

Michael Porter  
Chief Finance Officer  
Office of the Police, Fire and Crime Commissioner

Direct Line 0191 383 6300

And Jane Palmer  
Chief Finance Officer  
Chief Constable for North Yorkshire

Email [gavin.baker@mazars.co.uk](mailto:gavin.baker@mazars.co.uk)

North Yorkshire Police  
Alverton Court  
Crosby Road  
Northallerton  
North Yorkshire  
DL6 1AA

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Dear Michael / Jane

**North Yorkshire Police, Office of the Police, Fire and Crime Commissioner,  
and the Chief Constable for North Yorkshire - Additional Fee Letter 2018/19**

When we issued the Annual Audit Letter for 2018/19 on 24 August 2019, we reported that we had not yet finalised our audit fees for the year. We indicated that if the final fee varied from the fee reported (OPCC of £24,971 plus VAT and Chief Constable of £11,550 plus VAT), we would write to the Chief Financial Officer setting out the proposed variation and any reasons for the variation, and seeking agreement to it. Any variations to the final fee will also require the approval of Public Sector Audit Appointments Limited (PSAA), which manages the contracts for our work.

You will recall that the fees from the 2018/19 audit year, were set by PSAA at 23% less than the fees for previous years, following the latest national procurement. It is envisaged that where additional work is undertaken beyond that normally expected a fee variation would be appropriate.

We have now assessed the final costs of our audit for 2018/19 and are seeking an additional fee variation of £950 plus VAT, against the combined OPFCC and Chief Constable fees of £36,521 plus VAT making a total combined audit fee for the 2018/19 audit of £37,471 plus VAT. We are proposing that the additional fee is split as follows:

- OPFCC – fee variation of £600 plus VAT (increasing the fee from £24,971 plus VAT to £25,571 plus VAT); and

Mazars LLP – Salvus House - Aykley Heads - Durham - DH1 5TS  
Tel: +44 (0) 191 383 6300 – Fax: +44 (0) 191 383 6350 – [www.mazars.co.uk](http://www.mazars.co.uk)

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- Chief Constable – fee variation of £350 plus VAT (increasing the fee from £11,550 plus VAT to £11,900 plus VAT).

The reasons for the variation are the significant additional work required as part of the audit this year in relation to accounting for IAS 19 pensions, in light of the national issues that arose, particularly in relation to the McCloud judgement.

The national issues in relation to pensions were summarised on page 8 of our Audit Completion Report, and the amendments resulting from this were set out on page 11 of the Audit Completion Report.

Extract from page 8 of our Audit Completion Report:

#### **Significant matters discussed with management**

There have been significant issues this year relating to accounting for pensions. These issues are not specific to the Commissioner or Chief Constable, but are national issues impacting on all local government and related bodies, including police and fire. There have been three issues, but the most significant issue has been the impact of what is known as the McCloud judgement.

The nature and impact of the McCloud judgement was referenced in the Authority's draft financial statements as a contingent liability. It relates to claims of discrimination in respect of protections offered to some, but not all, pension scheme members as part of reforms to public sector pensions. In December 2018, the Court of Appeal ruled in a test case that this did amount to unlawful discrimination. At the time the Authority was producing its draft financial statements, the Government intended to appeal to the Supreme Court and the outcome was uncertain.

During the audit period, the Government has not been granted leave to appeal, meaning that some form of restitution across all public sector pension schemes is more certain, requiring the estimated impact of this to be reflected in the pension disclosures in the financial statements, subject to materiality considerations. The Force Actuary has estimated the impact on the Police Pension Liability to be £75.7m and the LGPS actuary has estimated a further impact of £3.27m.

The other two issues have been:

- Guaranteed Minimum Pension (GMP) indexation and equalisation, which relate to the move to a single-tier new State Pension and equalisation of the GMP benefits between males and females, which has been accounted for to varying degrees by each actuary. Management considered whether the impact of GMP equalisation suggested a material risk to their estimate of the pension liability. They determined that the impact was not material to either the Group, Commissioner or Chief Constable. Consequently they have not amended the accounts for GMP. They also considered the professional opinion of the actuary for the police scheme who confirmed that they believed it was not appropriate to make a further amendment for GMP.
- Asset values – this issue relates only to the Local Government Pension Scheme (which is funded) and not to the police schemes (which are not funded). The issue is whether the estimation of assets by the actuary using asset values at the end of December 2018 / end of January 2019 was accurate, given higher than expected returns in the final quarter of 2018/19. Management requested further information from the Actuary and determined the impact to be not material to the Group, Commissioner or Chief Constable.

For each of these issues, our approach has been to suggest that management engages with the actuary of each scheme, to assess the potential impact of these issues, to see whether the impact is material, and if so, to make amendments to the financial statements.

The additional work included but was not limited to:

- Assessing the impact of each of these issues as they emerged;
- Communicating and discussing the implications with your officers as the position became clearer;
- Discussing and agreeing the additional steps that would be required to address these issues;
- Reviewing the additional information provided by your officers and by the actuary (where applicable) to assess its reasonableness;
- Considering and following up on issues raised by our own consulting actuary (where applicable); and

- Checking the amendments to the financial statement disclosures when they had been made.

In your case, the additional work was undertaken both in relation to the Local Government Pension Scheme and the police pension scheme.

In arriving at the additional fee variation, I believe we have been fair minded, and we have absorbed a significant element of our additional costs. However, I believe that a fee variation of £350 plus VAT in relation to the Chief Constable and £600 plus VAT in relation to the OPCC, and an additional contribution to our additional costs in relation to this work is both reasonable and justified in the circumstances.

I write now to seek your agreement to the proposed fee variations, so that I can write to PSAA to seek their approval of the fee variations.

Please feel free to contact me if you would like clarification on any point.

Thank you again to you and your team for the support and cooperation in enabling us to complete the audit.

Yours sincerely

*Gavin Barker*

Gavin Baker  
Director