and other matters arising from the audit, which we consider should be communicated in writing rather than orally, together with an explanation as to how these have been resolved.

## Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by Public Sector Audit Appointments Limited (<http://www.psa.co.uk/appointing-auditors/terms-of-appointment/>)

We have been appointed as the PCC's and Chief Constable's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England at the time of our appointment. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the NAO (<https://www.nao.org.uk/code-audit-practice/about-code/>). Our work considers the PCC's and Chief Constable's key risks when reaching our conclusions under the Code.

It is the responsibility of the PCC and Chief Constable to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the PCC and Chief Constable are fulfilling these responsibilities.

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged Details of safeguards applied to threats to independence	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to auditor's report or emphasis of matter		✓
Unadjusted misstatements and material disclosure omissions		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓
Significant matters in relation to the Group audit including: Scope of work on components, involvement of group auditors in component audits, concerns over quality of component auditors' work, limitations of scope on the group audit, fraud or suspected fraud.	✓	✓

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# Appendices

**A. Audit opinion – Police and Crime Commissioner**

**B. Audit opinion – Chief Constable**

# Appendix A: Audit opinion – Police and Crime Commissioner

**We anticipate we will provide the PCC and the group with an unmodified audit report**

## **INDEPENDENT AUDITOR'S REPORT TO THE POLICE AND CRIME COMMISSIONER FOR CUMBRIA**

We have audited the financial statements of the Police and Crime Commissioner for Cumbria (the "Police and Crime Commissioner") for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014 (the "Act"). The financial statements comprise the Comprehensive Income and Expenditure Statement – Group, the Comprehensive Income and Expenditure Statement – PCC, the Movement in Reserves Statement - Group, the Movement in Reserves Statement – PCC, the Balance Sheet – PCC & Group, the Cash Flow Statement – PCC & Group and the related notes and Annexes A, B and C and include the Police Officer Pension Fund Account comprising the Police Officer Pension Fund Account, the Pension Fund Net Assets and Liabilities Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA / LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

This report is made solely to the Police and Crime Commissioner, as a body, in accordance with Part 5 of the Act and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Police and Crime Commissioner those matters we are required to state to the Police and Crime Commissioner in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Police and Crime Commissioner as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of the Joint Chief Financial Officer and auditor**

As explained more fully in the Statement of Responsibilities, the Joint Chief Financial Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA / LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17, which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law, the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the "Code of Audit Practice") and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Police and Crime Commissioner and Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Joint Chief Financial Officer; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Joint Chief Finance Officer Narrative Report and Annex D - Annual Governance Statement to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### **Opinion on financial statements**

In our opinion:

- the financial statements present a true and fair view of the financial position of the Police and Crime Commissioner and Group as at 31 March 2017 and of the Police and Crime Commissioner's and Group's expenditure and income for the year then ended; and
- the financial statements have been prepared properly in accordance with the CIPFA / LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and applicable law.

### **Opinion on other matters**

In our opinion, the other information published together with the audited financial statements in the Joint Chief Finance Officer Narrative Report and Annex D - Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the audited financial statements.

**Matters on which we are required to report by exception**

We are required to report to you if:

- in our opinion the Annual Governance Statement does not comply with the guidance included in ‘Delivering Good Governance in Local Government: Framework (2016)’ published by CIPFA and SOLACE; or
- we have reported a matter in the public interest under section 24 of the Act in the course of, or at the conclusion of the audit; or
- we have made a written recommendation to the Police and Crime Commissioner under section 24 of the Act in the course of, or at the conclusion of the audit; or
- we have exercised any other special powers of the auditor under the Act.

We have nothing to report in respect of the above matters.

**Conclusion on the Police and Crime Commissioner’s arrangements for securing economy, efficiency and effectiveness in its use of resources**

**Respective responsibilities of the Police and Crime Commissioner and auditor**

The Police and Crime Commissioner is responsible for putting in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

We are required under Section 20(1)(c) of the Act to be satisfied that the Police and Crime Commissioner has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Police and Crime Commissioner's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

**Scope of the review of the Police and Crime Commissioner's arrangements for securing economy, efficiency and effectiveness in its use of resources**

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2016, as to whether the Police and Crime 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. The Comptroller and Auditor General determined this criteria as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Police and Crime Commissioner put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether in all significant respects the Police and Crime Commissioner has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

**Conclusion**

On the basis of our work, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2016, we are satisfied that in all significant respects the Police and Crime Commissioner put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

**Certificate**

We certify that we have completed the audit of the financial statements of the Police and Crime Commissioner in accordance with the requirements of the Act and the Code of Audit Practice.

Robin Baker  
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Royal Liver Building  
Liverpool  
L3 1PS

Date

# Appendix B: Audit opinion – Chief Constable

**We anticipate we will provide the Chief Constable with an unmodified audit report**

## **INDEPENDENT AUDITOR'S REPORT TO THE CHIEF CONSTABLE FOR CUMBRIA CONSTABULARY**

We have audited the financial statements of the Chief Constable for Cumbria Constabulary (the "Chief Constable") for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014 (the "Act"). The financial statements comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement and the related notes and Annexes A, B and C and include the Police Officer Pension Fund Account comprising the Police Officer Pension Fund Account, the Pension Fund Net Assets and Liabilities Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA / LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

This report is made solely to the Chief Constable, as a body, in accordance with Part 5 of the Act and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Chief Constable those matters we are required to state to the Chief Constable in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Chief Constable as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of the Joint Chief Financial Officer and auditor**

As explained more fully in the Statement of Responsibilities, the Joint Chief Financial Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA / LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17, which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law, the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the "Code of Audit Practice" and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

## **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Chief Constable's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Joint Chief Financial Officer; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Joint Chief Officer Narrative Report and Annex D - Annual Governance Statement to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

## **Opinion on financial statements**

In our opinion:

- the financial statements present a true and fair view of the financial position of the Chief Constable as at 31 March 2017 and of its expenditure and income for the year then ended; and
- the financial statements have been prepared properly in accordance with the CIPFA / LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and applicable law.

## **Opinion on other matters**

In our opinion, the other information published together with the audited financial statements in the Joint Chief Officer Narrative Report and Annex D - Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the audited financial statements.

**Matters on which we are required to report by exception**

We are required to report to you if:

- in our opinion the Annual Governance Statement does not comply with the guidance included in 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE; or
- we have reported a matter in the public interest under section 24 of the Act in the course of, or at the conclusion of the audit; or
- we have made a written recommendation to the Chief Constable under section 24 of the Act in the course of, or at the conclusion of the audit; or
- we have exercised any other special powers of the auditor under the Act.

We have nothing to report in respect of the above matters.

**Conclusion on the Chief Constable's arrangements for securing economy, efficiency and effectiveness in its use of resources**

**Respective responsibilities of the Chief Constable and auditor**

The Chief Constable is responsible for putting in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

We are required under Section 20(1)(c) of the Act to be satisfied that the Chief Constable has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Chief Constable's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

**Scope of the review of the Chief Constable's arrangements for securing economy, efficiency and effectiveness in its use of resources**

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2016, as to whether the Chief Constable 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 Comptroller and Auditor General determined this criteria as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Chief Constable put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether in all significant respects the Chief Constable has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

**Conclusion**

On the basis of our work, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2016, we are satisfied that in all significant respects the Chief Constable put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

**Certificate**

We certify that we have completed the audit of the financial statements of the Chief Constable in accordance with the requirements of the Act and the Code of Audit Practice.

Robin Baker  
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Royal Liver Building  
Liverpool  
L3 1PS

[Date]



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