



Annual Audit Letter

Year ending 31 March 2018

Police and Crime Commissioner for Cheshire
and Chief Constable for Cheshire
August 2018



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Executive Summary

Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Police and Crime Commissioner (PCC) for Cheshire and Chief Constable for Cheshire for the year ended 31 March 2018.

This Letter is intended to provide a commentary on the results of our work to the PCC for Cheshire and Chief Constable for Cheshire and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the PCC and Chief Constable's Joint Audit and Advisory Committee and to the PCC and the Acting Chief Constable, as those charged with governance, in our Audit Findings Report on 27 July 2018.

Our work

Respective responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the PCC and Chief Constable's financial statements (section two)
- assess the PCC and Chief Constable's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the PCC and Chief Constable's financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

Materiality	We determined materiality for our audit of the PCC and Chief Constable's accounts to be £3,627k, which is 2% of the lower of the PCC, Chief Constable and group's gross revenue expenditure. We used this benchmark as, in our view, users of the PCC and Chief Constable's accounts are most interested in how it has spent the income it has raised from taxation and grants during the year. We also set a lower level of specific materiality for senior officer remuneration of £100k. We set a lower threshold of £184k, above which we reported errors to the PCC and Chief Constable and also the Joint Audit Advisory Committee in our Audit Findings Report.
Financial Statements opinion	We gave an unqualified opinion on the group's financial statements in July 2018.
Whole of Government Accounts (WGA)	We completed work on the PCC and Chief Constable's consolidation return following guidance issued by the NAO. No work is required as the PCC (on behalf of the group) does not exceed the threshold.
Use of statutory powers	We have not exercised any of our additional statutory powers or duties. We have completed the majority of work under the Code and expect to be able to certify the completion of the audits when we give our audit opinions.

Executive Summary

Value for Money arrangements

We were satisfied that the PCC and Chief Constable for Cheshire put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We reflected this in our audit report to the PCC and Chief Constable in July 2018.

Certificate

We certify that we have completed the audit of the accounts of the PCC and Chief Constable for Cheshire in accordance with the requirements of the Code of Audit Practice.

Working with the PCC and Chief Constable for Cheshire

Our final audit work was completed on site during June and July 2018. Throughout the year, we maintained dialogue with you to ensure that any difficult issues were dealt with well in advance of the final audit, to ensure that no delays were encountered at the crucial final stages.

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the PCC and Chief Constable's staff.

Grant Thornton UK LLP
August 2018

Audit of the Accounts

Our audit approach

Materiality

In our audit of the PCC and Chief Constable's financial statements, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for the audit of the group accounts to be £3,627k which is 2% of the lower of the PCC, Chief Constable and group's gross revenue expenditure. We also set a lower level of specific materiality of £100k for senior officer remuneration.

The scope of our audit

Our audit involves obtaining sufficient evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error. This includes assessing whether:

- the accounting policies are appropriate, have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the remainder of the Statement of Accounts (and the Narrative Report and Annual Governance Statements published within them) to check they are consistent with our understanding of the group and with the financial statements included in the Statement of Accounts on which we gave our opinion.

We carry out our audit in accordance with ISAs (UK) and the NAO Code of Audit Practice. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach is based on a thorough understanding of the group's business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

Audit of the Accounts

Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>The revenue cycle includes fraudulent transactions</p> <p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams, we have determined that the risk of fraud arising from revenue recognition can be rebutted for both the PCC and Chief Constable because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition; • for the PCC opportunities to manipulate revenue recognition are very limited as revenue is principally grant allocations from central and local government • for the Chief Constable opportunities to manipulate revenue recognition are very limited as revenue is principally an inter-group transfer from the PCC, with no cash transactions; and • the culture and ethical frameworks of local authorities, including Cheshire PCC and Chief Constable, mean that all forms of fraud are seen as unacceptable. 	<p>Our audit work did not identify any issues in respect of revenue recognition.</p>
<p>Management override of controls</p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The PCC and Chief Constable face external scrutiny of their spending, and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>Management over-ride of controls is a risk requiring special audit consideration.</p>	<p>As part of our audit work we have completed:</p> <ul style="list-style-type: none"> • a review of accounting estimates, judgements and decisions made by management • testing of journal entries • a review of unusual significant transactions • a review of entity controls 	<p>Our audit work did not identify any evidence of management over-ride of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues.</p>

Audit of the Accounts

Significant Audit Risks Continued

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of property, plant and equipment (PPE) The PCC revalues land and buildings formally on a five yearly basis to ensure that carrying value is not materially different from fair value, with desktop valuations in intervening years. This represents a significant estimate by management in the financial statements. This due to the significant value of PPE in the financial statements.</p> <p>The PCC's financial statements include PPE net book value of £120.8 million with no changes to valued amounts in year.</p> <p>We therefore identified the valuation of PPE, in particular Land and Buildings, as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>Our audit work included, but was not restricted to:</p> <ul style="list-style-type: none"> • Updating our understanding of the processes put in place by management to ensure the revaluation measurements are correct and evaluating the design of the associated controls • Evaluating the competence, capabilities and objectivity of the valuation expert (the valuer) • Challenging the information and assumptions used by the valuer to assess completeness and consistency with our understanding • Assessing the overall reasonableness of the valuation movements • Evaluating the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value; and • Evaluating the PCC's considerations of any relevant indicators of asset impairment <p>The PCC's accounting policy on valuation of PPE is shown in note 1.17 to the Group financial statements and related disclosures are included in note 18 to the Group core financial statements. Due to the specialised nature of the PCC's land and buildings depreciated replacement cost is used as an estimate of current value.</p> <p>The 31 March 2018 valuation provided assurance that the carrying value (net book value) in note 18 of £107,689k was not materially different to the DRC valuation of £108,489.</p>	<p>We obtained sufficient audit assurance to conclude that:</p> <ul style="list-style-type: none"> • the basis of the valuation was appropriate and the assumptions and processes used by management in determining the estimate were reasonable; and • the valuation of property disclosed in the financial statements is reasonable

Audit of the Accounts

Significant Audit Risks Continued

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of pension fund net liability</p> <p>The Local Government Pension Scheme (LGPS) pension net liability as reflected in the balance sheet, and asset and liability information disclosed in the notes to the accounts, represent significant estimates in the financial statements.</p> <p>The Police Officer Pension schemes pension fund liability as reflected in the balance sheet and notes to the accounts also represent significant estimates in the financial statements.</p> <p>These estimates by their nature are subject to significant estimation uncertainty, being very sensitive to small adjustments in the assumptions used.</p> <p>We therefore identified valuation of the pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>Our audit work included, but was not restricted to:</p> <ul style="list-style-type: none"> • Gaining an understanding of the processes and controls put in place by management to ensure that the net pension fund net liability is not materially misstated and evaluating the design of the associated controls • Evaluating the competence, capabilities and objectivity of the actuary who carried out the pension fund valuations • Gained an understanding of the basis on which the IAS 19 valuation was carried out and undertaking procedures to confirm the reasonableness of the actuarial assumptions made • Considered the adequacy, completeness and relevance of the source data provided to the pension fund actuaries by the pension fund administering authority on behalf of the PCC and Chief Constable • review the reasonableness of the pension fund valuation and the share thereof 	<p>We obtained sufficient audit assurance to conclude that:</p> <ul style="list-style-type: none"> • the basis of the valuation was appropriate and the assumptions and processes used by management in determining the estimate were reasonable; and • the valuation of the net pension fund liability disclosed in the financial statements is reasonable

Audit of the Accounts

Audit opinion

We gave an unqualified opinion on the group's financial statements on 27th July 2018, in advance of the national deadline.

Preparation of the accounts

The group presented us with draft accounts in accordance with the national deadline, and provided a good set of working papers to support them. The finance team responded promptly and efficiently to our queries during the course of the audit.

Issues arising from the audit of the accounts

We reported the key issues from our audit to the PCC and Chief Constable and the Joint Audit and Advisory Committee on 25th July 2018.

Annual Governance Statement and Narrative Report

We are required to review the PCC and Chief Constable's Annual Governance Statement and Narrative Reports. It published them on its website in the Statement of Accounts in line with the national deadlines.

Both documents were prepared in line with the CIPFA Code and relevant supporting guidance. We confirmed that both documents were consistent with the financial statements prepared by the PCC and Chief Constable and with our knowledge of the PCC and Chief Constable.

Some revisions were made to the details within the report to update the narrative on the Group position and future developments.

Other statutory powers

We also have additional powers and duties under the Act, including powers to issue a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the PCC and Chief Constable's accounts and to raise objections received in relation to the accounts. We did not need to exercise these powers.

Certificate of closure of the audit

We are also required to certify that we have completed the audit of the accounts of the PCC and Chief Constable in accordance with the requirements of the Code of Audit Practice. We did so in our audit report on 27 July 2018.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in November 2017 which specified the criterion for auditors to evaluate:

In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the key risks where we concentrated our work.

Our main considerations in undertaking our risk assessment and in arriving at our vfm conclusion were:

- the PCC Group's medium term financial position and future projected savings efficiency requirements
- latest findings of other inspectorates and review agencies, in particular Her Majesty's Inspectorate of Constabulary (HMIC) assessments
- collaborative developments and links to future strategies

Having considered these and other areas at a high level as part of our risk assessment, we decided that they did not constitute significant risks for the purposes of our VFM conclusion, but we have continued to monitor progress through the year.

The PCC and Chief Constable have each made proper arrangements to secure economy, efficiency and effectiveness in their use of resources ('the value for money (VFM) conclusion').

Overall Value for Money Conclusion

We are satisfied that in all significant respects individually the PCC and Chief Constable each put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2018.

A. Reports issued and fees

We confirm below our final reports issued and fees charged for the audit and confirm there were no fees for the provision of non audit services.

Reports issued

Report	Date issued
Audit Plan	January 2018
Audit Findings Report	July 2018
Annual Audit Letter	August 2018

Non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the group. There are no fees for other services for 2017/18.

	Proposed fee	Final fee
Police and Crime Commissioner Audit	£33,825	£33,825
Chief Constable Audit	£15,000	£15,000
Total audit fees (excluding VAT)	£48,825	£48,825

The planned fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA)



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