Annual Audit Letter

Police and Crime Commissioner for North Yorkshire

Year ending 31 March 2018

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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 for the Police and Crime Commissioner for North Yorkshire (the Commissioner) and Group for the year ended 31 March 2018. Although this letter is addressed to the Commissioner, 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	Our auditor's report issued on 26 July 2018 included our opinion that the financial statements: • gave a true and fair view of the Commissioner and Group's financial position as at 31 March 2018 and of its expenditure and income for the year then ended; and • had been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18
Other information published alongside the audited financial statements	Our auditor's report issued on 26 July 2018 included our opinion that the other information in the Statement of Accounts was consistent with the audited financial statements.
Value for Money conclusion	Our auditor's report concluded that we were satisfied that in all significant respects, the Commissioner had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.
Reporting to the group auditor	In line with group audit instructions issued by the NAO, on 26 July 2018 we reported to the group auditor in line with the requirements applicable to the Commissioner's WGA return.
Statutory reporting	Our auditor's report confirmed that we did not use our powers under section 24 of the 2014 Act to issue a report in the public interest or to make written recommendations to the Commissioner.

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 Group and whether they give a true and fair view of the Commissioner and Group's financial position as at 31 March 2018 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'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 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 Joint Independent Audit Committee. We call this our trivial threshold.

The table below provides details of the materiality levels applied in the audit of the Commissioner and Group financial statements for the year ended 31 March 2018:

Financial statement materiality	Our financial statement materiality is based on 2% of gross operating expenditure.	Commissioner: £3.299 million Group: £3.834 million
Trivial threshold	Our trivial threshold is based on 3% of financial statement materiality.	Commissioner: £0.099 million Group: £0.115 million
Specific materiality	We have applied a lower level of materiality to the following areas of the accounts: • Officer remuneration • Related Party Transactions • Exit Packages	 £0.005 million £0.005 million £0.005 million

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 and Group's financial statements that required special audit consideration. We reported significant risks identified at the planning stage to the Commissioner and Joint Independent Audit Committee within our Audit Strategy Memorandum and provided details of how we responded to those risks in our Audit Completion Report. 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 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. Due to 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 through performing audit work over: • 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 work provided the assurance we sought and did not highlighted any material issues in respect of management override.
Revenue recognition (relevant to Commissioner and group accounts) There is a risk of fraud in the financial reporting relating to revenue recognition due to the potential to inappropriately record revenue in the wrong period. Due to there being a risk of fraud in revenue recognition we consider it to be a significant risk.	We addressed this risk through substantive testing of transactions posted pre and post year end.	Our work provided the assurance we sought and did not highlight any material issues in respect of revenue recognition.
Defined benefit liability valuation (relevant to group accounts) 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. This results in an increased risk of material misstatement.	In addition to our standard audit programme we addressed this risk through the following procedures: • discussions with key contacts on any significant changes to the pensions estimates prior to the preparation of the final accounts; • evaluation of the management controls in place to assess the reasonableness of the figures provided by the actuaries; and • consideration of the reasonableness of the actuaries outputs, referring to an expert's report on all actuaries nationally which is commissioned annually by the National Audit Office.	Our work provided the assurance we sought and did not highlight any material issues. Our work identified no indication of material estimation error in respect of pensions.

2. AUDIT OF THE FINANCIAL STATEMENTS

Key areas of management judgement

Key areas of management judgement include accounting estimates which are material but are not considered to give rise to a significant risk of material misstatement.

This area of management judgement represents another area of audit emphasis.

Identified management judgement	Our response	Our findings and conclusions
Valuations of buildings (relevant to Commissioner and group accounts) The financial statements contain material entries on the Balance Sheet as well as material disclosure notes in relation to the Commissioner's holding of buildings. 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 buildings due to the significant judgements and number of variables involved in providing revaluations. We have therefore identified the revaluation of buildings to be an area of enhanced risk.	We addressed this risk through the following procedures; • consideration of the Commisioner's arrangements for ensuring that building values are reasonable; • assessing the competence, skills and experience of the Valuer; • considering evidence of valuation trends to assess the reasonableness of the valuations provided by the Valuer; and • substantively testing valuations of individual assets to ensure that the basis and level of valuation was appropriate.	Our work provided the assurance we sought and did not highlight any material issues in respect of building valuations.

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 no deficiencies in internal control as part of our audit which required reporting.

3. VALUE FOR MONEY CONCLUSION

Value for Money conclusion	Unqualified

Our approach to Value for Money

We are required to consider whether the Commissioner has made proper arrangements for securing economy, efficiency and effectiveness in its 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 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.
- Working with partners and other third parties.

Our auditor's report, issued to the Commissioner on 26 July 2018, stated that, in all significant respects, the Commissioner put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31st March 2018.

Sub-criteria	Commentary	Matters to report
Informed decision making	***Acting in the public interest, through demonstrating and applying the principles and values of sound governance*** An established governance framework is in place. Police and Crime Plan 2017 – 2021 communicates the policing priorities. A Joint Independent Audit Committee is in place and has met throughout the year. Police and Crime Panel has met during the year. ***Understanding and using appropriate and reliable financial and performance information to support informed decision making and performance management including where relevant, business cases supporting significant investment decisions*** Arrangements in place to monitor, review and report financial and performance information during the year. Medium Term Financial Plan (MTFP) in place, and updated routinely. As reported in the Statement of Accounts the Group overspent by £1.8m in the year. This was identified at an early stage and has been met by reserves. The 2018/19 MTFP has been updated to reflect the pressures in the 2017/18 budget. HMICFRS Crime Data review rated the Force as 'inadequate'. The Force has implemented an Action Plan in response to the inspection. ***Reliable and timely financial reporting that supports the delivery of strategic priorities*** Performance monitored and reviewed, and regular reporting of financial performance. MTFP in place which links financial plan to strategic priorities. ***Managing risks effectively and maintaining a sound system of internal control*** Risk register and risk management arrangements in place. Risks have been reported to Joint Independent Audit Committee (JIAC) during the year. Internal Audit have reported throughout the year to the JIAC. Annual Governance Statement prepared, reviewed and approved.	None

3. VALUE FOR MONEY CONCLUSION *CONTINUED*

Sub-criteria	Commentary	Matters to report
Sustainable resource deployment	***Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions*** In recent years the Group has delivered financial targets. As detailed in the Statement of Accounts a deficit position of £1.8m was delivered in 2017/18 and met by reserves. Group recognises this is not sustainable and the Medium Term Financial Plan has been updated to reflect pressures in the 2017/18 budget. A programme is in place to make efficiencies in order to reinvest in services. ***Managing and utilising assets effectively to support the delivery of strategic priorities*** A detailed capital plan included in the MTFP. Capital investment links to the delivery against the Police and Crime Plan. ***Planning, organising and developing the workforce effectively to deliver strategic priorities*** HR policies and procedures in place. Workforce levels monitored and reported on a regular basis and aligned to strategic plans.	None
Working with partners and other third parties	***Working with third parties effectively to deliver strategic priorities and Commissioning services effectively to support the delivery of strategic priorities*** Continued collaboration examples include: • Regional collaboration in Yorkshire and Humber; • Project Evolve with Durham and Cleveland; and • Joint appointment of Officers with other PCCs; ***Procuring supplies and services effectively to support the delivery of strategic priorities*** Written procurement procedures and policies in place.	None

Significant Value for Money risks

The NAO's guidance requires us to carry out work to identify whether or not a risk to the Value for Money conclusion exists. Risk, in the context of our Value for Money work, is the risk that we come to an incorrect conclusion rather than the risk of the arrangements in place at the Commissioner being inadequate.

In our Audit Strategy Memorandum, we reported that we had identified no significant Value for Money risks. We kept this under review throughout our audit and were satisfied that there were no significant audit risks apparent in respect of VFM for 2017/18.

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 Group external auditor. We set out below, the context of these reporting responsibilities and our findings for each.

Matters 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 a referral to the Secretary of State where we believe that a decision has led to, or would lead to, unlawful expenditure, or an action has been, or would be unlawful and likely to cause a loss or deficiency; and
- make written recommendations to the Commissioner which must be responded to publically.

We have not exercised any of these statutory reporting powers.

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 26 July 2018.

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 Group. In our opinion, the other information in the Statement of Accounts was consistent with the audited financial statements.

5. OUR FEES

Fees for work as the Commissioner and Group auditor

We reported our proposed fees for the delivery of our work in the Audit Strategy Memorandum, presented to Commissioner and Joint Independent Audit Committee in February 2018.

Having completed our work for the 2017/18 financial year, we can confirm that our final fees are as follows:

Area of work	2017/18 proposed fee	2017/18 final fee
Delivery of audit work under the NAO Code of Audit Practice (Commissioner and Group)	£32,430	£32,430

Fees for other work

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

6. FORWARD LOOK

Financial outlook

As reported the Group delivered a year end deficit against the 2017/18 financial plan. General reserves were used to cover this position. Whilst reserves at 31 March 2018 are considered by the Commissioner to be adequate further deficits will not be sustainable. Close monitoring of the 2018/19 financial position will be critical to the delivery of the 2018/19 plan.

The 2018/19 Medium Term Financial Plan has been updated to reflect the pressures faced in 2017/18. The plan sets out the priorities of the Commissioner and Chief Constable for the coming year. This includes seeking and delivering further cost efficiencies, creating a modern digitally enabled workforce and greater transparency in how public money is used locally. The Transformation 2020 and appointment of a business partner is intended to support the delivery of these priorities in the coming years.

Operational challenges

As announced in June 2018 the Home Secretary has given approval for the Commissioner to take on governance responsibility for North Yorkshire Fire and Rescue Service. The Commissioner recognises the importance of working with relevant partners to ensure a smooth transfer and effective governance arrangements are in place.

In 2017/18 HMIFRCS reports included a 'inadequate' rating for the Crime Data Integrity inspection 2017. Actions have been identified to address the findings of the inspectorate and the Force will need to ensure these are implemented in the coming year. Other reports included the Efficiency review which judged the Force as 'require improvement' in the efficiency. The Force is working towards addressing the matters raised in the inspectorates report – for example Transformation 2020.

The Group successfully delivered the 2017/18 Statement of Accounts to the new earlier deadline. New challenges in 2018/19 include the adoption in the Code of new accounting standards IFRS 9 and IFRS 15. The Commissioner will need to consider the impact these new standards will have on its financial reporting.

How we will work with the Commissioner

Our 2018/19 audit will focus on the risks that these challenges present to the Commissioner's financial statements and ability to maintain proper arrangements for securing value for money.

We will continue to offer accounting workshops to finance officers and the audit team will continue to work with them to share our knowledge of new accounting developments and we will be on hand to discuss any issues as and when they arise.

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