



# Annual Audit Letter

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

Year ending 31 March 2019





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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, Fire and Crime Commissioner for North Yorkshire (the Commissioner) and Chief Constable of North Yorkshire (the Chief Constable) for the year ended 31 March 2019. 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 31 July 2019 included our opinion that the financial statements:</p> <ul style="list-style-type: none"><li>• give a true and fair view of the Commissioner and Group and Chief Constable's financial position as at 31 March 2019 and of its expenditure and income for the year then ended; and</li><li>• have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.</li></ul>
Other information published alongside the audited financial statements	<p>Our auditor's report issued on 31 July 2019 included our opinion that:</p> <ul style="list-style-type: none"><li>• The other information in the Statement of Accounts is consistent with the audited financial statements.</li></ul>
Value for Money conclusion	<p>Our auditor's report concluded that we are satisfied that in all significant respects, the Commissioner and Chief Constable have put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.</p>
Reporting to the group auditor	<p>In line with group audit instructions issued by the NAO, on 31 July 2019 we reported to the group auditor in line with the requirements applicable to the Commissioner and Group 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 and 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 Group and Chief Constable and whether they give a true and fair view of the Commissioner and Group and Chief Constable's financial position as at 31 March 2019 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 Group 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, issued to the Commissioner and Group and Chief Constable on 31 July 2019, stated that, in our view, the financial statements give a true and fair view of the Commissioner and Group and Chief Constable's financial position as at 31 March 2019 and of its financial performance for the year then ended.

### 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 Group and Chief Constable which is our trivial threshold. The table below provides details of materiality levels applied in the audit of the financial statements for the year ended 31 March 2019:

		Group £000's	PCC £000's	Chief Constable £000's
Financial statement materiality	Our financial statement materiality is based on 2% of Gross Revenue Expenditure	5,083	3,681	4,380
Trivial threshold	Our trivial threshold is based on 3% of financial statement materiality.	152	110	131
Specific materiality	We have applied a lower level of materiality to the following areas of the accounts:			
	- Senior officer remunerations	182	47	119
	- Exit packages	100	100	100

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## 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 and Chief Constable's financial statements that required special audit consideration. We reported significant risks identified at the planning stage to the Commissioner and Group and Chief Constable 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
<p><b>Management override of controls (Commissioner and Group and Chief Constable)</b></p> <p>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 there is a risk of material misstatement due to fraud on all audits.</p>	<p>We addressed this risk through performing audit work over:</p> <ul style="list-style-type: none"> <li>Accounting estimates impacting on amounts included in the financial statements;</li> <li>Consideration of identified significant transactions outside the normal course of business; and</li> <li>Journals recorded in the general ledger and other adjustments made in preparation of the financial statements.</li> </ul>	<p>We found no evidence of management override of controls.</p>
<p><b>Defined benefit liability valuation (Commissioner and Group and Chief Constable)</b></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. This results in an increased risk of material misstatement.</p>	<p>We addressed this risk by discussing with key contacts any significant changes to the pension estimates prior to the preparation of the financial statements. In addition to our standard programme of work, we also:</p> <ul style="list-style-type: none"> <li>evaluated the management controls in place to assess the reasonableness of the figures provided by the actuaries; and</li> <li>considered 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.</li> </ul>	<p>The material amendments relating to the impact of national legal cases on the pension liabilities were amended by the Commissioner and Chief Constable. Our audit work did not identify any further material issues to report.</p>
<p><b>Property, plant and equipment valuation (Commissioner and group)</b></p> <p>The Commissioner's financial statements contain material entries on the Balance Sheet as well as material disclosure notes in relation to the Commissioner's holding of 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 undertaking the following:</p> <ul style="list-style-type: none"> <li>considering the Commissioner's arrangements for ensuring that PPE values are reasonable. We considered available data to challenge the reasonableness of the valuations provided by the Commissioner's valuer. We also assessed the competence, skills and experience of the valuer; and</li> <li>performing further audit procedures on individual assets to ensure that the basis and level of valuation was appropriate.</li> </ul>	<p>Our work provided us with the assurance we sought and did not highlight any material issues.</p>

## 2. AUDIT OF THE FINANCIAL STATEMENTS

Identified significant risk	Our response	Our findings and conclusions
<p><b>Clarification of group accounts requirements in relation to North Yorkshire Fire (Commissioner only)</b></p>	<p>We scrutinised the judgement reached by management in relation to North Yorkshire Fire consolidation. We assessed this judgement against the Code and other available guidance.</p>	<p>We identified no matters to report.</p>
<p>Whether North Yorkshire Fire should be consolidated in the Commissioner’s group financial statements is a matter of judgement based on the Code of Practice on Local Authority Accounting and accounting standards. Management’s initial view was that the Commissioner’s group financial statements would not require the consolidation of North Yorkshire Fire.</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. Our work has not identified any significant deficiencies in our 2018/19 audit to report.

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### 3. VALUE FOR MONEY CONCLUSION

Value for Money conclusion

Unqualified

#### Our approach to Value for Money

We are required to consider whether the Commissioner and Chief Constable 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 and 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
- Working with partners and other third parties

Our auditor's report, issued to the Commissioner and Chief Constable on 31 July 2019, stated that, in all significant respects, the Commissioner and Chief Constable put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31<sup>st</sup> March 2019.

Sub-criteria	Commentary	Arrangements in place?
Informed decision making	<p>The governance framework has remained unchanged during the year. A Joint Independent Audit Committee (JIAC) has met during the year and made recommendations to the Commissioner and Chief Constable. Senior management attend the JIAC. Internal Audit plan in place and Internal Audit have reported to the JIAC throughout the year. Internal Audit recommendations are monitored by 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. The Medium Term Financial Plan was approved which sets a balanced 2019/20 budget.</p> <p>In previous years HMICFRS Crime Data review rated the Force as 'inadequate'. The Force has continued to implement an Action Plan in response to the inspection findings. Progress has been reported to the JIAC.</p> <p>At the time of writing this report the 2018/19 HMICFRS PEEL inspection had not been published. The last PEEL report rated the Force as 'good' for effectiveness and legitimacy but 'requires improvement' for efficiency.</p> <p>Risk register and risk management arrangements in place. Risks have been reported during the year, including to the JIAC. Annual Governance Statement prepared, reviewed and approved.</p>	Yes

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### 3. VALUE FOR MONEY CONCLUSION

Sub-criteria	Commentary	Arrangements in place?
Sustainable resource deployment	<p>In 2018/19 the Commissioner and Chief Constable delivered an underspend against the approved budget. In 2017/18 the Chief Constable overspent against the budget. Actions put in place following the 2017/18 financial performance have ensured risks have been mitigated. The financial 2018/19 performance has allowed earmarked reserves to increase and the general reserve usage in year to be lower than planned.</p> <p>The MTFP for the Commissioner and Chief Constable has been updated to reflect the outturn in 2018/19. The MTFP is clear and 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. The MTFP is based on no future use of the General Reserve.</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. 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.</p>	Yes



### 3. VALUE FOR MONEY CONCLUSION

#### 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 and Chief Constable being inadequate. In our Audit Completion Report, we reported that we had identified one significant Value for Money risk.

Risk	Work undertaken	Conclusion
<p><b>Financial sustainability (Commissioner and Chief Constable)</b></p> <p>At the time of issuing our Audit Strategy Memorandum there was some uncertainty over the setting of the 2019/20 police budget following challenge by the Police, Fire and Crime Panel.</p> <p>We needed to ensure our knowledge of the medium term financial plan and the planned delivery of savings from transformation activities and any growth plans remains up to date in order to ensure we give the correct VFM conclusion.</p>	<p>We considered the approved medium term financial plan (MTFP) dated 28 February 2019.</p>	<p>We concluded that arrangements were in place to ensure a balanced budget was set and appropriate assumptions had been identified. The plan identified the risks of non delivery and the pressures in demand and funding in the coming years.</p> <p>Arrangement have been put in place to deliver the Transform 2020 programme which is a critical part of delivering the MTFP. Business cases have been prepared for delivery of this programme. The Commissioner and Chief Constable recognise the risks associated with delivering the programme.</p> <p>Reserve levels across the period will be maintained at levels the Finance Officers for the Commissioner and Chief Constable consider to be prudent. There is no planned use of the general reserve across the period covered by the MTFP.</p> <p>A balanced capital plan has been set over the life of the MTFP.</p>



## 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 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 31 July 2019.

### 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 and Chief Constable. In our opinion, the other information in the Statement of Accounts is consistent with the audited financial statements.

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## 5. OUR FEES

### Fees for our work as the Commissioner and Chief Constable's auditor

We reported our proposed fees for the delivery of our work in the Audit Strategy Memorandum, presented to the Commissioner and Chief Constable in February 2019.

We have completed our work for the 2018/19 financial year, but at the time of producing this report, we have not yet finalised our audit fees for the year. If the final fee varies from that in the table below, we will write to the Chief Financial Officer's 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, which manages the contracts for our work.

Area of work	2018/19 proposed fee	2018/19 final fee***
Delivery of audit work under the NAO Code of Audit Practice – Office of the Police, Fire and Crime Commissioner for North Yorkshire	£24,971	£24,971
Delivery of audit work under the NAO Code of Audit Practice – Chief Constable for North Yorkshire	£11,550	£11,550

\*\*\* Please note that at the time of producing this report, the audit fees have not yet been finalised.

### 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

As noted in our Value for Money Conclusion, there are balanced budgets in place for the next four years but this is challenging and does rely on the delivery of efficiency savings as in previous years.

### Operational challenges

The Force has an ambitious Transformation 2020 programme which has identified potential efficiencies and improved ways of working. Delivery of this programme is critical to the delivery of the MTFP. Continued programme management will be important to ensure the plan is delivered and risk of delivery of managed and mitigated. The force will also need to ensure operational performance is maintained.

The level of reserves as at the 31 March 2019 are considered to be sufficient by the Chief Finance Officer. The MTFP is based on no use of general fund reserves over the life of the programme. The delivery of the Transform 2020 is crucial to maintaining these levels of reserves.

At the time of writing this report the Force was awaiting the latest HMICFRS inspection report. It expects to receive its report and grading in late 2019. Irrespective of the grading, the Force will need to draw up an action plan to respond to opportunities for improvement identified by HMICFRS and delivering further improvement at a time of significantly diminishing resources will be challenging.

### How we will work with the Commissioner and Chief Constable

We will focus our work on the risks that your challenges present to your financial statements and your ability to maintain proper arrangements for securing value for money. In the coming year we will continue to support the Commissioner and Chief Constable by:

- continued liaison with your Internal Auditors to minimise duplication of work;
- attending Joint Independent Audit Committee meetings and presenting an Audit Progress Report including updates on regional and national developments; and
- hosting events for staff, such as our accounts workshop.

We will also meet with officers to identify any learning from the 2018/19 audit and will continue to share our insights from across your sector and relevant knowledge from the wider public and private sector.

In terms of the technical challenges that officers face around the production of the statement of accounts, we 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.

The Commissioner and Chief Constable has taken a positive and constructive approach to our audit and we wish to thank officers for their support and co-operation during our audit.

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