

Annual Audit Letter

Office of the Police, Fire and Crime Commissioner for North Yorkshire and the Chief Constable for North Yorkshire

Year ending 31 March 2020





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1. EXECUTIVE SUMMARY

Purpose of the Annual Audit Letter

Our Annual Audit Letter summarises the work we have undertaken as the auditor the Police, Fire and Crime Commissioner (the Commissioner), including the group, and Chief Constable for the year ended 31 March 2020. Although this letter is addressed to the Commissioner and Chief Constable, it is designed to be read by a wider audience including members of the public and other external stakeholders.

Our responsibilities are defined by the Local Audit and Accountability Act 2014 (the 2014 Act) and the Code of Audit Practice issued by the National Audit Office (the NAO). The detailed sections of this letter provide details on those responsibilities, the work we have done to discharge them, and the key findings arising from our work. These are summarised below.

Area of responsibility	Summary
Audit of the financial statements	<p>Our auditor's report issued on 27 November 2020 included our opinion that the financial statements:</p> <ul style="list-style-type: none">• give a true and fair view of the Commissioner and Chief Constable's financial position as at 31 March 2020 and of its expenditure and income for the year then ended; and• have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.
Other information published alongside the audited financial statements	<p>Our auditor's report included our opinion that:</p> <ul style="list-style-type: none">• the other information in the Statement of Accounts is consistent with the audited financial statements.
Value for money conclusion	<p>Our auditor's report concluded that we are satisfied that in all significant respects, the Commissioner and Chief Constable had put in place proper arrangements to secure economy, efficiency and effectiveness in their use of resources for the year ended 31 March 2020.</p>
Reporting to the group auditor	<p>In line with group audit instructions, issued by the NAO on 4th November, we reported to the group auditor in line with the requirements applicable to the Commissioner and Chief Constable's WGA return.</p>
Statutory reporting	<p>Our auditor's report confirmed that we did not use our powers under s24 of the 2014 Act to issue a report in the public interest or to make written recommendations to the Commissioner or Chief Constable.</p>



2. AUDIT OF THE FINANCIAL STATEMENTS

Opinion on the financial statements

Unqualified

The scope of our audit and the results of our work

The purpose of our audit is to provide reasonable assurance to users that the financial statements are free from material error. We do this by expressing an opinion on whether the statements are prepared, in all material respects, in line with the financial reporting framework applicable to the Commissioner and Chief Constable and whether they give a true and fair view of the Commissioner and Chief Constable's financial position as at 31 March 2020 and of its financial performance for the year then ended.

Our audit was conducted in accordance with the requirements of the Code of Audit Practice issued by the NAO, and International Standards on Auditing (ISAs). These require us to consider whether:

- the accounting policies are appropriate to the Commissioner and Chief Constable's circumstances and have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management in the preparation of the financial statements are reasonable; and
- the overall presentation of the financial statements provides a true and fair view.

Our auditor's report, stated that in our view, the financial statements give a true and fair view of the Commissioner and Chief Constable's financial position as at 31 March 2020 and of their financial performance for the year then ended. The following modifications to the audit reports were made:

- Police, Fire and Crime Commissioner – included emphasis of matter associated with property valuation uncertainty associated with the Commissioner's property and also emphasis of matter associated with property valuation uncertainty relating to property assets held by the Pension Fund and allocated to the Group.
- Chief Constable – include emphasis of matter associated with property valuation uncertainty relating to property assets held by the Pension Fund and allocated to the Chief Constable.

Our approach to materiality

We apply the concept of materiality when planning and performing our audit, and when evaluating the effect of misstatements identified as part of our work. We consider the concept of materiality at numerous stages throughout the audit process, in particular when determining the nature, timing and extent of our audit procedures, and when evaluating the effect of uncorrected misstatements. An item is considered material if its misstatement or omission could reasonably be expected to influence the economic decisions of users of the financial statements.

Judgements about materiality are made in the light of surrounding circumstances and are affected by both qualitative and quantitative factors. As a result we have set materiality for the financial statements as a whole (financial statement materiality) and a lower level of materiality for specific items of account (specific materiality) due to the nature of these items or because they attract public interest. We also set a threshold for reporting identified misstatements to the Commissioner and Chief Constable. We call this our trivial threshold.

The table below provides details of the materiality levels applied in the audit of the financial statements for the year ended 31 March 2020:

Financial statement materiality	Our financial statement materiality is based on 2% of Gross Revenue Expenditure	Group - £5.409m PCC - £3.912m CC - £4.816m
Trivial threshold	Our trivial threshold is based on 3% of financial statement materiality.	Group - £0.162m PCC - £0.117m CC - £0.144m



2. AUDIT OF THE FINANCIAL STATEMENTS

Our response to significant risks

As part of our continuous planning procedures we considered whether there were risks of material misstatement in the Commissioner of Chief Constable's financial statements that required special audit consideration. We reported significant risks identified at the planning stage to the Commissioner and Chief Constable within our Audit Strategy Memorandum and provided details of how we responded to those risks in our Audit Completion Report (and follow up letter). The table below outlines the identified significant risks, the work we carried out on those risks and our conclusions.

Identified significant risk	Our response	Our findings and conclusions
Management override of controls (Commissioner and Chief Constable) In all entities, management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Because of the unpredictable way in which such override could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits	We addressed this risk by performing audit work in the following areas: <ul style="list-style-type: none">• accounting estimates impacting on amounts included in the financial statements;• consideration of identified significant transactions outside the normal course of business; and• journals recorded in the general ledger and other adjustments made in preparation of the financial statements.	Our audit work provided the assurance we sought and did not identify any material issues. There is no indication of management override of controls.



2. AUDIT OF THE FINANCIAL STATEMENTS

Our response to significant risks (continued)

Identified significant risk	Our response	Our findings and conclusions
<p>Property, plant and equipment valuation (Commissioner)</p> <p>The financial statements contain material entries on the Balance Sheet as well as material disclosure notes in relation to the Commissioner’s holding of land and buildings.</p> <p>Although the Commissioner employs an external valuation expert to provide information on valuations, there remains a high degree of estimation uncertainty associated with the revaluation of PPE due to the significant judgements and number of variables involved in providing revaluations.</p>	<p>We addressed this risk by:</p> <ul style="list-style-type: none"> • updating our understanding on the approach taken in its valuation of land and buildings; • evaluation the methodology used by the valuer as well as their competence, skills and experience; • We performed further audit procedures on individual assets to ensure that the basis and level of valuation was appropriate; • We considered evidence of valuation trends to assess the reasonableness of the valuations; and • We also considered the impact of COVID-19 on the valuations to gain additional assurance on their reasonableness. 	<p>The valuer followed guidance issued by the Royal Institute of Chartered Surveyors and their valuation report disclosed a “material valuation uncertainty” in relation to the valuation of land and buildings. This has been disclosed in Accounting Policies (note 33) of the financial statements. In line with normal practice, we included reference to this disclosure as an ‘emphasis of matter’ in our audit report. The purpose of this paragraph is to draw attention to this disclosure, it is not a qualification and did not modify our proposed unqualified opinion on the financial statements. Please note that this only applied to the Commissioner and Group financial statements.</p> <p>Our work has provided the assurance we sought and we have not identified any other matters to report in relation to property, plant and equipment valuations.</p>



2. AUDIT OF THE FINANCIAL STATEMENTS

Our response to significant risks (continued)

Identified significant risk	Our response	Our findings and conclusions
<p>Defined benefit liability valuation (Commissioner and the Chief Constable)</p> <p>The financial statements contain material pension entries in respect of retirement benefits. The calculation of these pension figures, both assets and liabilities, can be subject to significant volatility and includes estimates based upon a complex interaction of actuarial assumptions. In 2019/20, the local government pension assets and liabilities are subject to triennial revaluation.</p>	<p>We addressed this risk by:</p> <ul style="list-style-type: none"> • Discussing with key contacts, any significant changes to the pension estimates; • Evaluated the management controls in place to assess the reasonableness of the figures provided by the actuaries; • Considered the reasonableness of each actuary's output, referring to an expert's report on all actuaries nationally. • We also sought assurances from the auditor of North Yorkshire Pension Fund. 	<p>Material amendments were made to the pension disclosures arising from changes in the estimated impact of the McCloud Judgement on the police pension scheme.</p> <p>North Yorkshire County Council Pension Fund has made a disclosure of 'material valuation uncertainty' in relation to certain types of assets in the notes to its financial statements. As the Group, Commissioner and Chief Constable's accounts include a share of the Pension Fund assets, and the assets subject to the disclosure are above our materiality level, Note 1.33 of the Commissioner and 1.22 of the Chief Constable's financial statements in relation to sources of estimation uncertainty, has been updated to disclose the impact of this on the Group, Commissioner and Chief Constable financial statements.</p> <p>In line with normal practice, we will include reference to this disclosure as an 'emphasis of matter' in our audit report. The purpose of this paragraph is to draw attention to this disclosure, it is not a qualification and does not modify our proposed unqualified opinion on the financial statements.</p>



2. AUDIT OF THE FINANCIAL STATEMENTS

Internal control recommendations

As part of our audit we considered the internal controls in place that are relevant to the preparation of the financial statements. We did this to design audit procedures that allow us to express our opinion on the financial statements, but this did not extend to us expressing an opinion on the effectiveness of internal controls. We identified the following deficiencies in internal control as part of our audit.

Description of deficiency	<p>Our testing of property valuations included consideration of the source data provided to and used by the Valuer. Our consideration of floor area data noted some discrepancies between the data used by the valuer and that held by the Force. These differences did not suggest a risk of material misstatement and the actual errors were noted as £54k with a further £6k extrapolated.</p> <p>However this work highlighted a weakness in the arrangements to check the data used by the Valuer.</p>
Potential effects	<p>The valuations are based on incorrect data which creates a material misstatement in the year end property valuations.</p>
Recommendation	<p>Management introduce a control to check that the data provided to and used by the Valuer is correct per the records held by the Force.</p>
Management response	<p>Going forward we will amend the policy for commissioning the revaluations to provide full data every year as opposed to just updates. In addition we will ask for the Valuer's' report to include as an appendix the raw data they used.</p>



3. VALUE FOR MONEY CONCLUSION

Value for money conclusion

Unqualified

Our audit approach

We are required to consider whether the Commissioner and Chief Constable have made proper arrangements for securing economy, efficiency and effectiveness in their use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out in order to form our conclusion, and sets out the criterion and sub-criteria that we are required to consider.

The overall criterion is that, ‘in all significant respects, the Commissioner/Chief Constable had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.’ To assist auditors in reaching a conclusion on this overall criterion, the following sub-criteria are set out by the NAO:

- informed decision making;
- sustainable resource deployment; and
- working with partners and other third parties.

Our auditor’s report, stated that , in all significant respects, the Commissioner and Chief Constable put in place proper arrangements to secure economy, efficiency and effectiveness in their use of resources for the year ended 31st March 2020.

Sub-criteria	Commentary	Arrangements in place?
Informed decision making	<p>There is a Corporate Governance Framework in place which is subject to annual review. The framework includes a Code of Corporate Governance, the scheme of delegation, the decision making policy and financial and contract regulations.</p> <p>A Joint Independent Audit Committee (JIAC) is in place to assist the Commissioner and Chief Constable in maintaining an effective system of internal control. The JIAC met throughout the financial year. A Corporate risk register is maintained with quarterly progress reports being made to JIAC.</p> <p>There is an Internal Audit function for the Commissioner and Chief Constable. Internal Audit reports are presented quarterly to JIAC. This includes reporting of findings and tracking of recommendations to ensure they are implemented in a timely manner. An Annual Governance Statement for the Commissioner and Chief Constable has been prepared and reviewed by Officers and the JIAC.</p> <p>Financial performance has been reported throughout the financial year. No evidence of financial or performance data not being reliable and therefore impacting on the decision making of either the Commissioner or the Chief Constable.</p> <p>The Medium Term Financial Plan (MTFP) was approved in February 2020 which set a balanced position for 2020/21. The plan highlighted the medium term risks to the Group’s finances. The 2020/21 budget included savings which are required to support planned investment in services. In light of the consequences of the COVID-19 pandemic the Commissioner’s CFO and the Chief Constable’s CFO are reviewing the assumptions in the MTFP and are monitoring the impact on the Group’s future finances.</p>	Yes



3. VALUE FOR MONEY CONCLUSION

Sub-criteria	Commentary	Arrangements in place?
Sustainable resource deployment	<p>In 2019/20 the Commissioner and Group overall delivered a small underspend against the budget. The Chief Constable delivered a £5.999m overspend against their approved budget. The Chief Constable's outturn was largely associated with the none delivery of planned savings. These savings were necessary for future investment in services. The savings were not necessary to deliver a balanced position which is why overall the Group delivered a small surplus. There was a small decrease in General Fund reserves.</p> <p>The MTFP for Commissioner and Chief Constable has been updated to reflect the outturn in 2019/20. The MTFP reflects the expected pressures the Commissioner and Chief Constable will face. The Transformation 2020 programme has identified potential efficiencies and improved ways of working. However it is acknowledged that there are risks to delivering these efficiencies. If savings are not delivered then future investment may not be available or may need to be funded from different sources. The MTFP is based on no future use of the General Reserve. The Commissioner and Chief Constable CFO's are monitoring the impact of COVID-19 and the likely impact on future sources of funding.</p> <p>Capital investment links to the delivery against the Police and Crime Plan.</p> <p>Workforce levels monitored and reported on a regular basis and aligned to strategic plans.</p>	Yes
Working with partners and other third parties	<p>The Commissioner and Chief Constable continue to work with partners. This includes working with other Police bodies. Note 15 of the Commissioner and 10 of the Chief Constable's Statement of Accounts provide further detail of the partnership working.</p> <p>In November 2018 the Commissioner took on governance responsibility for North Yorkshire Fire and Rescue Authority. The Transformation 2020 programme is considering potential opportunities for closer police and fire working. From the 1 April 2020 these arrangements will be governed through the Enable vehicle. This is led by a Managing Director who will be responsible for the provision of central support services to the Fire and Rescue Authority and the Commissioner and Chief Constable. Collaboration agreements are in place to manage the relationship between the interested parties.</p>	Yes



3. VALUE FOR MONEY CONCLUSION

Significant audit risks

The NAO’s guidance requires us to carry out work to identify whether or not a risk to our conclusion exists. Risk, in the context of our work, is the risk that we come to an incorrect conclusion rather than the risk of the arrangements in place at the Commissioner and Chief Constable being inadequate. In our Audit Strategy Memorandum, we reported that we had identified one significant audit risk. The work we carried out in relation to significant risks is outlined below.

Risk	Work undertaken	Conclusion
<p>Our audit work in previous years has concluded that there are proper arrangements in place for medium term financial planning. Like many police bodies North Yorkshire faces significant financial challenges in the current and coming years. These pressures include:</p> <ul style="list-style-type: none"> • 2019/20 outturn against budget may place pressures on future investment given the lower than planned availability of reserves; • Delivery of the Transform 2020 efficiencies; • Uncertainty regarding future levels of funding; and • Externally created pressures such as nationally agreed pay awards and ‘Operation Uplift’. <p>These pressures mean it is critical that North Yorkshire plans finances effectively to support the sustainable delivery of strategic priorities and statutory services. We are not in a position to conclude on this VFM criteria without completing additional work.</p>	<p>Building on our work in previous years, we reviewed the arrangements in place for ensuring financial resilience. Specifically, our work included:</p> <ul style="list-style-type: none"> • Reviewing the Commissioner and Chief Constable’s financial outturn for 2019/20 and the impact this has on future years; • Reviewed the 2020/21 budget and Medium Term Financial Plan, including assumptions; • Considered the Transform 2020 project delivery; and • Assessed the arrangements for managing externally generated pressures such as ‘Operation Uplift’. 	<p>The MTFP has been revised and updated for 2020/21 to 2023/24 to ensure it is based on appropriate assumptions (income projections, central government funding, pay and non-pay inflation) and recognises the risks associated with these assumptions.</p> <p>The financial outlook remains challenging, with the added complexity of managing in the context of the COVID-19 pandemic and the continued uncertainty over future funding settlements.</p> <p>In 2019/20 the Group delivered a small budget underspend of £198k.</p> <p>Monthly budget monitoring is undertaken by the Executive Board which includes a review of progress against savings.</p> <p>As part of the Transform 2020 programme a number of other projects are also underway which look to transform the way the service is delivered to ensure that it meets the Group ambitions while also achieving efficiencies. Efficiencies generated will be invested rather than being required to balance the budget.</p>



3. VALUE FOR MONEY CONCLUSION

During March 2020, the significant impact of the COVID-19 pandemic began to have far reaching implications for us all, including an impact on the Commissioner and Chief Constable. In particular, following the lockdown from 26 March 2020, the service needed to respond to the impact of the pandemic on its communities and also needed to adapt to new ways of working.

Our 2019/20 value for money conclusion is focused on the arrangements in place during the 2019/20 financial year. Given the timing of the major impact of the pandemic one week before the end of the financial year, the Commissioner and Chief Constable did not have time to review its arrangements for informed decision making, sustainable resource deployment or working with partners and other third parties during the financial year under review. Consequently, we did not identify an additional significant risk relating to the COVID-19 pandemic in our 2019/20 value for money conclusion work.

The Commissioner and Chief Constable's response to the pandemic will be a major focus of our 2020/21 audit. With this in mind, we have continued to liaise with officers and gain an understanding of the arrangements that have been put in place in the new financial year.



4. OTHER REPORTING RESPONSIBILITIES

Exercise of statutory reporting powers	No matters to report
Completion of group audit reporting requirements	Below testing threshold
Other information published alongside the audited financial statements	Consistent

The NAO's Code of Audit Practice and the 2014 Act place wider reporting responsibilities on us, as the Commissioner and Chief Constable's external auditor. We set out below, the context of these reporting responsibilities and our findings for each.

Matters on which we report by exception

The 2014 Act provides us with specific powers where matters come to our attention that, in our judgement, require reporting action to be taken. We have the power to:

- issue a report in the public interest;
- make statutory recommendations that must be considered and responded to publicly;
- apply to the court for a declaration that an item of account is contrary to law; and
- issue an advisory notice under schedule 8 of the 2014 Act.

We have not exercised any of these statutory reporting powers.

The 2014 Act also gives rights to local electors and other parties, such as the right to ask questions of the auditor and the right to make an objection to an item of account. We did not receive any such objections or questions.

Reporting to the NAO in respect of Whole of Government Accounts consolidation data

The NAO, as group auditor, requires us to complete the WGA Assurance Statement in respect of its consolidation data. We submitted this information to the NAO on 27 November 2020.

Other information published alongside the financial statements

The Code of Audit Practice requires us to consider whether information published alongside the financial statements is consistent with those statements and our knowledge and understanding of the Commissioner and Chief Constable. In our opinion, the other information in the Statement of Accounts is consistent with the audited financial statements.



5. OUR FEES

Fees for work as the PCC and Group and CC's auditor

We reported our proposed fees for the delivery of our work in the Audit Strategy Memorandum, dated 3 March 2020. This was based on the scale fee set by Public Sector Audit Appointments Limited. As noted throughout the year, we highlighted that there would be additional recurring audit fees as a result of increased regulatory pressures and requirements. We also mentioned that we would review the final position on fees when the audit was concluded.

Following completion of the audit, we have revisited the fees for 2019/20. In addition to the increase in the base audit fee, there have been some one-off increases in the audit fee for the 2019/20 audit year, and mainly relate to audit issues arising from the Covid-19 pandemic and other matters.

Any variations to the final fee will also require the approval of Public Sector Audit Appointments Limited, which manages the contracts for our work.

PCC and Group fees

Area of work	2019/20 proposed fee / PSAA scale fee (£)	2019/20 final fee (£)
Delivery of audit work under the NAO Code of Audit Practice	24,971	24,971
Recurring increases in the base audit fee arising from regulatory pressures		5,002
One-off fee increases for 2019/20 specific issues		2,052
Total Audit Fees	24,971	32,025

All fees are subject to VAT

Analysis of Recurring increases in the base audit fee arising from regulatory pressures

Audit area for recurring additional work	Final fee 2019/20
Additional work on PPE and related valuations	£1,751
Additional work on pensions	£1,501
Additional work on review of journals	£1,000
Additional work in relation to the consideration of going concern	£750
Total additional fee for 2019/20 (recurring in future years)	£5,002



5. OUR FEES

Analysis of One-off fee increases for 2019/20 specific issues

Additional work relating to the 2019/20 audit	Final fee 2019/20
Additional procedures to review the potential impact of the proposed remedy in the McCloud case against the pension liability disclosures, and consideration of the potential impact of the Goodwin case on pension liabilities – review of the revised disclosures for the police pension scheme in respect of McCloud	£1,026
Additional procedures in relation to Material Valuation Uncertainty of the PFCC's property assets, including disclosures and the inclusion of an Emphasis of Matter paragraph in the audit report, which was subject to Consultant Partner Review	£513
Additional procedures in relation to Material Valuation Uncertainty of the Pension Fund's property assets, including disclosures and the inclusion of an Emphasis of Matter paragraph in the audit report, which was subject to Consultant Partner Review	£513
Total additional fee for 2019/20 (not recurring)	£2,052

CC fees

Area of work	2019/20 proposed fee / PSAA scale fee (£)	2019/20 final fee (£)
Delivery of audit work under the NAO Code of Audit Practice	11,550	11,550
Recurring increases in the base audit fee arising from regulatory pressures		2,360
One-off fee increases for 2019/20 specific issues		1,069
Total Audit Fees	11,550	14,979

All fees are subject to VAT



5. OUR FEES

Analysis of Recurring increases in the base audit fee arising from regulatory pressures

Audit area for recurring additional work	Final fee 2019/20
Additional work on pensions	£1,416
Additional work on review of journals	£590
Additional work in relation to the consideration of going concern	£354
Total additional fee for 2019/20 (recurring in future years)	£2,360

Analysis of One-off fee increases for 2019/20 specific issues

Additional work relating to the 2019/20 audit	Final fee 2019/20
Additional procedures to review the potential impact of the proposed remedy in the McCloud case against the pension liability disclosures, and consideration of the potential impact of the Goodwin case on pension liabilities – review of the revised disclosures for the police pension scheme in respect of McCloud	£556
Additional procedures in relation to Material Valuation Uncertainty of the Pension Fund's property assets, including disclosures and the inclusion of an Emphasis of Matter paragraph in the audit report, which was subject to Consultant Partner Review	£513
Total additional fee for 2019/20 (not recurring)	£1,069

Fees for other work

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



6. FORWARD LOOK

Financial outlook

The COVID-19 pandemic and the consequences of local and regional lockdowns and restrictions will have a significant impact on the UK economy for years to come. The pandemic has created significant uncertainties and pressures in the Commissioner and Chief Constable's medium term financial plan. Clarity over the impact will only be obtained when the virus has been brought under control and the impact on the economy becomes clearer. The Group is monitoring and updating plans but is anticipating future pressures in the income it receives. In particular, Collection Fund income is likely to be affected by any negative impact to the local and national economy. Public spending is also likely to be tightly controlled as the Government begins to manage the levels of borrowing incurred.

There is also uncertainty in regards the UK and European Union trade deal. While this may not directly impact on the Group's supply chains, the impact on the overall economy may create indirect pressures.

It is critical that the Commissioner and Chief Constable continue to monitor and refresh the Group medium term plan so that potential funding shortfalls can be identified as early as possible and mitigations identified to minimise the impact on front line services.

Operational challenges

During 2018/19, the Constabulary received a rating of "good" from HMICFRS in its effectiveness and efficiency and 'requires improvement' for legitimacy in the PEEL inspection. Owing to the COVID-19 pandemic the HMICFRS suspended its inspection regime. However there remains the challenge of continuing to maintain and improve on these standards, particularly against a backdrop of continued reductions in funding and future uncertainty, alongside increasing demand.

Many of the Commissioner and Chief Constable's back office staff have been working remotely with staff having to adapt to working from home. It is likely that these measures will continue until the roll out of a vaccine and coronavirus is brought under control.

How we will work with the Commissioner and Chief Constable

In terms of the technical challenges around the production of the statement of accounts, we will continue to offer accounting workshops to finance officers, and the audit team will continue to share our knowledge of new accounting developments. We will also be on hand to discuss any issues as and when they arise.

Given the impact of COVID-19 on the 2019/20 reporting timetable, there is some uncertainty in respect of the 2020/21 completion dates. We will continue to work with the finance team to ensure timely completion of our audit work.

We will also share relevant insights that we have as a national and international accounting and advisory firm with experience of working with other public sector and commercial service providers.



6. FORWARD LOOK

Changes to the Code of Audit Practice

The Code of Audit Practice (the Audit Code), issued by the Comptroller and Auditor General, prescribes the way we carry out our responsibilities as your auditors. On 1st April 2020 a new Code came in to force and will apply to our work from 2020/21 onwards.

The new Audit Code continues to apply the requirements of International Standards on Auditing (ISAs) to our audit of the financial statements. While there are changes to the ISAs that are effective from 2020/21 the Audit Code has not introduced any changes to the scope of our audit of the financial statements. We will continue to give our opinion on the financial statements in our independent auditor's report.

There are however significant changes to the work on value for money arrangements, and the way we report the outcomes of our work to you.

The auditor's work on value for money arrangements

From 2020/21 we are still required to satisfy ourselves that you have made proper arrangements for securing the economy, efficiency and effectiveness in your use of resources, however unlike under the 2015 Audit Code, we will no longer report in the form of a conclusion on arrangements. Instead, where our work identifies significant weaknesses in arrangements, we are required to report those weaknesses to you, along with the actions that need to be taken to address those weaknesses.

Our work on value for money arrangements will focus on three criteria, specified in the revised Audit Code:

- Financial sustainability: how the body plans and manages its resources to ensure it can continue to deliver its services;
- Governance: how the body ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness: how the body uses information about its costs and performance to improve the way it manages and delivers its services.

Under the new Audit Code we will be expected to report and make recommendations as soon as we identify a significant weakness in arrangements, as opposed to reporting our conclusion on arrangements at the end of the audit cycle as has previously been the case.

Reporting the results of the auditor's work

We currently issue you with an Annual Audit Letter which provides a summary of our work across all aspects of our audit. From 2020/21 the Annual Audit Letter will be replaced by the Auditor's Annual Report. This will continue to provide a summary of our work over the year of audit but will also include a detailed commentary on your arrangements in place to achieve economy, efficiency and effectiveness. This commentary replaces the conclusion on arrangements that was previously provided and will include details of any significant weakness identified and reported to you, follow up of any previous recommendations made, and the our view as to whether recommendations have been implemented satisfactorily.

The guidance supporting the new Audit Code is being developed by the National Audit Office and we will provide you with any further updates to our approach arising from this guidance when it is released. In particular we will communicate any increases in work which will impact on the audit fees charged.



6. FORWARD LOOK

Redmond Review

In September 2020, Sir Tony Redmond published the findings of his independent review into the oversight of local audit and the transparency of local authority financial reporting. The report makes several recommendations that, if implemented, could affect both the financial statements that local authorities are required to prepare and the work that we as auditors are required to do.

The report and recommendations are wide-ranging, and includes:

- the creation of the Office of Local Audit and Regulation (OLAR), be created to manage, oversee and regulate local audit;
- reviewing reporting deadlines;
- reviewing governance arrangements in local authorities, including the membership of the Audit Committee; and
- increasing transparency and reducing the complexity of local authority financial statements.

The recommendations and findings will now be considered by the Ministry of Housing, Communities and Local Government and we look forward to working with all stakeholders to implement changes to ensure the development and sustainability of local audit.

The full report is available here: <https://www.gov.uk/government/publications/local-authority-financial-reporting-and-external-audit-independent-review>



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