

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

**Year ended 31 March 2017**

October 2017

**Robin Baker**

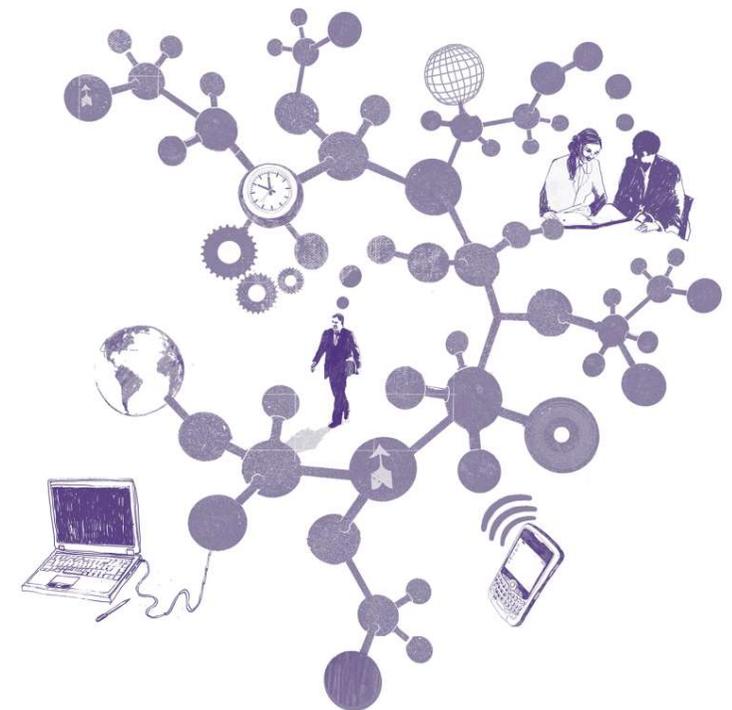
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# Executive summary

## **Purpose of this letter**

Our Annual Audit Letter (Letter) summarises the key findings arising from the work we have carried out at the Police and Crime Commissioner (PCC) for Cumbria and the Chief Constable for Cumbria Constabulary for the year ended 31 March 2017.

This Letter provides a commentary on the results of our work to the PCC, the Chief Constable and its external stakeholders, and highlights issues 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 to the PCC's and Chief Constable's Joint Audit and Standards Committee in our Joint Audit Findings Report on 21 July 2017. The Police and Crime Commissioner and Chief Constable (as those charged with governance) also attended this meeting to hear our findings.

## **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 21 July 2017.

### **Value for money conclusion**

We were satisfied that the PCC and the Chief Constable put in place proper arrangements to ensure economy, efficiency and effectiveness in their use of resources during the year ended 31 March 2017. We reflected this in our audit report on 21 July 2017.

### **Certificate**

We certified that we had completed the audit of the accounts of the Police and Crime Commissioner for Cumbria and the Chief Constable for Cumbria Constabulary in accordance with the requirements of the Code on 21 July 2017.

## **Working with the PCC and Chief Constable**

Over the coming twelve months, the PCC and Chief Constable will continue to deal with some significant challenges. In particular, dealing with the continued funding uncertainties around potential changes to the Police Funding Formula. Arrangements are in place to deal with this and the Constabulary has continued to work on various scenarios and how it might address any impact. We look forward 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's and Chief Constable's staff.

**Grant Thornton UK LLP**  
**October 2017**

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# Audit of the accounts

## **Our audit approach**

### **Materiality**

In our audit of the PCC's and Chief Constable's accounts, we applied the concept of materiality to determine the nature, timing and extent of our work, and to evaluate 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 materiality for our audit of the PCC's and Chief Constable's accounts to be £2.75 million, which is 2% of the PCC's (Single Entity) gross revenue expenditure. 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 set a lower level of specific materiality for senior officer remuneration, exit packages and related party transactions.

We set a lower threshold of £137,000, above which we reported errors to the Joint Audit and Standards Committee, the PCC and the Chief Constable, 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 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 the Joint Chief Finance Officer 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 included in the Statement of Accounts on which we gave 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	Findings and conclusions
<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>	<p>Both</p>	<ul style="list-style-type: none"> <li>• Documented the key controls that were put in place by management to ensure that the pension fund liability was not materially misstated.</li> <li>• Walked through the key controls to assess whether they were implemented as expected and mitigated the risk of material misstatement in the financial statements.</li> <li>• Reviewed 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>• Gained an understanding of the basis on which the IAS 19 valuations were carried out and undertook procedures to confirm the reasonableness of the actuarial assumptions made.</li> <li>• Reviewed 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 did not identify any issues in respect of the valuation of the pension fund net liability.</p> <p>We were 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) were consistent with the actuarial reports from Mercer and GAD.</p>

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# Audit of the accounts

## **Audit opinion**

We gave an unqualified opinion on the PCC's and Chief Constable's accounts on 21 July 2017, in advance of the 30 September 2017 national deadline.

The PCC and Chief Constable made the accounts available for audit in line with the agreed timetable, and provided an excellent set of supporting working papers. The finance team responded promptly and efficiently to our queries during the audit.

## **Issues arising from the audit of the accounts**

We reported the key issues from our audit of the accounts of the PCC and Chief Constable to the Joint Audit and Standards Committee, the Police and Crime Commissioner and the Chief Constable on 21 July 2017.

The financial statements of both the PCC and Chief Constable were of a very high standard. No adjustments were required to the primary statements and only a few minor amendments were required to other disclosures to improve the overall presentation of the financial statements and ensure consistency.

## **Annual Governance Statement and Narrative Report**

We are 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 line with the national deadlines.

Both 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 PCC and Chief Constable.

## **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 PCC's and Chief Constable's accounts and to raise objections received in relation to the accounts. In the period, we have not had to use any of these other powers.

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# 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 2016 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.

Our key findings were:

- 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 overall as ‘Good’ in Her Majesty's Inspectorate of Constabulary's (HMIC's) Police effectiveness, efficiency and legitimacy (PEEL) review 2016. It has arrangements in place to respond to HMIC reports and ensure recommendations and agreed actions are implemented.

## 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 their use of resources for the year ending 31 March 2017.

# Value for Money

**Table 2: Value for money risks**

Risk identified	Work carried out	Findings and conclusions
<p><b>Financial sustainability</b></p> <p>The PCC set a balanced budget for 2017/18 but even so there was 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 had a good record of delivering savings through its 'Change Strategy' delivering further savings of £2 million and ensuring that the Constabulary could continue to delivery policing services but within budget represented a significant challenge.</p>	<p>We reviewed the PCC's and Chief Constable's arrangements for updating, agreeing and monitoring their financial plans including the assumptions within them. We also considered the arrangements in place to monitor the delivery of the Change Strategy and how the Constabulary planned to ensure it stayed 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 were reasonable and there is a sound process in place to produce the MTFS and update projections.</p> <p>As part of the budget setting for 2017/18, the projections for 2018/19 to 2020/21 were updated and showed that savings of £2.09 million were required between 2018/19 and 2020/21. This excludes the potential impact of any changes to the Police Funding Formula (PFF) as the timing, amount and transitional arrangements for any PFF changes are still to be confirmed. Both the PCC and Chief Constable are well aware of the potential impact and the PCC Chief Finance Officer provided briefings to the Joint Audit and Standards Committee (JASC) members on progress on the funding formula and potential impact. Due to uncertainty around the PFF the MTFS wasn't updated in year. However, the Constabulary has continued to work on various scenarios and how it might address any impact. This approach is reasonable and provides evidence of on-going updating of financial plans.</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 and a further £1.5 million was 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 they were now 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>We concluded the risk was sufficiently mitigated and 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>

# Value for Money

**Table 2: Value for money risks (Continued)**

Risk identified	Work carried out	Findings and conclusions
<p><b>Police effectiveness, efficiency and legitimacy (PEEL) review</b></p> <p>The PEEL review 2016 assessed Cumbria Constabulary overall as 'Good' with individual assessments for effectiveness, efficiency and legitimacy all rated as 'Good'. This represented 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 related 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 reviewed how the Constabulary 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. Overall, the Constabulary has a strategic HMIC improvement plan in place with progress against it monitored monthly by the Operations Programme Board and reported every two to three months to the Force Strategic Delivery Board. For high-risk areas the Business Improvement Unit reality checks actions identified as complete to confirm that actions have been implemented. The processes put in place have been key in delivering the improved PEEL assessment for 2016. The areas in the 2015 PEEL review in respect of vulnerable people were shown as 'being progressed' in the Constabulary's March 2017 improvement plan so it was not unexpected that these were raised in the 2016 PEEL review as still requiring improvement.</p> <p><b>We concluded 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>

# Appendix A: Reports issued and fees

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

## Fees

	Proposed fee £	Actual fees £	2015/16 fees £
Statutory audit of the Police & Crime Commissioner	30,338	30,338	30,338
Statutory audit of the Chief Constable	15,000	15,000	15,000
<b>Total fees (excluding VAT)</b>	<b>45,338</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).

## Reports issued

Report	Date issued
Audit Plan	2 March 2017
Joint Audit Findings Report	10 July 2017
Annual Audit Letter	October 2017

## Fees for other services

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

## Non-audit services

- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Police and Crime Commissioner for Cumbria and the Chief Constable for Cumbria Constabulary. The table above summarises all other services which were identified.
- We have considered whether other 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, as reported in our Audit Findings Report.

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.

# Reports issued and fees continued

We have considered whether other 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 have been applied to mitigate these risks.

Non-audit services	Service provided to	Fees	Threat identified	Safeguards
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.



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