



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

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**Year ended 31 March 2020**

**26 November 2020**



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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 for the purpose of expressing our opinion on the financial statements. 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 control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. 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.

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# Headlines

This table updates and summarises the key findings and other matters arising as previously presented in our report dated 2<sup>nd</sup> November from the statutory audits of Cumbria Police and Crime Commissioner ('the PCC') and The Chief Constable for Cumbria Constabulary and the preparation of the PCC's and Chief Constable's financial statements for the year ended 31 March 2020.

<p><b>Covid-19</b></p>	<p>The outbreak of the Covid-19 coronavirus pandemic has had a significant impact on the normal operations of the PCC and the Constabulary.</p> <p>The PCC and CC is still required to prepare financial statements in accordance with the relevant accounting standards and the Code of Audit Practice, albeit to an extended deadline for the preparation of the financial statements up to 31 August 2020 and the date for audited financials statements to 30 November 2020.</p>	<p>We updated our audit risk assessment to consider the impact of the pandemic on our audit and issued an audit plan addendum on 22nd April 2020. In that addendum we reported an additional financial statement risk in respect of Covid -19 and highlighted the impact on our VfM approach. Further detail is set out on page 6.</p> <p>Restrictions for non-essential travel has meant that PCC and Constabulary staff, as well as your audit team have had to adapt to new remote working arrangements, including use of teams calls and screensharing in order to obtain audit assurance. This approach to working has resulted in the audit taking longer than anticipated .</p>
<p><b>Financial Statements</b></p>	<p>Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the entity's (and where relevant, the group's) financial statements:</p> <ul style="list-style-type: none"> <li>• give a true and fair view of the financial position of the entity and the entity's income and expenditure for the year; and</li> <li>• have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.</li> </ul> <p>We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS), and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p>	<p>Our audit work was completed remotely during July-November. Our findings are summarised on pages 5 to 16. Two adjustments to the primary financial statements have been made by management, one following the publication of the proposed remedy in respect of the McCloud legal judgement in 2019, which resulted in a reduction in the net pension fund liability of £11.550m and another relating to a reduction in the fair value of LGPS pension fund assets (£1.208m) arising from the uncertainties in financial markets due to Covid 19. There is no impact to the useable reserves of the PCC's and Chief Constable as a result of these adjustments. A small number of disclosure adjustments have been agreed with officers as detailed on page 22. Two unadjusted misstatements were identified which management chose not to amend as outlined on page 23.</p> <p>The financial statements were prepared to a good standard, and working papers were available on time at the start of the audit. Responses to our samples and other queries were comprehensive and timely.</p> <p>Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion or material changes to the financial statements, subject to the outstanding matters listed on page 5.</p> <p>We have concluded that the other information to be published with the financial statements is consistent with our knowledge of your organisation and the financial statements we have audited.</p> <p>Our anticipated audit report opinion will be unmodified, including an emphasis of matter paragraph, highlighting property, plant and equipment and pension fund property valuation material uncertainties.</p>

## Headlines (continued)

<b>Value for Money arrangements</b>	Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, in our opinion, both entities have made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').	We have completed our risk based reviews of the PCC's and Chief Constable's value for money arrangements. We have concluded that both Cumbria PCC and Cumbria Chief Constable has proper arrangements to secure economy, efficiency and effectiveness in its use of resources. We have updated our VfM risk assessment to document our understanding of your arrangements to ensure critical business continuity in the current environment. We have not identified any new VfM risks in relation to Covid-19. We therefore anticipate issuing an unqualified value for money conclusions, our findings are summarised on pages 17 and 18.
<b>Statutory duties</b>	The Local Audit and Accountability Act 2014 ('the Act') also requires us to: <ul style="list-style-type: none"> <li>• report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and</li> <li>• To certify the closure of the audits.</li> </ul>	We have not exercised any of our additional statutory powers or duties for either entity. We have completed the majority of work under the Code and expect to be able to certify the completion of the audits when we give our audit opinion.

### Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance and timely collaboration provided by the finance team and other staff during these unprecedented times.

# Audit approach

## Overview of the scope of our audit

This Joint Audit Findings Report presents the observations arising from the audits that are significant to the responsibility of the PCC and Chief Constable to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management and the PCC, and the Chief Constable.

As auditor we are responsible for performing the audits, in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of the PCC and Chief Constable. The audit of the financial statements does not relieve management or the PCC and Chief Constable of their responsibilities for the preparation of the financial statements.

## Audit approach

Our audit approach was based on a thorough understanding of the Group's/PCC's and Chief Constable's business and is risk based, and in particular included:

- An evaluation of the PCC's and Chief Constable's internal controls environment, including its IT systems and controls; and
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks.

## Conclusion

We have substantially completed our audits of your financial statements and anticipate, issuing unqualified audit opinions following the Joint Audit Committee meeting on 19 November 2020.

The key outstanding items include:

- receipt of management representation letters;
- completion of a small number of outstanding audit procedures, including awaiting responses from the valuer and areas of testing;
- receipt of the final report from the auditor of Cumbria Local Government Pension Scheme; and
- review of the final set of financial statements and subsequent events procedures.

## Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Materiality calculations remain the same as reported in our audit plan. We detail in the table below our determination of materiality

### PCC/Chief Constable/Group Amount (£)

Materiality for the financial statements	£2.873m	<ul style="list-style-type: none"> <li>• This equates to 2% of your gross operating expenditure for 2018/19 year and is considered to be the level above which users of the financial statements would wish to be aware in the context of overall expenditure.</li> </ul>
Performance materiality	£2.155m	<ul style="list-style-type: none"> <li>• Based on 75% of materiality derived from the risk of misstatement</li> </ul>
Trivial matters	£0.144m	<ul style="list-style-type: none"> <li>• Based on a 5% of materiality</li> </ul>

# Significant findings – audit risks

	Risks identified in our Audit Plan	Relates to	Commentary
<p><b>1 Covid – 19</b></p> <p>The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expect current circumstances will have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to;</p> <ul style="list-style-type: none"> <li>- Remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation</li> <li>- Volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we can obtain to corroborate management estimates</li> <li>- Financial uncertainty will require management to reconsider financial forecasts supporting their going concern assessment and whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and</li> <li>- Disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties.</li> </ul> <p>We therefore identified the global outbreak of the Covid-19 virus as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>Group, PCC and CC</p>		<p>We worked with management to understand the implications the response to the Covid-19 pandemic had on the organisation’s ability to prepare the financial statements and update financial forecasts and assessed the implications for our materiality calculations. No changes were made to materiality levels previously reported. The draft financial statements were provided on 1 July 2020. We also</p> <ul style="list-style-type: none"> <li>• liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross-sector responses to issues as and when they arose. Examples include the material uncertainty disclosed by the PCC’s property valuation expert/ PCC/group’s actuary;</li> <li>• evaluated the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic;</li> <li>• evaluated whether sufficient audit evidence could be obtained through remote technology;</li> <li>• evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as assets and pension fund net liability valuations;</li> <li>• evaluated management’s assumptions that underpin the revised financial forecasts and the impact on management’s going concern assessment; and</li> <li>• discussed with management the implications for our audit report where we have been unable to obtain sufficient audit evidence.</li> </ul> <p>The results of our work concluded that appropriate arrangements had been put in place to manage the COVID 19 situation which included establishing a response command structure with Gold, Silver and Bronze levels which meet daily to discuss and review Covid19 issues.</p> <p>Due to the potential impact that Covid-19 has on the value of your land and buildings at 31 March 2020, your valuer has disclosed a material valuation uncertainty within their valuers report (in line with VPGA 10 of the RICS Red Book Global). You have disclosed this material uncertainty within Notes 4 and 9b. We will reflect your disclosure within an “emphasis of matter” paragraph in our opinion. This is not a modification or qualification of the opinion and is consistent with other audited bodies where the valuer has highlighted a material valuation uncertainty.</p> <p>Similarly, there is also an impact of Covid-19 on the valuation of the Local Government Pension Fund (LGPS) property assets. Cumbria’s LGPS accounts include a material uncertainty around the valuation of property assets and the fund auditor intends to include an emphasis of matter in their auditor’s report in this regard. Your financial statements disclosures have been updated (Note 4) to reflect this and our audit report will also contain an “emphasis of matter” paragraph relating to this matter.</p>

# Significant findings – audit risks

Risks identified in our Audit Plan	Relates to	Commentary
<p><b>2 The revenue cycle includes fraudulent transactions</b></p> <p>Under ISA (UK) 240 there is a rebuttable 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>	<p>Group, PCC and CC</p>	<p><b>Auditor commentary</b></p> <p>As detailed in our Joint Audit Plan, we do not consider this to be a significant risk for the PCC and the Chief Constable.</p> <p>Having considered the risk factors set out in ISA 240 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 intergroup transfer from the PCC, with no cash transactions; and</li> <li>• the culture and ethical frameworks of both the PCC and Chief Constable, mean that all forms of fraud are seen as unacceptable.</li> </ul> <p>Therefore and as reported in our Audit Plan, we do not consider this to be a significant risk. Whilst not a significant risk we have performed audit procedures and testing of material revenue items. Our work did not identify any matters that would lead to a change in our risk assessment.</p>
<p><b>3 Management override of controls</b></p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The PCC and Chief Constable faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>Group, PCC and CC</p>	<p><b>Auditor commentary</b></p> <p>We have:</p> <ul style="list-style-type: none"> <li>• evaluated the design effectiveness of management controls over journals;</li> <li>• analysed the journals listing and determine the criteria for selecting high risk unusual journals;</li> <li>• tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration;</li> <li>• gained an understanding of the accounting estimates and critical judgements applied made by management and considered their reasonableness with regard to corroborative evidence; and</li> <li>• evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.</li> </ul> <p>Our audit work has not identified any evidence of management over-ride of controls.</p>

# Significant findings – audit risks (updated)

Risks identified in our Audit Plan	Relates to	Commentary
<p><b>4 Valuation of land and buildings</b></p> <p>The PCC revalues its land and buildings on a two yearly basis. In the intervening years to ensure the carrying value is not materially different from the current value at the financial statements date, the PCC requests a desktop valuation from its valuation expert to ensure that there is no material difference. The valuation of land and buildings represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions.</p> <p>We therefore identified valuation of land and buildings as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	Group and PCC	<p><b>Auditor commentary</b></p> <p>We have:</p> <ul style="list-style-type: none"> <li>reviewed management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work;</li> <li>evaluated the competence, capabilities and objectivity of the valuation expert;</li> <li>written to the valuer to confirm the basis on which the valuation was carried out in order to ensure that the requirements of the Code are met;</li> <li>challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding; and</li> <li>tested revaluations made during the year to see if they had been input correctly into the PCC's asset register.</li> </ul> <p><b>Findings</b></p> <p>Our review of the calculations performed by the valuer identified a small number of errors including the use of incorrect area figures for one asset (Kendal Police Station). Our calculations show that the cumulative impact of the errors is not material and management has chosen not to adjust for these.</p> <p>We have no further matters to report to you other than in relation to the impact on property valuation of the Covid-19 pandemic and resultant uncertainties.</p> <p><b>Disclosures regarding material valuation uncertainty</b></p> <p>The outbreak of Covid-19 has caused uncertainty in property markets. As a result, the PCC's valuers have included reference to a material uncertainty in their valuation report.</p> <p>The estimation uncertainty has been disclosed in Notes 4 and 9b to the financial statements.</p> <p>We consider the disclosure is sufficiently detailed to meet the requirements of the accounting standards and that it is important to a readers understanding of the financial statements. As such, we plan to draw attention to the uncertainty through the inclusion of an Emphasis of Matter within the audit report.</p> <p>We are satisfied that the value of Property, Plant and Equipment is not materially misstated within the financial statements.</p>

# Significant findings – audit risks

Risks identified in our Audit Plan	Relates to	Commentary
<p><b>5 Valuation of pension fund net liability</b></p> <p>The group's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.</p> <p>The pension fund net liability is considered a significant estimate due to the size of the numbers involved (the 2019/20 pension fund liability is £1.266bn in the group's balance sheet) and the sensitivity of the estimate to changes in key assumptions.</p> <p>We therefore identified valuation of the group's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>Group, PCC and CC</p>	<p><b>Auditor commentary</b></p> <p>We have:</p> <ul style="list-style-type: none"> <li>• updated our understanding of the processes and controls put in place by management to ensure that the PCC and CC's pension fund net liability is not materially misstated and evaluate the design of the associated controls;</li> <li>• evaluated the instructions issued by management to their management experts (actuaries) for this estimate and the scope of the actuary's work;</li> <li>• assessed the competence, capabilities and objectivity of the actuaries who carried out the pension fund valuations;</li> <li>• assessed the accuracy and completeness of the information provided by the PCC and CC to the actuaries;</li> <li>• tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial reports; and</li> <li>• undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report.</li> </ul> <p><b>Findings</b></p> <p>At the time of drafting this report, we are yet to receive the information and assurances requested from the auditor of Cumbria Pension Fund that will enable us to conclude our procedures in this area.</p> <p>We are aware that there is a possibility that the Pension Fund Auditor will include an emphasis of matter in the audit report drawing attention to a material valuation uncertainty relating to the Fund's real estate portfolio. Where this is the case, we will need to consider the impact on our own report and the need for associated disclosure within the financial statements.</p> <p>Subsequent to the publication of the draft financial statements, the proposed remedy to the McCloud judgement was published for consultation. Pension fund actuaries notified management that this could have an impact on the calculated net pension fund liability and that the liability was likely to be overstated. Management therefore obtained a revised IAS19 report which quantifies the potential impact as £11.5m reduction in Pension Liability. This represents a non-adjusting post balance sheet event but management have adjusted the financial statements to reflect the revised valuation. We have discussed this with management and considered their rationale for adjusting. We conclude that the basis for adjusting is reasonable and that proposed disclosures within the financial statements are appropriate. We have included the impact of this matter within the adjusted misstatements on page 21.</p> <p>Other than the matters identified above, our work in this area has progressed and to date we have not identified any significant issues.</p>

## Significant findings - other issues

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan and a summary of any significant deficiencies identified during the year.

Issue	Relates to	Commentary
<p data-bbox="72 399 694 471"><b>IFRS 16 implementation has been delayed by one year</b></p> <p data-bbox="72 471 694 682">Although the implementation of IFRS 16 has been delayed to 1 April 2021, audited bodies still need to include disclosure in their 2019/2020 statements to comply with the requirement of IAS 8 para 31. As a minimum, we would expect audited bodies to disclose the title of the standard, the date of initial application and the nature of the changes in accounting policy for leases.</p>	<p data-bbox="694 399 901 682">Group, PCC and CC</p>	<p data-bbox="901 399 1813 471">Note 33 (PCC) and Note 21 (CC) made brief reference to IFRS16. The note has been updated to adequately disclosure of the likely future impact of IFRS16.</p> <p data-bbox="901 471 1813 682">We are satisfied that your disclosure is consistent with the requirements of IAS 8.</p>

# Significant findings - Going concern

## Our responsibility

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) 570).

## Going Concern Commentary

### Management’s assessment process

#### PCC:

The Statement of Accounts has been prepared on a going concern basis, on the assumption that the functions of PCC will continue in operational existence for the foreseeable future.

#### Chief Constable:

The Statement of Accounts has been prepared on a going concern basis, on the assumption that the functions of the Chief Constable will continue in operational existence for the foreseeable future. Management’s assessment of whether or not Cumbria Police is a going concern is based on its ability to discharge liabilities in the normal course of its business. In this case the Force is reliant upon the PCC to discharge its liabilities in the normal course of its business. This expectation is necessary to enable the PCC to continue as a going concern.

### Work performed

Management have provided us with a written assessment of going concern which we have reviewed in conjunction with cash flow forecasts and the MTFS.

### Concluding comments

## Auditor Commentary

The 2020/21 budget was finalised in February 2020 and in late March the global pandemic of Covid-19 was announced affecting the economy and public sector bodies. The short term effects has resulted in increased costs for public service bodies to meet the needs of the public and uncertainty over future funding as the government looks to support a decline in the economy. This therefore affects the short to medium term budget forecasts for both the Constabulary and Police and Crime Commissioner as budget submissions had been made on the expectation of future growth driven by the increase in recruitment of officers.

Assumptions underpinning the budget forecast in the short term are now uncertain and it is unlikely that precepts and business rates funding will be as high as originally budgeted. Other income has reduced and Q2 shows a reduction in forecast income of £0.181m, this is seen across a number of aspects such as policing of football matches and special events (Kendal Calling, Keswick Convention and Appleby Fair ). This is anticipated to continue for much of the remainder of the 2020/21 financial year. Costs may increase for pay if the Government responds to public sentiment to reward key public service workers for their response to the Covid-19 pandemic. The PCC approved a balanced budget for 2019/20. We have assessed the reasonableness of the assumptions underlying this forecast in light of the global pandemic and have reviewed management’s cashflow forecast up to 30 March 2022.

Our work included:

- determining whether the conclusions made by the management regarding the decision not to disclose any going concern material uncertainties in the financial statements were prudent and appropriate;
- we have reviewed management’s assessment in the light of the PCC/CC’s position and the national context and assessed the underlying assumptions used to support management’s preparation of the accounts on a going concern basis;
- reviewing cash flow forecasts up to March 2022 to assess the existence of any material uncertainties related to going concern.

Based on the audit work performed over the going concern assumption adopted by management, we are satisfied that it remains appropriate for the PCC and the Chief Constable to prepare accounts on a going concern basis as at 31 March 2020. Both the PCC and the Chief Constable have a reasonable expectation that the services they provide will continue for the foreseeable future. For this reason we consider it appropriate for both entities to continue to adopt the going concern basis in preparing the financial statements. We do not consider there to be a material uncertainty which would cast doubt on the ability of either entity to continue as a going concern.

# Significant findings – key judgements and estimates (updated)

	Relates to	Summary of management's policy	Audit Comments	Assessment
<b>Land and Buildings – Other - £57.5m</b>	Group and PCC	<p>Land and buildings comprises £52.2m of specialised assets such as police stations, which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. The remainder of other land and buildings (£5.3m) are not specialised in nature and are required to be valued at existing use in value (EUV) at year end. The PCC has engaged Carigiet Cowen to complete the valuation of properties as at 31/3/2020 on a two yearly cyclical basis.</p> <p>The total year end valuation of land and buildings was £57.5m, a net increase of £3.1m from 2018/19.</p>	<p>The PCC's accounting policy on valuation of land and buildings is included in Note 9 to the financial statements.</p> <p>Carigiet Cowen identified a material uncertainty regarding the valuation of land and buildings due to market uncertainty arising from the Covid-19 pandemic. Management have disclosed this as a significant issue in Notes 4 and 9b to the financial statements.</p> <p><b>Key observations</b></p> <p>The values in the valuation report have been used to inform the measurement of property assets at valuation in the financial statements.</p> <p>The PCC has disclosed the estimation uncertainty related to the year-end valuations of land and buildings to the financial statements as set out above.</p> <ul style="list-style-type: none"> <li>• We assessed the qualifications, skills and experience of the Valuer and determined the service to be appropriate;</li> <li>• The underlying information prepared by the PCC and supplied by the Valuer was considered to be complete and accurate;</li> <li>• The Valuer prepared their valuations in accordance with the RICS Valuation – Global Standards using the information that was available to them at the valuation date in deriving their estimates; and</li> <li>• Following the update to reflect the material valuation uncertainty, we consider the level of disclosure in the financial statements to be appropriate.</li> </ul> <p>Our review of the calculations performed by the valuer identified a small number of errors including the use of incorrect area figures for one asset (Kendal Police Station) as outlined on page 23. Our calculation show that the error is not material and management has chosen not to adjust for this. There have been no changes in assumptions from the previous years and these are outlined in your accounting policies.</p> <p><b>Conclusion</b></p> <p>We are satisfied that the estimate of your land and buildings valuation is not materially misstated.</p>	 <b>Yellow</b>

## Assessment

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- We consider management's process and key assumptions to be reasonable

# Significant findings – key judgements and estimates

	Relates to	Summary of management's policy	Audit Comments	Assessment																					
<b>Net pension liability – PCC and Chief Constable Fund £1.266bn</b>	Group, PCC and CC	<p>The PCC's and Chief Constable's total net pension liability at 31 March 2020 is £1.266bn (PY £1.350bn) comprising the Local Government Pension Scheme (LGPS) (The LGPS is a funded defined benefit scheme for police staff, administered by Cumbria County Council) and Police Officers Pension Scheme (the Chief Constable operates three pension schemes for police officers, these are the 1987, 2006, 2015 Police Pension Schemes for officers)</p>	<p>For both the LGPS and the three police officer pension schemes we have undertaken a review of the relevant actuary's 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 scheme's actuaries.</p>	 <b>Green</b>																					
		<p>The PCC and Chief Constable uses GAD and Mercers to provide actuarial valuations of the Group's assets and liabilities derived from these schemes. A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2019. A roll forward approach is used in intervening periods, which utilises key assumptions such as life expectancy, discount rates, salary growth and investment returns. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements.</p> <p>The PCC/Group's actuary disclosed a material uncertainty in the valuation of the Group/PCC's and Chief Constable's pension fund liability at 31 March 2020 as a result of Covid-19.</p>	<p>For both the LGPS and the police schemes we have reviewed the information submitted to the actuaries to confirm that it is consistent with underlying records.</p> <p>We have used of PwC as auditors expert to assess the key actuary and assumptions made by actuary.</p> <table border="1"> <thead> <tr> <th>Assumption</th> <th>Actuary Value</th> <th>PwC range</th> <th>Assessment</th> </tr> </thead> <tbody> <tr> <td>Discount rate</td> <td>2.25% (Police Schemes) 2.30% (LGPS)</td> <td>2.25% 2.40% - 2.30%</td> <td> </td> </tr> <tr> <td>Pension increase rate</td> <td>2% (Police Schemes) 2.20% (LGPS)</td> <td>2% 2.10%</td> <td> </td> </tr> <tr> <td>Salary growth</td> <td>3.60%</td> <td>3.35%- 3.6%</td> <td> </td> </tr> <tr> <td>Life expectancy future pensioners (Police Schemes)</td> <td>Men 23.6 Women 25.2</td> <td>23.0 -23.6 23.0 - 25.2</td> <td> </td> </tr> <tr> <td>Life expectancy future pensioners (LGPS)</td> <td>Men 24.2 Female 27.1</td> <td>22.5 – 24.7 25.9 – 27.7</td> <td> </td> </tr> </tbody> </table>		Assumption	Actuary Value	PwC range	Assessment	Discount rate	2.25% (Police Schemes) 2.30% (LGPS)	2.25% 2.40% - 2.30%	 	Pension increase rate	2% (Police Schemes) 2.20% (LGPS)	2% 2.10%	 	Salary growth	3.60%	3.35%- 3.6%	 	Life expectancy future pensioners (Police Schemes)	Men 23.6 Women 25.2	23.0 -23.6 23.0 - 25.2	 	Life expectancy future pensioners (LGPS)
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			<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 Mercers and GAD are reasonable for the purpose of valuing the liabilities at 31 March 2020.</p> <p>There has also been a reduction in the fair value of LGPS plan assets of £1.208m. The change related to the reduction of asset valuations as part of the LGPS re-run which reflected the impact of falls in financial markets between the end of February and the end of March as a result of the Covid pandemic.</p>																						

# Significant findings – matters discussed with management

This section provides commentary on the significant matters we discussed with management during the course of the audit.

	<b>Significant matter</b>	<b>Commentary</b>
1	The most significant events that occurred during the year was the Covid-19 pandemic.	During the audit we have considered the PCC and Chief Constable's response to addressing the challenges arising from Covid-19. We are satisfied that management responded swiftly and appropriately to the challenges of Covid-19.
2	Business conditions affecting the Group/PCC and CC, and business plans and strategies that may affect the risks of material misstatement.	<p>The PCC's external valuation expert, Carigiet Cowen has raised uncertainty regarding how the impact of Covid-19 on market conditions may affect land and buildings valuations during 2020/21.</p> <p>The LGPS auditor has reported a material uncertainty around the valuation of the Pension Fund's property assets and Cumbria's LGPS auditor intends to include an emphasis of matter in their auditor's report in respect of the effects of Covid-19 on the valuation of its property holding.</p> <p>As noted earlier this has been disclosed in Notes 4 and 9b.</p>
3	Significant matters on which there was disagreement with management, except for initial differences of opinion because of incomplete facts or preliminary information that are later resolved by the auditor obtaining additional relevant facts or information	No disagreements with management occurred during the audit.
4	Other matters that are significant to the oversight of the financial reporting process.	None to report.

# 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 the PCC and Chief Constable.

	Issue	Commentary
1	<b>Matters in relation to fraud</b>	<ul style="list-style-type: none"> <li>We have previously discussed the risk of fraud with the Joint Audit Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.</li> </ul>
2	<b>Matters in relation to related parties</b>	<ul style="list-style-type: none"> <li>We are not aware of any related parties or related party transactions which have not been disclosed.</li> </ul>
3	<b>Matters in relation to laws and regulations</b>	<ul style="list-style-type: none"> <li>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.</li> </ul>
4	<b>Written representations</b>	<ul style="list-style-type: none"> <li>A letter of representation has been requested from the PCC and Chief Constable.</li> </ul>
5	<b>Confirmation requests from third parties</b>	<ul style="list-style-type: none"> <li>We requested from management permission to send confirmation requests to bank and investment counter-parties. This permission was granted and the requests were sent. All of these requests were returned with positive confirmations.</li> </ul>
6	<b>Disclosures</b>	<ul style="list-style-type: none"> <li>Our review found no material omissions in the financial statements other than the adjustment highlighted on page 9 for the national issue associated with the McCloud judgement. A small number of disclosure, presentational and consistency amendments have been made to the financial statements arising from the audit.</li> </ul>
7	<b>Audit evidence and explanations/significant difficulties</b>	<ul style="list-style-type: none"> <li>All information and explanations requested from management was provided.</li> </ul>

## Other responsibilities under the Code

Issue	Commentary
1 <b>Other information</b>	<p>We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p> <p>No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect.</p>
2 <b>Matters on which we report by exception</b>	<p>We are required to report on a number of matters by exception in a numbers of areas:</p> <ul style="list-style-type: none"> <li>• If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit</li> <li>• If we have applied any of our statutory powers or duties</li> </ul> <p>We have nothing to report on these matters.</p>
3 <b>Specified procedures for Whole of Government Accounts</b>	<p>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.</p> <p>Note that work is not required as the PCC (on behalf of the group) does not exceed the threshold.</p>
4 <b>Certification of the closure of the audit</b>	<p>We intend to certify the closure of the 2019/20 audit of Cumbria PCC and Cumbria Chief Constable in the audit report.</p>

# Value for Money

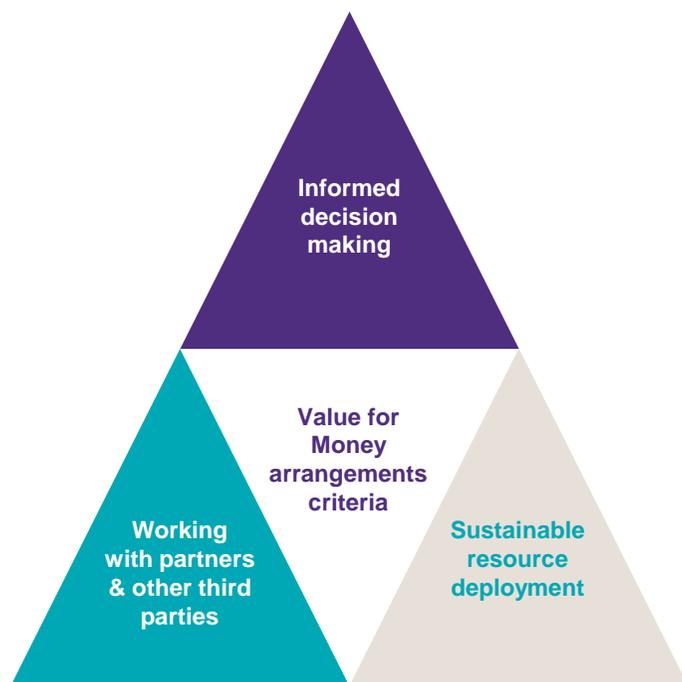
## Background to our VFM approach

We are required to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its 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 the Council. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2017. 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."*

This is supported by three sub-criteria, as set out below:



## Risk assessment

We carried out an initial risk assessment in February 2020 and identified one significant risk in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan dated 21st February 2020.

We have updated our VFM risk assessment to document our understanding of your arrangements to ensure critical business continuity in the current environment. We have not identified any new VFM risks in relation to the Covid-19 pandemic.

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 risk we identified from our initial and ongoing risk assessment. Where our consideration of the significant risks determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.

## Our work

AGN 03 requires us to disclose our views on significant qualitative aspects of the Trust's arrangements for delivering economy, efficiency and effectiveness. 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 on page 18.

## Overall conclusion

Based on the work we performed to address the significant risks, we are satisfied that the PCC and Chief Constable each had proper arrangements for securing economy, efficiency and effectiveness in its 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 the PCC and Chief Constable.

## 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

### Findings

#### 1 Financial Sustainability

The PCC and Chief Constable, along with many other forces faces increasing financial pressures including the need in the future to deliver savings with £8.9m savings requiring to be achieved by 2023/24. Although the PCC and the CC have a proven track record in managing its finances, the future budget gap represent a serious challenge.

We will review the arrangements that are in place for the regular monitoring of the in year financial position in 2019/20 and assess how the future financial challenges including the need to deliver savings are being addressed.

Budget monitoring reports are produced quarterly and are taken to the Public Accountability Conference attended by both the PCC and Chief Constable and their respective senior management teams.

The office of the PCC and the Constabulary also provide monthly monitoring reports that go to budget holders throughout the year.

Review of the June 2019 budget monitoring report and the March 2020 outturn report shows that the reports highlight the current forecast net expenditure position compared to the revised budget, with sufficient narrative around the reasons for any under or overspends against budget. Details are also provided in graphical format of the planned intakes of police officers that have been included in the year end forecasts. The quarterly monitoring reports also highlight the key changes in forecast during the current quarter along with an explanation of any potential risk areas.

The outturn report is comprehensive with provisional outturn information provided compared to budget for the key areas of expenditure and income. For each key area of expenditure and income there is a detailed summary of the reasons for any under or overspends. There is also a quarterly summary of the reported variance position throughout the year compared to comparators for the previous year. The outturn report also provides details of any sponsorship activity undertaken or received during the year, and details of bad debts written off during the year and the provision for bad and doubtful debts made at year end. The reports are of a good standard and help ensure that the in year financial position is monitored and understood.

Separate quarterly reports are also produced on the capital programme with a forecast outturn position at the end of the financial year. Any significant areas of expenditure slippage are summarised and there is informative narrative provided.

The outturn financial performance for 2019/20 shows that an underspend for the group of £0.327m was delivered based on a Chief Constable underspend of £0.196m and a PCC underspend of £0.131m.

The overall level of usable reserves is £29.417m, including £3m General Reserves (which represents approximately 3% of the 2020/21 net recurrent budget after specific grants & fees and charges).

A national comparison across forces shows that Cumbria has a healthy level of useable reserves as a percentage of gross expenditure compared to a number of other forces. Cumbria's useable reserves stand at 16.44% of its gross expenditure compared to a national average of 9.19%. This supports the view that Cumbria has a relatively healthy level of useable reserves that it can rely on going forward

The overall usable fund balances has remained relatively consistent over the past three years and has fallen only by £0.708m over the last three years. Given the financial climate over this period this is a positive achievement.

The Joint Chief Finance Officer in his 2020/21 reserves strategy acknowledges that the medium term financial forecast shows an annual budget deficit of approximately £3m from 2021/22 onwards. Savings plans are being progressed to address the deficit, however, in the event that this is not achieved, reserves will be required to bridge the gap and will result in the level of reserves depleting more quickly than indicated in this strategy. It remains important therefore that going forward reserves are kept under review.

The PCC and Chief Constable has risen to the challenge of the Covid-19 pandemic and put in place arrangements to manage it including several daily strategic meetings as well as the implementation of COVID 19 governance arrangements.

### Conclusion

We conclude that there are appropriate arrangements in place for the in year reporting and monitoring of the financial position of both the Chief Constable and the Police and Crime Commissioner.

# Independence and ethics

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 Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, 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 Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix C.

## **Audit and Non-audit services**

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the PCC and Chief Constable. No non-audit services were identified which were charged relating to the 2019-20 financial year.

# Action plan – internal control

We identified one recommendation as a result of issues identified during the course of our audit. We have agreed our recommendation with management and we will report on progress on the recommendation during the course of the 2020/21 audit. The matter reported here is limited to those deficiencies that we have identified during the course of our audit and we conclude are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Relevant to	Recommendations
1	<p> <b>IT control issues</b></p> <p>A number of IT control issues were identified from our review of the Oracle system. The key issues related to access levels, access privileges and defined processes for making changes to batch jobs.</p> <p>We have shared the issues with your IT department and have had positive responses regarding progress made since the audit in addressing these issues.</p>	Both	Management ensured that actions will be agreed to address the Oracle IT controls issues as part of the new Oracle cloud based system introduced in October 2020.

## Controls

-  High – Significant effect on control system
-  Medium – Effect on control system
-  Low – Best practice

## Appendix B

**Audit Adjustments – CC**

We are required to report all non trivial misstatements to the PCC and Chief Constable, whether or not the accounts have been adjusted by management.

**Impact of adjusted misstatements**

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2020.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
<b>McCloud adjustment</b> The net pension fund liability has been reduced following the impact of the proposed McCloud legal judgement remedy and the updated actuarial valuations obtained after publication of the draft financial statements for audit. Overall impact on the group liability is a reduction of £11.550m .There is no overall impact on overall useable reserves.	11,550 Total Comprehensive Income and Expenditure	(11,550) Pension Liability	0
<b>Change in fair value LGPS plan assets</b> There has been a reduction in the fair value of LGPS plan assets arising from the uncertainties in the financial markets due to Covid 19, which led to an increase in the LGPS pension liability of £1.181m.	(1.181) Actuarial gain/losses on pension assets/liabilities	1.181 Pension Liability	0

**Audit Adjustments – PCC**

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
<b>Change in fair value LGPS plan assets</b> There has been a reduction in the fair value of LGPS plan assets arising from the uncertainties in the financial markets due to Covid 19, which led to an increase in the LGPS pension liability of £0.027m.	(27) Actuarial gain/losses on pension assets/liabilities	27 Pension Liability	0

**Audit Adjustments – Group**

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
<b>Overall impact McCloud and LGPA plan assets</b>			
Total Comprehensive Income and Expenditure	(10,342)		0
Long Term Liabilities - Pensions Liability Police		(11,550)	
Long Term Liabilities - Pensions Liability – LGPS		1,208	

# Audit Adjustments – PCC and CC

We are required to report all non trivial misstatements to the PCC and Chief Constable, whether or not the accounts have been adjusted by management.

## Misclassification and disclosure changes

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.

Detail	Auditor recommendations	Adjusted?
Events after the Balance Sheet Date (Note 3 PCC and CC )	The note has been updated to include reference to Covid 19.	✓
Assumptions made about the future and other sources of estimation uncertainty (Note 4 PCC and CC)	<p>The note has been updated to reflect “material uncertainty” disclosed by the external valuer in respect of the valuation of property, plant and equipment and to reflect pension property fund valuation uncertainties as disclosed by within Cumbria LGPS’s financial statements arising from uncertainties caused by Covid 19.</p> <p>The note has also been updated to reflect the changes and assumptions made around the proposed remedy to the McCloud judgement and that management chose to adjust the financial statements to reflect the revised valuation, rather than treat this as a non-adjusting post balance sheet event.</p>	✓
Accounting standards that have been issued but not yet adopted (Note 33 PCC, Note 21 CC)	The note has been updated to expand the disclosure with regards to the implementation of IFRS 16 Leases.	✓
Prior Period Adjustment	The draft financial statements originally included a note relating to a prior period adjustment. Whilst management were correct to amend an error from previous years, as this was not for a material amount this does not constitute a prior period adjustment and as a result the note has been removed. The Cashflow statement, and notes on short term debtors and short term creditors had already been restated.	✓
Accounting Policy - Financial Instruments (Annex B PCC and CC)	PCC’s and CC’s shall account for financial instruments in accordance with IFRS 9. The accounting policy on Financial Instruments has been updated to ensure that it complies with IFRS 9, including removing some references that are no longer required such as financial assets being classified as being loans and receivables and available for sale assets, and updating the note to include reference to expected credit losses.	✓

# Audit Adjustments – PCC (updated)

We are required to report all non trivial misstatements to the PCC and Chief Constable, whether or not the accounts have been adjusted by management.

## Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2019/20 audit which have not been made within the final set of financial statements. We are required to report all non-trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
<b>PPE – Kendal Police Station</b>				
Our review of the valuation calculation for Kendal Police Station identified that the wrong area figure for the site had been used when compared to site plans. As a result a revaluation was performed and the Police Station's valuation increased by £650,000. Management has chosen not to adjust this year's statements for this.	0	Land and Buildings 650	0	Not material
		Revaluation Reserve (650)		
<b>PPE – Whitehaven Police Station</b>				
Whitehaven Police Station had been revalued during the year which led to a reduction in the valuation by £128,500. The reduction in valuation has missed with the asset register not been updated. Management has chosen not to adjust this year's statements for this.	0	Land and buildings (128.5)	0	Not material
		Revaluation Reserve 128.5		
<b>Net Impact</b>				
	0	Land and Buildings 521.5	0	
		Revaluation Reserve (521.5)		

# Fees

We confirm below our final fees charged for the audit.

<b>Audit Fees</b>	<b>Proposed fee</b>	<b>Final fee</b>
<b>PCC Audit</b>	£27,560	£27,560
<b>Chief Constable Audit</b>	£13,850	£13,850
Remote working has taken additional time to explain the audit trail of transactions through remote working rather than discussing processes and procedures in person. There has also been additional work undertaken in response to McCloud and the revised IAS 19 reports and through discussions with the external valuer. We estimate that the impact of remote working this has extended the audit process by 7 days.		£4,500
<b>Total audit fees (excluding VAT)</b>	<b>£41,410</b>	<b>£45,910</b>

- The fees reconcile to the financial statements Note 26 subject to roundings. The difference from the final proposed fee relates to the additional fee of £4,500 in respect of costs of remote working and McCloud.



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