



The Annual Audit Letter

Police and Crime Commissioner for Cheshire and Chief Constable for Cheshire

Year ended 31 March 2019

28 August 2019



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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 the Police and Crime Commissioner for Cheshire ('the PCC') and Chief Constable for Cheshire for the year ended 31 March 2019.

This Letter is intended to provide a commentary on the results of our work to the PCC 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 as those charged with governance, along with the Joint Audit Advisory Committee, in our Audit Findings Report on 25 July 2019.

Our work

Materiality	We determined materiality for the audit of the PCC's and Chief Constable's financial statements to be £4,000,000, which is 2% of the PCC's and Chief Constable's gross revenue expenditure.
Financial Statements opinion	We gave an unqualified opinion on the PCC's and Chief Constable's financial statements on 31 July 2019.
Whole of Government Accounts (WGA)	We completed work on the PCC's and Chief Constable's consolidation return following guidance issued by the NAO.
Use of statutory powers	We did not identify any matters which required us to exercise our additional statutory powers.

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's and Chief Constable's financial statements (section two)
- assess the PCC's 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's and Chief Constable's financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

Executive Summary

Value for Money arrangements	We were satisfied that the PCC and Chief Constable put in place proper arrangements to ensure economy, efficiency and effectiveness in their use of resources. We reflected this in our audit report to the PCC and Chief Constable for Cheshire on 31 July 2019.
Certificate	We certified that we have completed the audit of the financial statements of PCC and Chief Constable for Cheshire in accordance with the requirements of the Code of Audit Practice on 31 July 2019.

Working with PCC and Chief Constable for Cheshire

During the year we have delivered a number of successful outcomes with the PCC and Chief Constable for Cheshire :

- An efficient audit – we delivered an efficient audit with you in July.
- Understanding the operational health of the PCC and Chief Constable for Cheshire – through the value for money conclusion we provided assurance on operational effectiveness.
- Sharing our insight – we provided regular audit committee updates covering best practice. We also shared our thought leadership reports
- Providing training – we provided your teams with training on financial statements and annual reporting

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

Grant Thornton UK LLP
August 2019

Audit of the Financial Statements

Our audit approach

Materiality

In our audit of the PCC and Chief Constable for Cheshire'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 financial statements to be £4,000,000, which is 2% of the group's gross revenue expenditure. We used this benchmark as, in our view, users of PCC and Chief Constable for Cheshire's financial statements are most interested in where PCC and Chief Constable for Cheshire have spent revenue in the year.

We set a lower threshold of £200,000, above which we reported errors to the Audit and Advisory Committee in our Audit Findings Report. All errors identified were reported to management

We also set a lower level of specific materiality for senior officer remuneration of £100,000 due to the public interest in these disclosures.

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 financial statements, the narrative reports and annual governance statements published alongside the financial statements to check they are consistent with our understanding of the Commissioner and the Chief Constable and with the financial statements 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 was based on a thorough understanding of the PCC and Chief Constable'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 Financial Statements

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>Improper Revenue recognition Under ISA 240 (UK) there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. The 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>As part of our planning process we considered the risk factors set out in ISA240 and the nature of the revenue streams at the PCC, we determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including the PCC for Cheshire, mean that all forms of fraud are seen as unacceptable <p>For the Chief Constable, revenue is recognised to fund costs and liabilities relating to resources consumed in the direction and control of day-to-day policing. This is shown in the Chief Constable's financial statements as a transfer of resources from the PCC to the Chief Constable for the cost of policing services. Income for the Chief Constable is received entirely from the PCC.</p>	<p>We did not consider this to be a significant risk for the PCC at the planning stage and nothing changed during the year.</p> <p>We determined at the planning stage that the risk of fraud arising from revenue recognition was not a significant risk for the Chief Constable and nothing changed during the year.</p>
<p>Management override of internal controls Under ISA 240 (UK) there is a non-rebuttable presumed risk that the risk of management override of controls is present in all entities.</p> <p>The PCC and Chief Constable faces external scrutiny of their spending and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the normal course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We evaluated the design effectiveness of management controls over journals.</p> <p>We analysed the journals listing, determined criteria and selected a number of journals we consider high risk or unusual journals.</p> <p>We tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration.</p> <p>We gained an understanding of the accounting estimates and critical judgements applied made by management and considered their reasonableness against corroborative evidence.</p> <p>We evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.</p>	<p>Work has not identified any material weaknesses in respect of control arrangements over journals and substantive tests provided the required assurance.</p> <p>Changes to accounting policy have only been made to comply with and incorporate new accounting standards and changes to the Code.</p> <p>Management has exercised appropriate judgement in making use of estimates when preparing the financial statements.</p>

Audit of the Financial Statements

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>Valuation of net pension liability 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 a significant estimate in the financial statements. The Police Pension schemes pension fund liability as reflected in the balance sheet and notes to the accounts represent significant estimates in the financial statements. These estimates by their nature are subject to significant estimation uncertainty being sensitive to small adjustments in the key assumptions used. We therefore identified valuation of the pension fund net liability as a significant risk of material misstatement. During the year, The Court of Appeal ruled that there was age discrimination in the judges and firefighters pension schemes where transitional protections were given to scheme members. The Government applied to the Supreme Court for permission to appeal this ruling, but the permission to appeal was denied. The case will now be sent back to the Employment tribunal for remedy. The legal ruling around age discrimination had implications for other public sector schemes where transition arrangements have been put in place, such as the Local Government Pension Scheme and the Police Pension Scheme.</p>	<p>As part of our audit work we have:</p> <p>Updated our understanding of the processes and controls in place to ensure that the pension fund net liability is not materially misstated and evaluated the design of the controls.</p> <p>We assessed the competence, capabilities and objectivity of the actuary who carried out the pension fund valuations.</p> <p>We assessed the accuracy and completeness of the information provided to the actuary to estimate the liability including reconciling changes in membership numbers.</p> <p>We tested the consistency of the pension fund asset and liability, and disclosures in to the financial statements with the actuarial report from the actuary.</p> <p>We confirmed the reasonableness of the actuarial assumptions made by reviewing the report of a consulting actuary (as the auditor's expert) and performed any additional procedures suggested by the consulting actuary.</p> <p>We obtained assurances from the auditor of Cheshire Pension Fund as to the controls surrounding the validity and accuracy of membership data, contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.</p> <p>Management requested an updated estimate from the actuaries of the potential impact of the McCloud ruling. These indicated an increase in past service costs of £100,727k , an increase in pensions interest costs of £16k and in the net pension liability of £107,292k.</p>	<p>We found the basis of the valuation was appropriate and the assumptions and processes used by management in determining the estimate were reasonable.</p> <p>We confirmed that changes to the draft financial statements to reflect the impact of the McCloud case were properly processed and disclosed.</p> <p>There had also been consideration of the potential impact of the need for Guaranteed Minimum Pensions Equalisation. Based on reviews by actuaries the impact ranges from between £3.2m and £3.5m. This was not adjusted for on the grounds that it was not material.</p>

Audit of the Financial Statements

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>Valuation of land and buildings</p> <p>The PCC re-values land and buildings on a five-yearly basis. In the intervening years, such as 2018/19, to ensure the carrying value in the financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date, the PCC requests a desktop valuation from its valuation expert to ensure that there is no material difference. This valuation represents a significant estimate by management due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions.</p> <p>We therefore identified valuation of land and buildings as a significant risk of the most material misstatement.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> • Evaluated management's processes and assumptions for the calculation of the estimate. • Reviewed the instructions issued to valuation experts and reviewed the scope of their work. • Evaluated the competence, capabilities and objectivity of the valuation expert. • We wrote to the valuer and confirmed the basis on which the valuation was carried out was inline with the requirements of the Code. • We challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding. • We tested revaluations made during the year and confirmed they had been input correctly into the asset register. • We queried items with unusual changes in value. 	<p>We found the valuations had been completed using the latest available relevant information about market conditions and building costs.</p> <p>We obtained satisfactory explanations to our queries.</p> <p>The resulting valuations were correctly processed and recorded through the asset register and into the financial statements.</p>
<p>Incomplete or inaccurate financial information transferred to the new general ledger</p> <p>In April 2019, the PCC and Chief Constable implemented a new cloud based general ledger system for the 2019/20 financial year onwards. At the planning stage we identified a risk over the completeness and accuracy of the data transferring from the previous ledger to the new general ledger system as a risk, as this could impact upon testing of income, expenditure, debtors and creditors.</p>	<p>Our IT audit specialists completed an information technology (IT) control environment review of the Oracle EBS(Financial system) and related Active Directory (Network). We found that appropriate controls were in place and designed as expected in all respects except for one deficiency, which was a lack of evidence that user access permissions within the Oracle EBS were reviewed for appropriateness.</p> <p>This deficiency did not affect the overall control environment or our ability to rely on the IT systems for the purposes of financial reporting.</p>	<p>We concluded it was not necessary to undertake any early review of the transfer of data and this no longer represented a risk.</p>

Audit of the Financial Statements

Audit opinion

We gave unqualified opinions on the PCC and Chief Constable for Cheshire's financial statements on 31 July 2019.

Preparation of the financial statements

The PCC and Chief Constable for Cheshire presented us with draft financial statements 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 financial statements

We reported the key issues from our audit to the PCC and Chief Constable for Cheshire's Audit Advisory Committee on 25 July 2019.

In addition to the key audit risks reported above, we identified a small number of presentational improvements to the financial statements, for example such as removing duplicated disclosures that management agreed to make to the draft accounts, these were included in our Audit Findings Report.

Annual Governance Statement and Narrative Report

We are required to review the PCC's and Chief Constable's Annual Governance Statement and Narrative Report. It published them on its website in and alongside 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 .

Whole of Government Accounts (WGA)

Work is not required on the WGA return because the PCC and Chief Constable do not exceed the threshold.

Certificate of closure of the audit

We certified that we have completed the audit of the financial statements of PCC and Chief Constable in accordance with the requirements of the Code of Audit Practice on 31 July 2019.

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:

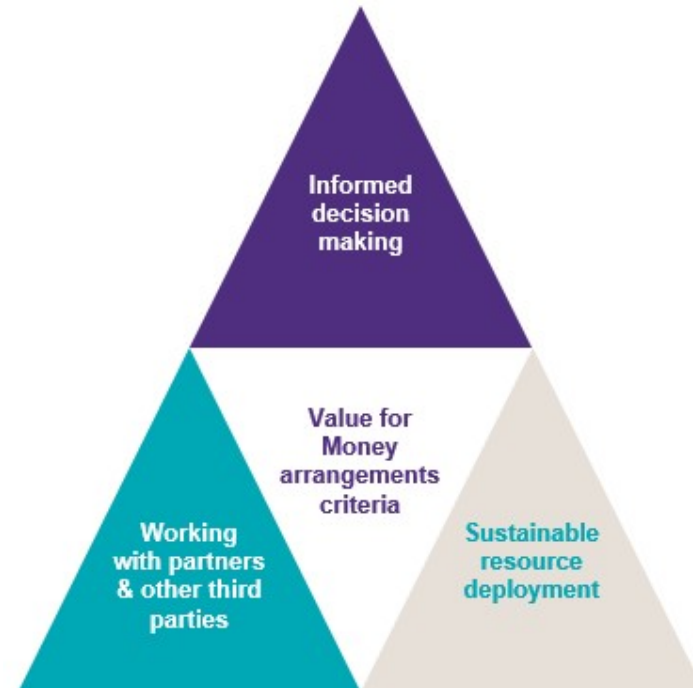
In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the risks where we concentrated our work. As a result of this assessment, we did not identify any significant risks, partly because the financial settlement put the PCC and Chief Constable in a better than expected financial position. We did, however, continue to review key documents up until the point of giving our opinion and VFM conclusion, and no new risks emerged as a result of this.

Overall Value for Money conclusion

We are satisfied that in all significant respects the PCC and Chief Constable put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2019.



Value for Money conclusion

Value for Money

Our work

AGN 03 requires us to disclose our views on significant qualitative aspects of the PCC and Chief Constable's arrangements for delivering economy, efficiency and effectiveness.

We did not identify any significant risks in relation to the PCC and Chief Constable's arrangements. In arriving at our conclusion, our main considerations were:

- The potential for changes to the membership of Multi-Force Shared Service, hosted by Cheshire, to lead to unplanned costs was successfully mitigated
- Financial reporting throughout the year demonstrated that budgets were being achieved and reasonable outturn forecasts were being prepared.
- The PCC Outturn position was an underspend against budget of £1.6M, CC £1.2m. The main underspend areas were as expected and reported during the year.
- The Medium Term Financial Strategy to 2021 has been updated alongside the 2020 budget. A total savings requirement of £2.2m has been identified to 2021; £1.3m has been mitigated with identified savings plans and there are adequate reserves.
- The MTFs and the 2020 budget were prepared on a robust basis with clearly set out assumptions about future pay costs, non-pay costs, the impact of pensions changes, central government funding, and the need to support the capital programme.

Overall conclusion

Based on the work we performed, we are satisfied that both the PCC and Chief Constable had proper arrangements for securing economy, efficiency and effectiveness in their use of resources.

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	March 2019
Audit Findings Report	July 2019
Annual Audit Letter	August 2019

Fees

	Planned fees £	Actual fees £	2017/18 fees £
Statutory audit PCC	26,045	30,545	33,825
Statutory Audit Chief Constable	11,050	11,050	15,000
Total fees	37,595	42,095	48,825

Audit fee variation

As outlined in our audit plan, the 2018-19 scale fee published by PSAA of £37,595 assumes that the scope of the audit does not significantly change. There are a number of areas where the scope of the audit has changed, which has led to additional work. These are set out in the following table.

Area	Reason	Fee proposed
Assessing the impact of the McCloud ruling	The Government's transitional arrangements for pensions were ruled discriminatory by the Court of Appeal last December. The Supreme Court refused the Government's application for permission to appeal this ruling. As part of our audit we have reviewed the revised actuarial assessment of the impact on the financial statements along with any audit reporting requirements.	1,500
Pensions – IAS 19	The Financial Reporting Council has highlighted that the quality of work by audit firms in respect of IAS 19 needs to improve across local government audits. Accordingly, we have increased the level of scope and coverage in respect of IAS 19 this year to reflect this.	1,500
PPE Valuation – work of experts	As above, the Financial Reporting Council has highlighted that auditors need to improve the quality of work on PPE valuations across the sector. We have increased the volume and scope of our audit work to reflect this.	1,500
Total		4,500

Fee variations are subject to PSAA approval.

A. Reports issued and fees continued

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.

Fees for non-audit services

Service	Fees £
Audit related services - None	Nil
Non-Audit related services - None	Nil

Non- audit services

- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the PCC and Chief Constable. The table above summarises all non-audit services which were identified.

Our commitment to our local government clients

- Senior level investment
- Local presence enhancing our responsiveness, agility and flexibility.
- High quality audit delivery
- Collaborative working across the public sector
- Wider connections across the public sector economy, including with health and other local government bodies
- Investment in Health and Wellbeing, Social Value and the Vibrant Economy
- Sharing of best practice and our thought leadership.
- Invitations to training events locally and regionally – bespoke training for emerging issues
- Further investment in data analytics and informatics to keep our knowledge of the areas up to date and to assist in designing a fully tailored audit approach

Our relationship with our clients– why are we best placed?

- We work closely with our clients to ensure that we understand their financial challenges, performance and future strategy.
- We deliver robust, pragmatic and timely financial statements and Value for Money audits
- We have an open, two way dialogue with clients that support improvements in arrangements and the audit process
- Feedback meetings tell us that our clients are pleased with the service we deliver. We are not complacent and will continue to improve further
- Our locally based, experienced teams have a commitment to both our clients and the wider public sector
- We are a Firm that specialises in Local Government, Health and Social Care, and Cross Sector working, with over 25 Key Audit Partners, the most public sector specialist Engagement Leads of any firm
- We have strong relationships with CIPFA, SOLCAE, the Society of Treasurers, the Association of Directors of Adult Social Care and others.

New opportunities and challenges for your community

The Local Government economy

Local authorities face unprecedented challenges including:

- Financial Sustainability – addressing funding gaps and balancing needs against resources
- Service Sustainability – Adult Social Care funding gaps and pressure on Education, Housing, Transport
- Transformation – new models of delivery, greater emphasis on partnerships, more focus on economic development
- Technology – cyber security and risk management

At a wider level, the political environment remains complex:

- The government continues its negotiation with the EU over Brexit, and future arrangements remain uncertain.
- We will consider your arrangements for managing and reporting your financial resources as part of our work in reaching our Value for Money conclusion.
- We will keep you informed of changes to the financial reporting requirements for 2018/19 through on-going discussions and invitations to our technical update workshops.

Delivering real value through:

- Early advice on technical accounting issues, providing certainty of accounting treatments, future financial planning implications and resulting in draft statements that are 'right first time'
- Knowledge and expertise in all matters local government, including local objections and challenge, where we have an unrivalled depth of expertise.
- Early engagement on issues, especially on ADMs, housing delivery changes, Children services and Adult Social Care restructuring, partnership working with the NHS, inter authority agreements, governance and financial reporting
- Implementation of our recommendations have resulted in demonstrable improvements in your underlying arrangements, for example accounting for unique assets, financial management, reporting and governance, and tax implications for the Cornwall Council companies
- Robust but pragmatic challenge – seeking early liaison on issues, and having the difficult conversations early to ensure a 'no surprises' approach – always doing the right thing
- Providing regional training and networking opportunities for your teams on technical accounting issues and developments and changes to Annual Reporting requirements
- An efficient audit approach, providing tangible benefits, such as releasing finance staff earlier and prompt resolution of issues.

Grant Thornton in Local Government

Our client base and delivery



- We are the largest supplier of external audit services to local government
- We audit over 150 local government clients
- We signed 95% of our local government opinions in 2017/18 by 31 July
- In our latest independent client service review, we consistently score 9/10 or above. Clients value our strong interaction, our local knowledge and wealth of expertise.

Our connections



- We are well connected to MHCLG, the NAO and key local government networks
- We work with CIPFA, Think Tanks and legal firms to develop workshops and good practice
- We have a strong presence across all parts of local government including blue light services
- We provide thought leadership, seminars and training to support our clients and to provide solutions

Our people



- We have over 25 engagement leads accredited by ICAEW, and over 250 public sector specialists
- We provide technical and personal development training
- We employ over 80 Public Sector trainee accountants

Our quality



- Our audit approach complies with the NAO's Code of Audit Practice, and International Standards on Auditing
- We are fully compliant with ethical standards
- Your audit team has passed all quality inspections including QAD and AQR

Our technical support



- We have specialist leads for Public Sector Audit quality and technical
- We provide national technical guidance on emerging auditing, financial reporting and ethical areas
- Specialist audit software is used to deliver maximum efficiencies



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