

# Audit Progress Report

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

March 2020





## CONTENTS

1. Audit progress
2. Request for information
3. National publications
4. Contact details

This document is to be regarded as confidential to North Yorkshire Police. It has been prepared for the sole use of the Office of the Police, Fire and Crime Commissioner for North Yorkshire and the Chief Constable for North Yorkshire as 'those charged with governance'. No responsibility is accepted to any other person in respect of the whole or part of its contents. Our written consent must first be obtained before this document, or any part of it, is disclosed to a third party.

# 1. AUDIT PROGRESS

## Purpose of this report

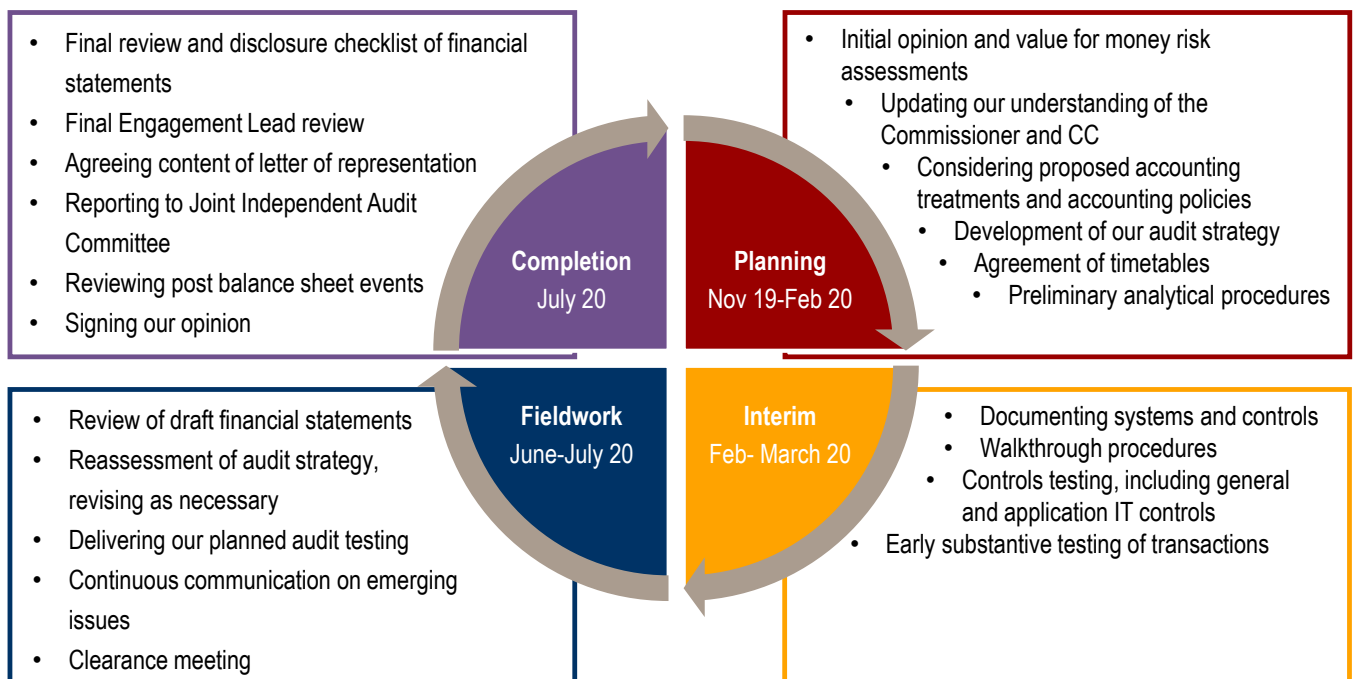
This report provides the Joint Independent Audit Committee with an update on progress in delivering our responsibilities as your external auditor and also summarising key national publications that may be of interest to Members.

## Audit progress

Our key audit stages are summarised in the diagram shown below.

As in prior years, we completed our walkthroughs and commenced interim testing in one visit in late February 2020. Our Audit Strategy Memorandum for 2019/20 is on the agenda for this meeting of the Joint Independent Audit Committee.

There are no significant matters arising from our audit work that we are required to report to you at this stage. Our planned timetable of work is set out in the diagram below.



The interim stage of the 2019/20 audit is in progress including:

- **Walkthroughs and interim visits:** including confirming our understanding of the critical business systems, feeding back any concerns regarding internal controls and developing the most efficient testing strategy.
- **Local government accounts workshop:** this was held at Durham Cricket Ground on the 4 February 2020. The workshop provided an update on the latest developments in local government and police bodies and was a useful forum for our clients to discuss emerging issues;
- **Request for information:** As in previous years, we make annual enquiries of the Office of the Police, Fire and Crime Commissioner and Chief Constable for North Yorkshire (representing 'those charged with governance') as part of our audit. International Auditing Standards require auditors to enquire about arrangements the entity has put in place to: prevent and detect fraud; comply with applicable law and regulations; and assess the appropriateness of the going concern assumption. Alongside managements responses we should be grateful for responses to the questions set out in section 2 'Request for Information' from the Joint Independent Audit Committee. We require separate responses from both the Police, Fire and Crime Commissioner and Chief Constable for North Yorkshire.

## 2. REQUEST FOR INFORMATION

International Auditing Standards require auditors to enquire about arrangements the entity has put in place. We list a number of questions below and would be grateful if the you could provide a response for the next Joint Independent Audit Committee. We require a separate response for the Police, Fire and Crime Commissioner and the Chief Constable for North Yorkshire.

### The auditor's responsibility to consider fraud in an audit of financial statements

We have to obtain evidence of how management and those charged with governance are discharging their responsibilities if we are to properly discharge our responsibilities under ISA240. We are therefore making requests from the Police, Fire and Crime Commissioner and the Chief Constable on the following, or similar, issues:

- 1) How do you oversee management's processes to identify and respond to the risk of fraud and possible breaches of internal control? In particular how do you oversee managements:
  - Assessment of the risk that the financial statements may be materially misstated due to fraud or error;
  - Processes for identifying and responding to risks of fraud in the organisation. This includes any specific risks of fraud which management have identified or that have been brought to its attention, or classes of transactions, account balances, or disclosure for which a risk of fraud is likely to exist;
  - Processes for communicating to employees the views on business practice and ethical behaviour. For example updating, communicating and monitoring against the code of conduct; and
  - Processes for communicating to those charged with governance the arrangements for identifying and responding to fraud or error
- 2) Have you knowledge of any actual, suspected or alleged fraud during the period 1 April 2019– 31 March 2020?
- 3) Have you identified any specific fraud risks within the organisation? For example, do you have any concerns that specific areas within the organisation are at greater risk of fraud?
- 4) Are you aware of any significant breaches of internal control during 2019/20?
- 5) Are you satisfied that internal controls, including segregation of duties, exist and work effectively? If not:
  - Where are the risk areas?
  - What other controls are in place to prevent, deter or detect fraud?
- 6) Are you aware of any related party relationships or transactions that could give rise to instances of fraud?
- 7) How do you mitigate the fraud risks associated with related party relationships and transactions?
- 8) Are you aware of any entries made in the accounting records of the organisation that it believes or suspects are false or intentionally misleading? In particular:
  - Are there particular balances where fraud is more likely to occur?
  - Are you aware of any assets, liabilities or transactions that it believes were improperly included or omitted from the accounts of the organisation?
  - Are there any external fraud risk factors which create a high risk of fraud?
- 9) Are you aware of any organisational, or management pressure to meet financial or operating targets?
- 10) Are you aware of any inappropriate organisational or management pressure being applied, or incentives offered, to employees to meet financial or operating targets?

## 2. REQUEST FOR INFORMATION

### Consideration of laws and regulations in an audit of financial statements

We have to obtain evidence of how management and those charged with governance are discharging their responsibilities, if we are to properly discharge our responsibilities under ISA250. We are therefore making requests from you to understand:

- 1) How do you gain assurance that all relevant laws and regulations have been complied with. In particular:
  - Are you aware of the process management has in place for identifying and responding to changes in laws and regulations? Please provide details.
  - What arrangements are in place for you to oversee this process?
  - Are you aware of the arrangements management have in place, for communicating with employees, non-executive directors, partners and stakeholders regarding the relevant laws and regulations that need to be followed?
- 2) Do you have knowledge of actual or suspected instances where appropriate laws and regulations have not been complied with? If it is, what actions are management taking to address non-compliance?

### Specific consideration of the potential for, and actual, litigation and claims affecting the financial statements

We have to obtain evidence of how management and those charged with governance are discharging their responsibilities, if we are to properly discharge our responsibilities under ISA 501. We are therefore making requests from you, and will be making similar enquiries of management:

- Are you aware of any actual or potential litigation and claims that would impact on the financial statements?

### Consideration of the going concern assumption in an audit of financial statements

We are required to consider the appropriateness of management's use of the going concern assumption in the preparation of the financial statements if we are to properly discharge our responsibilities under ISA 570. We are therefore making the following request from you:

- 1) How have you assessed and satisfied yourself that it is appropriate to adopt the going concern basis in preparing the financial statements?
- 2) Have you identified any events or conditions since the assessment was undertaken which may cast significant doubt on the organisation's ability to continue as a going concern?

### Consideration of related parties

The auditor has a responsibility to perform audit procedures to identify, assess and respond to the risks of material misstatement arising from the entity's failure to appropriately account for or disclose related party relationships, transactions or balances in accordance with the requirements of the framework.

Therefore we are making the following request from you:

- 1) What controls are in place to: identify, authorise, approve, account for and disclose related party transactions and relationships?
- 2) Confirmation that the you have:
  - disclosed to the auditor the identity of the entity's related parties and all the related party relationships and transactions of which they are aware; and
  - appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of the framework.



### 3. NATIONAL PUBLICATIONS AND OTHER UPDATES

	Publication
1	<b>Government response to the Housing, Communities and Local Government Select Committee report ‘Local Government Finance and the 2019 Spending Review’, HCLG, October 2019</b>
2	<b>Financial Management Code, CIPFA, October 2019</b>
3	<b>A Councillor’s guide to procurement, 2019 edition, LGA, October 2019</b>
4	<b>Annual Transparency Report, Mazars, December 2019</b>
5	<b>Investigation into the rescue of Carillion’s PFI hospital contracts , NAO, January 2020</b>
6	<b>Mazars’ response to the Brydon Review, Mazars, December 2019</b>
7	<b>PSAA consultation on the fee scale for 2020/21 audits of opted-in bodies</b>
8	<b>New Code of Audit Practice, NAO, January 2020</b>
9	<b>Police funding announcements for 2020-21</b>

#### 1. Government response to the Housing, Communities and Local Government Select Committee report ‘Local Government Finance and the 2019 Spending Review’, HCLG, October 2019

The Government is currently undertaking a review of local government audit (the Redmond Review) following a report by the HCLG Select Committee. Whilst the Redmond Review is ongoing the Government has now published its response to the Select Committee’s recommendations, including:

- developing a more consistent approach to the collection and monitoring of comparative data about councils’ performance, efficiency and financial sustainability;
- the need for MHCLG, working with HM Treasury and other departments, to clearly set out what tasks are expected of local government and how much funding it requires;
- the need for increased adult social care funding;
- the need for MHCLG and HM Treasury to provide a multi-year settlement for local government which runs for one year beyond the Spending Review period – similar to the approach that is currently used for Departmental capital budgets; and
- the need for reforms and substantial changes to the business rate retention system.

<https://www.gov.uk/government/publications/local-government-finance-and-the-2019-spending-review-response-to-the-select-committee-report>

#### 2. Financial Management Code, CIPFA, October 2019

Strong financial management is an essential part of ensuring public sector finances are sustainable. The Financial Management Code (FM Code) provides guidance for good and sustainable financial management in local authorities and aims to provide assurance that they are managing resources effectively. It requires authorities to demonstrate that the processes they have in place satisfy the principles of good financial management.

The FM Code identifies risks to financial sustainability and introduces a framework of assurance. This framework is built on existing successful practices and sets explicit standards of financial management. Complying with the standards set out in the FM Code is the collective responsibility of elected members, the Chief Finance Officer and their professional colleagues in the leadership team. Complying with the FM Code will help strengthen the framework that surrounds financial decision making.

The FM Code built on elements of other CIPFA codes during its development and its structure and applicability will be familiar to users of publications such as The Prudential Code for Capital Finance, Treasury Management in the Public Sector Code of Practice and Code of Practice on Local Authority Accounting in the United Kingdom. The Code applies to all local authorities, including police bodies.

The first full year of compliance will be 2021/22. This reflects the recognition that organisations will need time to reflect on the contents of the Code and can use 2020/21 to demonstrate how they are working towards compliance.

<https://www.cipfa.org/policy-and-guidance/publications/f/financial-management-code>

1. Audit progress

2. Request for information

3. National publications

4. Contact details

## 3. NATIONAL PUBLICATIONS CONTINUED

### 3. A Councillor's guide to procurement, 2019 edition, LGA, October 2019

The LGA worked closely with councils to develop the National Procurement Strategy 2018 and a toolkit that enables local authorities to set their own objectives and measure their own progress and may be of interest to Members.

The National Procurement Strategy puts the councillor role front and centre and this guide has been produced specifically with councillors in mind. It looks at the roles councillor's play – both executive members and those engaged in overview and scrutiny work – and provides hints and tips on how to get the best out of procurement and contract management. Just as in the national strategy, the focus is on delivering council objectives. Councillors do not need to be procurement professionals but they do need to be able to ask the right questions, including:

- What is the procurement process and why do major procurements in local government fail?
- What are the role and responsibilities of a councillor?
- How is social value delivered under the Public Services (Social Value) Act 2012 and more generally?

<https://www.local.gov.uk/councillors-guide-procurement-2019-edition>

### 4. Annual Transparency Report, Mazars, December 2019

Mazars produces an annual transparency report, setting out the steps we take to enhance the quality of our audit work and ensure that quality is consistent across the firm. The report includes:

- Public Interest Committee Report;
- UK Governance Council Report;
- Inspiring Stakeholder Confidence in Audit Quality (including quality monitoring and audit quality indicators);
- Our risks; and
- Structure, Leadership and Governance.

Link to the latest report issued in December 2019 is set out below.

<https://www.mazars.co.uk/Home/About-us/Corporate-publications/Transparency-reports/Mazars-UK-Transparency-Report-2018-2019>

### 5. Investigation into the rescue of Carillion's PFI hospital contracts , NAO, January 2020

The report considers what happened to Carillion's two major public sector construction contracts after it collapsed and how the Private Finance Initiative (PFI) operates in these circumstances. At the time of its collapse Carillion was the main construction contractor for two new hospitals, both being built under PFI:

the Midland Metropolitan Hospital in Sandwell, West Midlands, to be used by the Sandwell and West Birmingham Hospitals NHS Trust; and

the Royal Liverpool University Hospital, to be used by the Liverpool University Hospitals NHS Foundation Trust, which was formed on 1 October 2019 through a merger between the Royal Liverpool and Broadgreen University Hospitals NHS Trust and another NHS trust.

The investigation focuses on the role of central government and the trusts in relation to the two hospital projects before, during and after Carillion's failure in January 2018. It sets out:

the construction problems on each project (Part One);

how the government and the trusts dealt with the effects of the collapse of Carillion (Part Two); and

the impact on the schedules and costs of the two projects (Part Three).

<https://www.nao.org.uk/report/investigation-into-the-rescue-of-carillions-pfi-hospital-contracts/>

# 3. NATIONAL PUBLICATIONS CONTINUED

## 6. Mazars' response to the Brydon Review, Mazars, December 2019

The Brydon Review is one of four key reviews into the scope and quality of audit, namely:

- Competition and Market's Authority (CMA): resilience and competition in the audit market;
- Kingman's Review (review of the Financial Reporting Council and regulatory oversight);
- The Brydon Review (tone and aspirations for the future of the industry); and
- The Redmond Review (quality of local authority financial reporting and external audit).

The Brydon Review contains various recommendations and essentially recommends a major overhaul of audit which would see the creation of a separate 'corporate auditing profession', greater focus on fraud detection during audits, and the replacement of the 'true and fair' concept, with a greater focus on going concern.

Mazars' response to the latest Brydon Review report issued in December 2019 is detailed per the link below.

<https://www.mazars.co.uk/Home/News-Events/Latest-news/Mazars-response-to-the-Brydon-report>

### Link to the Brydon Review

Published in December 2019, focusing on the quality and effectiveness of audit.

<https://www.gov.uk/government/publications/the-quality-and-effectiveness-of-audit-independent-review>

### Link to the Kingman's Review

Published in December 2018, this review recommended the replacement of the Financial Reporting Council with a new independent statutory regulator, accountable to Parliament. The new regulator will be called the Audit, Reporting and Governance Authority (ARGA).

<https://www.gov.uk/government/news/independent-review-of-the-financial-reporting-council-frc-launches-report>

### Link to the Redmond Review

At the time of writing this report, the outcome from the Redmond Review has not been published.

<https://www.gov.uk/government/consultations/review-of-local-authority-financial-reporting-and-external-audit-call-for-views>



## 3. NATIONAL PUBLICATIONS CONTINUED

### 7. PSAA consultation on the fee scale for 2020/21 audits of opted-in bodies

The consultation sets out the proposed scale of fees for the work to be undertaken by appointed auditors in respect of the 2020/21 financial statements at bodies that have opted into PSAA's national auditor appointment scheme. Setting the fee scale for audits of 2020/21 financial statements is challenging. It requires consideration and assessment of the impact of a range of factors, many of which are difficult to quantify at this stage. They include:

- issues which have given rise to additional audit work in relation to the 2018/19 accounts, or are expected to arise and have implications for 2019/20 accounts' audits, and which may or may not have ongoing implications for subsequent years;
- new auditing standards and regulatory requirements, including any decisions taken by Government in response to the reviews being undertaken and referred to in this progress report (see item 7 above); and
- the introduction of the new NAO Code of Audit Practice and related AGNs, the implementation of which may have one-off and/or ongoing implications for the extent of auditors' work.

In PSAA's view, discussions about the impact of the factors outlined needs to take place at local body level between the appointed auditor and an authorised representative of the audited body, such as the chief finance officer. This is the level at which each factor or variable can be considered in the distinctive context of the particular body, having regard to any implications for audit risk and the extent of any additional audit work which may be required to enable an appropriate level of assurance.

The expectation is that such discussions should take place as soon as possible as part of planning discussions for 2019/20 audits, with a specific aim also to look ahead to identify any implications for 2020/21. In some cases it may not be possible to quantify the implications for audit work at this stage or perhaps even until the work is done. Nevertheless early discussions will help to align expectations and mitigate the risk of audited bodies being unaware of the prospect of charges for additional work until very late in the audit process.

Link to the PSAA consultation is set out below:

<https://www.psa.co.uk/audit-fees/consultation-on-2020-21-audit-fee-scale/>

### 8. New Code of Audit Practice, NAO, January 2020

The Local Audit and Accountability Act 2014 makes the Comptroller and Auditor General responsible for the preparation, publication and maintenance of the Code of Audit Practice. The Code sets out what local auditors are required to do to fulfil their statutory responsibilities under the Act.

Schedule 6 of the Act requires that the Code be reviewed, and revisions considered at least every five years. The current Code came into force on 1 April 2015, and the maximum five-year lifespan of the Code means it now needs to be reviewed and a new Code laid in Parliament in time for it to come in to force no later than 1 April 2020.

Following the public consultation exercises that took place during 2019, the Comptroller and Auditor General (C&AG) has now approved the text for the final draft of the Code of Audit Practice, which has now been laid in Parliament.

Subject to Parliamentary approval, it will come into force on 1 April 2020, and will apply from audits of local bodies' 2020-21 financial statements onwards.

<https://www.nao.org.uk/code-audit-practice/code-of-audit-practice-consultation/>

## 3. NATIONAL PUBLICATIONS CONTINUED

### 9. Police funding announcements for 2020-21

The government has announced that funding for policing for 2020-21 will increase by more than £1.1 billion to a total of £15.2 billion, if Police and Crime Commissioners (PCCs) take full advantage of the flexibility to set police precept. The government has indicated that the increase represents almost 10% on the 2019-20 core funding figures for the forces and means that:

- PCCs will have access to £8.7 billion in government grants, representing £667 million more than in 2019-20;
- PCCs will have flexibility to increase local funding in England by setting the council tax referendum limit to £10 per year for a typical (Band D) property; and
- if all PCCs in England maximise the flexibility, this would generate around £248 million in additional funding for forces in England.

The government also reports that the total funding includes:

- £150 million tackling organised crime and online child abuse;
- £39 million for tackling serious violence (including £20 million for county lines drug dealing);
- £906 million for counter-terrorism policing (representing a £90 million increase on the previous year); and
- £750 million to support forces in meeting officer recruitment targets.

#### *Police grants in England and Wales: 2020-21*

As part of the funding announcement above, the government has published the final allocations of grants to PCCs in England and Wales for 2020-21.

The publication sets out the amount of grants for the Police in England and Wales for 2020-21, including grants for each local police body. The aggregate amount for policing in England comprises the Home Office Police Core Settlement, Ministry of Housing, Communities & Local Government's (MHCLG's) Formula Funding, Legacy Council Tax Grants and National and International Capital City Grants.

The report does not set out the totality of central government funding to local policing bodies and does not cover police grant for capital purposes. The report also does not cover the totality of police funding, as local police bodies raise a substantial proportion of their funding locally through council tax precept as outlined in the announcement above.

<https://www.gov.uk/government/news/policing-gets-biggest-funding-boost-in-decade-to-put-more-bobbies-on-the-beat>

## 4. CONTACTS

Director: Gavin Barker

Phone: 0191 383 6300

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

Manager: James Collins

Mobile: 0191 383 6331

Email: [james.collins@mazars.co.uk](mailto:james.collins@mazars.co.uk)