



The Annual Audit Letter for the Police and Crime Commissioner and the Chief Constable for Cumbria Constabulary

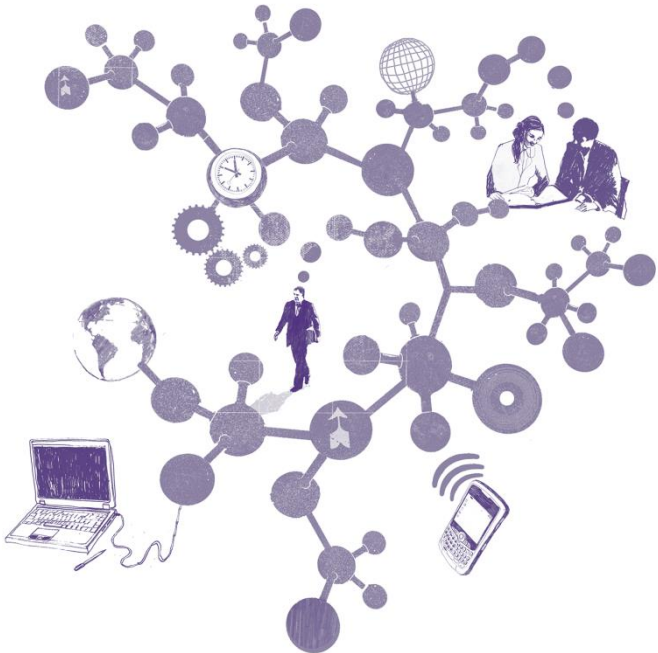
Year ended 31 March 2016

August 2016

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Executive summary

Purpose of this letter

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at for the Police and Crime Commissioner (PCC) for Cumbria and the Chief Constable for Cumbria Constabulary for the year ended 31 March 2016.

This Letter is intended to provide a commentary on the results of our work to the PCC, Chief Constable and its external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice (the Code) and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'.

We reported the detailed findings from our audit work in our Joint Audit Findings Report on 28 July to the Joint Audit and Standards Committee which was attended by the PCC and Deputy Chief Constable.

Our responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the PCC's and Chief Constable's financial statements (section two)
- assess the PCC's and Chief Constable's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the PCC's and Chief Constable's financial statements, we comply with International Standards on Auditing (UK and Ireland) (ISAs) and other guidance issued by the NAO.

Our work

Financial statements opinion

We gave an unqualified opinion on the PCC's and Chief Constable's financial statements on 28 July 2016.

Value for money conclusion

We were satisfied that the PCC and Chief Constable put in place proper arrangements to ensure economy, efficiency and effectiveness in their use of resources during the year ended 31 March 2016. We reflected this in our audit opinion on 28 July 2016.

Certificate

We certified that we had completed the audit of the accounts of the PCC and Chief Constable in accordance with the requirements of the Code on 28 July 2016.

Executive summary

Looking ahead

Over the coming twelve months, the PCC and Chief Constable will continue to deal with some significant challenges. In particular, the development of a new four year police and crime plan together with dealing with the continued funding uncertainties as clarification is awaited around potential changes to the funding formula.

Arrangements are in hand to deal with these and in particular the change strategy and approach to scenario planning will help support the PCC and Chief Constable in this context. We look forwards to working with the PCC and Chief Constable as they respond to these challenges.

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the PCC and Chief Constable's staff.

Grant Thornton UK LLP
August 2016

Audit of the accounts

Our audit approach

Materiality

In our audit of the PCC and Chief Constable's accounts, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined overall materiality for the financial statements to be £2.687m which is 2% of gross revenue expenditure of the PCC as a single entity. We used this benchmark, as in our view, users of the PCC's and Chief Constable's accounts are most interested in how they have spent the income raised from taxation and grants during the year.

We also identified items below this level which would be subject to detailed testing due to their sensitivity such as cash, senior officer remuneration- and related party transactions.

We set a lower threshold of £134,000, above which we reported errors to the Joint Audit and Standards Committee in our Audit Findings Report.

The scope of our audit

Our audit involves obtaining enough evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error.

This includes assessing whether:

- the PCC's and Chief Constable's accounting policies are appropriate, have been consistently applied and adequately disclosed;
- significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the narrative report and annual governance statement to check they are consistent with our understanding of the PCC and Chief Constable and with the accounts on which we give our opinion.

We carry out our audit in line with ISAs (UK and Ireland) and the NAO Code of Audit Practice. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach was based on a thorough understanding of the PCC's and Chief Constable's business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

Audit of the accounts

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	Relevant to PCC/Chief Constable/Both	How we responded to the risk
<p>Valuation of the Private Finance Initiative (PFI) asset and associated liability for Workington Police Headquarters</p> <p>Previously it was assumed that there was reasonable certainty that the PCC would exercise the right to purchase this building at the end of the 25 year contract for half of its market value. As such the PFI land and building were recognised in the PCC's balance sheet at full value. In addition, a liability for outstanding obligations to pay for the building, which included the cost of purchasing the asset for half its market value at the end of the PFI period was also shown on the balance sheet.</p> <p>Given the flooding in Cumbria in December 2015 the future of the PFI building is less certain. This meant that the accounting for the PFI asset and liability needed to be reconsidered.</p>	PCC	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> • Held discussions with officers around future plans for the PFI asset. • Reviewed the PCC's consideration of the accounting implications of any changes to these plans. • Reviewed management's processes and assumptions for the calculation of the estimate. • Reviewed the competence, expertise and objectivity of any management experts used. <p>We did not identify any issues to report and were satisfied that appropriate consideration had been given to the accounting treatment of the PFI liability. The asset had been revalued to take into account the impact of the ongoing flood risk and the use of an independent valuation expert has been appropriate.</p>
<p>Valuation of pension fund net liability</p> <p>The Local Government Pension Scheme (LGPS) pension net liability and Police Officer Pension Scheme 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. These require input from specialist valuers.</p>	Both	<p>As part of our work we:</p> <ul style="list-style-type: none"> • Reviewed the competence, expertise and objectivity of the actuaries who carried out the pension fund valuations. • Gained 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. • Reviewed the consistency of the pension fund asset, (LGPS only) and liability and disclosures in notes to the financial statements with the actuarial reports from the actuaries. <p>Our audit work has not identified any issues in respect of the valuation of the pension fund net liability. A technical accounting reporting issue was identified in relation to an element of the in year movement of the police officer pensions liability. This had a net nil impact on the financial position of the Chief Constable and no further action was considered necessary.</p>

Audit of the accounts

Audit opinion

We gave an unqualified opinion on the PCC's and Chief Constable's accounts on 28 July 2016, in advance of the 30 September 2016 national deadline.

The accounts were prepared by 23 May well in advance of the statutory timetable and to a good standard with relatively few amendments required and were supported by excellent working papers. The finance team responded promptly and efficiently to our queries during the course of the audit.

The finance teams performance in this respect has been exemplary and we hope that they will be able to share the good practice with others.

Issues arising from the audit of the accounts

We reported the key issues from our audit of the accounts in our Joint Audit Findings Report on 28 July to the Joint Audit and Standards Committee which was attended by the PCC and Deputy Chief Constable.

In addition to the key audit risks reported above, we agreed a small number of disclosure changes and an adjustment of £240,000 to correct an overstatement of both debtors and creditors. No issues were identified which required action for future years.

Annual Governance Statement and Narrative Report

We are also required to review the PCC's and Chief Constable's Annual Governance Statement and Narrative Report. They published them on their website with the draft accounts in advance of the national deadlines.

These documents were prepared in line with the relevant guidance and were consistent with the supporting evidence provided by the PCC and Chief Constable and with our knowledge of the Council/Authority.

Other statutory duties

We also have additional powers and duties under the Act, including powers to issue a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the accounts and to raise objections received in relation to the accounts.

No issues arose which required use of our other statutory duties.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice (the Code), following the guidance issued by the NAO in November 2015 which specified the 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.

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the key risks where we concentrated our work.

The key risks we identified and the work we performed are set out in table 2 overleaf. In each case we concluded that appropriate arrangements were in place to manage these risks.

Over the coming twelve months, the PCC and Chief Constable will continue to deal with some significant challenges. In particular:

- the newly appointed PCC will be developing his police and crime plan for the next four years for Cumbria
- funding uncertainties will continue as clarification is awaited around potential changes to the funding formula.

Arrangements are in hand to deal with these and in particular the change strategy and approach to scenario planning will help support the PCC and Chief Constable in this context.

Overall Vfm conclusion

We are satisfied that in all significant respects the PCC and Chief Constable put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2016.

Value for Money

Table 2: Value for money risks

Risk identified	Work carried out	Findings and conclusions
<p>Financial sustainability</p> <p>The PCC set a balanced budget for 2016/17 as a result of work in 2015/16 to review expenditure and reduce costs. There was still a need to find £9m of savings between 2017 and 2020. By the end of February 2016 plans had been developed for delivering the savings but were still to be implemented. Historic savings have been delivered through efficiency savings in back office and support costs but now over the next four years there will be reductions in the front line police officers. Even though Cumbria Police has a good record of delivering savings through its 'Change Strategy' delivering savings of £9m represents a significant challenge.</p>	<p>We reviewed the PCC's and Chief Constable's arrangements for updating, agreeing and monitoring its financial plans including the assumptions within them. We also considered the arrangements in place to monitor the delivery of the Change Strategy.</p>	<p>The PCC and the Constabulary face financial challenges but the four year Medium Term Financial Strategy (MTFS) 2016-2020 demonstrates their long term financial viability. Key planning are reasonable. The Chief Constable's staff work closely with the PCC in developing the MTFS and keeping it under review.</p> <p>Due to the uncertainty around the funding formula and damping issues the MTFS hasn't been updated in year. However, work is ongoing on a number of initiatives to develop a deeper understanding of the police and crime demands within Cumbria and the impact of implementing efficiency initiatives. This will enable the PCC and Chief Constable to be in a strong position to consider a range of options to deal with the wide range of possible funding scenarios.</p> <p>The Constabulary's 'Change Strategy 2020' includes a programme of actions developed to ensure it can meet the demands of future policing within tightening financial constraints. Progress on delivering the Change Strategy is monitored by the Constabulary to ensure it remains on track with updates to the PCC. The approach to savings 2016 to 2020 is around reducing police officer numbers, undertaking enhancements to current reviews and new reviews. Plans for savings have been developed with options for further savings depending on the impact of the Police funding formula when it is agreed.</p> <p>We concluded that the risk was sufficiently mitigated and the PCC and Chief Constable each have proper arrangements for ensuring they plan finances effectively to support their strategic functions and arrangements for ensuring informed decision making.</p>
<p>Police effectiveness, efficiency and legitimacy (PEEL) review</p> <p>The latest PEEL review assessed Cumbria Constabulary's effectiveness at keeping people safe and reducing crime as 'Requires Improvement'. The areas requiring improvement were responding to vulnerable victims, investigating crime and managing offenders and understanding of serious and organised crime.</p>	<p>We reviewed how the Constabulary is implementing and monitoring delivery of plans to address the findings of Her Majesty's Inspectorate of Constabulary (HMIC) reviews.</p>	<p>The Constabulary has a clear process in place to respond to the outcome of HMIC inspections. Overall, the Constabulary has a strategic HMIC action plan which is implemented by the Operations Programme Board and which is now subject to quarterly audit and inspection by the Constabulary's new Business Improvement Unit. One of key features of this approach is that the Business Improvement Unit now reality checks actions identified as complete to confirm that actions have been implemented. Updates on progress against HMIC actions are provided to the PCC. Overall, progress on implementing recommendations is good.</p> <p>We concluded that the risk was sufficiently mitigated and the PCC and Chief Constable each has proper arrangements for acting in the public interest through demonstrating and applying the principles of good governance.</p>

Appendix A: Reports issued and fees

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

Fees

	Planned £	Actual fees £	2014/15 fees £
Police and Crime Commissioner Audit	30,338	30,338	40,500
Chief Constable audit	15,000	15,000	20,000
Total fees (excluding VAT)	45,338	45,338	60,450

Fees for other services

Service	Fees £
Non-audit services:	
Tax Advisory Services	2,500

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

Reports issued

Report	Date issued
Joint Audit Plan	March 2016
Joint Audit Findings Report	July 2016
Joint Annual Audit Letter	August 2016



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