



**The Joint Annual Audit Letter
The Police and Crime Commissioner for Cheshire and
the Chief Constable of Cheshire**

Year ended 31 March 2020

11 December 2020



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Your key Grant Thornton team members are:

Michael Green

Key Audit Partner

T: 0161 953 6382

E: Michael.Green@uk.gt.com

Gerard Small

Manager

T: 0161 214 6372

E: ged.w.small@uk.gt.com

Stuart Richardson

In-charge Accountant

T: 0161 214 6388

E: stuart.j.richardson@uk.gt.com

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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 the Chief Constable for Cheshire (the Chief Constable) for the year ended 31 March 2020.

This Letter is intended to provide a commentary on the results of our work to the PCC, Chief Constable 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 Joint Audit Advisory Committee for those charged with governance in our Audit Findings Reports on 7 October and 25 November 2020.

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 group and PCC and the 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 group, PCC and the 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 the audit of the group, PCC and Chief Constable's financial statements to be £4,470,000, which is 2% of the Chief Constable's gross cost of services.
Financial Statements opinion	We gave an unqualified opinion on the group, PCC and Chief Constable's financial statements on 30 November 2020. We included an emphasis of matter paragraph in our report in respect of the uncertainty over valuations of the Police and Crime Commissioner's land and buildings and the property assets of its share of the Cheshire Local Government pension fund given the Coronavirus pandemic. This does not affect our opinion that the statements give a true and fair view of the group, PCC and Chief Constable's financial position and its income and expenditure for the year.
Whole of Government Accounts (WGA)	We completed work on the group'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.

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 reports to the PCC and Chief Constable on 30 November 2020.
Certificate	We certified that we have completed the audits of the financial statements of group, PCC and Chief Constable in accordance with the requirements of the Code of Audit Practice on 30 November 2020.

Working with the PCC and Chief Constable

The Outbreak of Covid 19, the subsequent lockdown after March and the on-going restrictions to enable people to work in a Covid safe manner, has a significant effect on the PCC's and CC's offices and on the audit. Fortunately, the PCC and CC were able to move quickly to safe remote working for non front-line staff, rolling out IT equipment and solutions while not losing operational control.

We have worked with the PCC and CC management teams, adapting our systems to support remote auditing and while some aspects of the audit have been more time consuming than would normally be the case, we have been able to facilitate virtual audit verification of processes, transactions and balances. We have been able to hold Skype meetings with officer and to attend virtual meetings of the Joint Audit Advisory Committee.

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
December 2020

Audit of the Financial Statements

Our audit approach

Materiality

In our audit of the group, 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, PCC and Chief Constable's financial statements to be £4,470,000, which is 2% of the CC's gross cost of services. We used this benchmark as, in our view, users of the group, PCC and Chief Constable's financial statements are most interested in where the group, PCC and Chief Constable has spent its revenue in the year.

We set a lower level of specific materiality for senior officers' remuneration of £5,000. This reflects the degree of public interest in this figure.

We set a lower threshold of £223,000, above which we reported errors to the Joint Audit Advisory Committee in our Audit Findings Report.

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 Statements of Accounts to check they are consistent with our understanding of the group, PCC and Chief Constable and with the financial statements included in the Statement of Accounts on which we gave our opinion.

We carry out our audits 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 opinions.

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>Covid-19</p> <p>The global outbreak of the Covid-19 virus pandemic led to unprecedented uncertainty for all organisations, it required urgent business continuity arrangements to be implemented. We expected this to impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to;</p> <ul style="list-style-type: none"> - Remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation - Volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we can obtain to corroborate management estimates - Financial uncertainty will require management to reconsider financial forecasts supporting their going concern assessment and whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and - Disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties. <p>We therefore identified the global outbreak of the Covid-19 virus as a significant risk of material misstatement.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> • worked with management to understand the implications the response to the Covid-19 pandemic had on the organisation's ability to prepare the financial statements and update financial forecasts and assessed the implications for our materiality calculations. No changes were made to materiality percentages previously reported. The draft financial statements were provided on 26 June 2020; • liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross-sector responses to issues as and when they arose. Examples include the material uncertainty disclosed by the PCC's property valuation expert; • evaluated the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic; • evaluated whether sufficient audit evidence could be obtained through remote technology; • evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as assets and pension fund net liability valuations ; • evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment. 	<p>The results of our work concluded that appropriate arrangements have been put in place to manage the impact of Covid 19.</p> <p>We noted that your valuer reported a material valuation uncertainty within their report (in line with VPGA 10 of the RICS Red Book). The uncertainty has been reflected within notes 5 and 17 of the PCC's financial statements. The material uncertainty disclosure is referenced in our audit report as an 'emphasis of matter' paragraph. This is not a modification or qualification and is consistent with other audited bodies.</p> <p>Similarly, the auditor of the Local Government Pension Fund communicated to us that the financial statements of the fund will disclose a material uncertainty relating to the valuation of property investments. Management amended the financial statements to include reference to this in note 5 of the PCCs financial statements and note 4 of the CC's financial statements, and this matter again is included as an emphasis of matter within the audit report.</p> <p>We did not identify any further material uncertainties in relation to Covid-19 that would result in a material misstatement in the financial statements.</p>

Audit of the Financial Statements

Significant Audit Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of land and buildings</p> <p>The group revalues its land and buildings on a rolling five-yearly basis. In the intervening years, such as 2019/20, to ensure the carrying value in the group and PCC financial statements is not materially different from the current value or the fair value at the financial statements date, the group commission a desktop valuation from its valuation expert. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£131 million) and the sensitivity of this estimate to changes in key assumptions.</p> <p>We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk of 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, the instructions issued to valuation experts and the scope of their work evaluated the competence, capabilities and objectivity of the valuation expert discussed with the valuer and confirm the basis on which the valuation was carried out to ensure that the requirements of the Code are met challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding the group/PCC's valuer's report and the assumptions that underpin the valuation. tested source data for accuracy tested detailed calculations for compliance with the stated methodologies tested revaluations made during the year to see if they had been input correctly into the PCC's/group's asset register 	<p>The outbreak of Covid-19 has caused uncertainty in property markets. As a result, the valuer declared a 'material valuation uncertainty' in the valuation report which was carried out during March 2020 with a valuation date of 31 March 2020. The report of the valuer has been used to inform the measurement of property assets at valuation in the financial statements.</p> <p>The PCC has disclosed the estimation uncertainty related to the year-end valuations of land and buildings in notes 5 and 17 to the financial statements, highlighting that a higher degree of caution should be taken than would normally be the case when considering the valuation.</p> <p>We consider the disclosure is sufficiently detailed to support understanding and, due to the fact that we consider the disclosure to be important to a readers understanding of the financial statements, we have drawn particular attention to it in our audit report as an Emphasis of Matter.</p> <p>Based on completion of the procedures as set out above and with consideration of the material uncertainty reported by the valuer, we gained assurance that the valuation of land and buildings is materially correct and that valuation movements have been appropriately accounted for and disclosed.</p>

Audit of the Financial Statements

Significant Audit Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of net pension liability</p> <p>The group's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.</p> <p>The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£2,452 million in the group's balance sheet) and the sensitivity of the estimate to changes in key assumptions.</p> <p>We therefore identified valuation of the group's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> • updated our understanding of the processes and controls put in place by management to ensure that the pension funds net liability is not materially misstated and evaluate the design of the associated controls; • assessed the competence, capabilities and objectivity of the actuaries who carried out the pension funds valuations; • assessed the accuracy and completeness of the information provided to the actuaries. • tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuaries; • undertaken procedures to confirm the reasonableness of the actuarial assumptions by reviewing the report of the consulting actuary (as the auditor's expert) and performing any additional procedures suggested within the report. These included testing the source data provided to the actuaries, obtaining explanations for experience gains, undertaking analytical tests of the assets and liabilities and interest costs. • requested assurances from the auditor of Cheshire Pension Fund on 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 asset valuations in the pension fund financial statements. 	<p>In July 2020 HM Treasury published a consultation on the proposed remedy to the McCloud /Sergeant legal case. Management consulted the actuaries who advised that if the consultation was adopted, assumptions behind the IAS 19 calculations would change. Management therefore requested updated valuations of the net pension liability which resulted in a calculated £25.1m reduction in the overall group net pension liability. Management adjusted the financial statements to reflect the revised valuation on the basis that the movement was material and based on the best and latest available information to support the estimated liability.</p> <p>In our view the publication of the remedy was a non-adjusting post balance sheet event because it was a consultation document only. However, we discussed the matter with management, considered their rationale for adjusting, and concluded that the basis for adjusting was reasonable and the proposed disclosures in the financial statements note 3 of the both the PCC's and CC's financial statements were appropriate.</p> <p>As noted on page 6, the auditor of the Cheshire Local Government Pension Fund informed us that the financial statements of the pension fund included a material uncertainty due to Covid 19 in the valuation of property investments. We confirmed that the group's share of the assets of the Cheshire Pension fund is £288.5m of which £23.5m or 10.3% is real estate. Given the material nature of the interest in property assets, we discussed with management and agreed that the material uncertainty be disclosed within note 5 to the financial statements. We referred to the pension fund uncertainty within an emphasis of matter paragraph to the audit report. Our review of pension disclosures identified that the net liability for pension obligations disclosed in note 13 to the Chief Constable's financial statements is inconsistent with the Balance Sheet. The difference of £1.165m relates to the LGPS liability attributable to the PCC and included in the group financial statements. Management did not adjust for this disclosure error and it was therefore included as an unadjusted misstatement within the Audit Findings Report and was referred to in the letter of representation.</p> <p>Other than the matters identified above, our work did not identify any significant issues and we gained assurance that the net pension liability is fairly stated.</p>

Audit of the Financial Statements

Significant Audit Risks - continued

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Management override of internal 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.</p> <p>The PCC and the Chief Constable face external scrutiny of its 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 course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>As part of our audit work we;</p> <ul style="list-style-type: none"> • evaluated the design effectiveness of management controls over journals; • analysed the journals listing and determined criteria for selecting high risk unusual journals and identified a small sample of random journals recorded during the year and after the draft accounts stage; • tested selected journals for appropriateness and corroborated against available evidence; • gained an understanding of the accounting estimates and critical judgements applied made by management and considered their reasonableness against corroborative evidence; • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions; 	<p>Our audit work did not identify any issues that indicate the presence of or attempts by management to override controls.</p>
<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>As part of our audit work:</p> <p>we considered the risk factors set out in ISA240 and the nature of the revenue streams at the group, we have 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 and the Chief Constable, mean that all forms of fraud are seen as unacceptable. 	<p>For the reasons set out opposite we did not consider this to be a significant risk for the PCC, the Chief Constable or the group.</p>

Audit of the Financial Statements

Audit opinion

We gave unqualified opinions on the group, PCC and Chief Constable's financial statements on 30 November 2020.

Preparation of the financial statements

The group, PCC and Chief Constable presented us with draft financial statements in July 2020 in accordance with the agreed timescale 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.

The audit challenges presented by the Covid 19 outbreak and new remote access working arrangements, for example, video calling to verify completeness and accuracy of information produced by management, did make some processes more time consuming than is normally the case.

Issues arising from the audit of the financial statements

We reported the key issues from our audit to the group, PCC and Chief Constable's Joint Audit Advisory Committee on 7 October 2020 and again on 25 November 2020.

Annual Governance Statement and Narrative Report

We are also required to review the Annual Governance Statement and Narrative Reports. These were published on PCCs and CCs websites in and alongside, the draft Statement of Accounts in July.

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)

We carried out work in line with instructions provided by the NAO . We issued an assurance statement which confirmed the group was below the audit threshold.

Certificate of closure of the audit

We certified that we have completed the audit of the financial statements of The Police and Crime Commissioner for Cheshire and the Chief Constable of Cheshire in accordance with the requirements of the Code of Audit Practice on 30 November 2020.

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 April 2020 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.

The risks we identified and the work we performed are set out overleaf.

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 2020.

Value for Money conclusion

Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>MFSS</p> <p>The relationship with MFSS cuts across all three value for money criteria</p>	<p>As part of our work we have:</p> <ul style="list-style-type: none"> Reviewed the arrangements for budget setting, confirming clear presentation of the assumptions and potential variations that may affect the outcome. These are disclosed to and discussed by the Joint Management Board and subject to review by the Joint Audit Advisory Committee. MFSS is included within these assumptions. Reviewed the monitoring of performance against budget during the year confirming it includes the impact of MFSS. Reviewed the Risk Register, confirming it identifies both operational and corporate risks, and the controls and mitigations in place to manage those risks. The Risk Register is reviewed regularly by the Joint management Board and the Joint Audit Advisory Committee - MFSS issues are captured fully into the Risk Register. Confirmed decisions are made based on considered business cases and clear time-lines, budgets are linked to longer term planning documents; the same processes apply to decisions about MFSS. Confirmed formal liaison channels are in place to engage with the partner forces. 	<ul style="list-style-type: none"> We found that the PCC and CC had in place appropriate arrangements to make informed decisions and to ensure financial sustainability. These arrangements incorporate MFSS. We found that the PCC and CC had well established arrangements for engaging with other partners and stakeholders including the counter parties to MFSS.
<p>Covid 19 Outbreak</p> <p>We did not identify a significant risk attached to the Covid 19 out-break, but its timing required us to consider the PCC and CC response.</p>	<p>As part of our work we have:</p> <ul style="list-style-type: none"> Confirmed that in December 2019 Cheshire Police had undertaken an exercise to test business critical systems in a major disruption and established a strong response. Seen modelling of the impact of staff reductions of 20%, 30% and 50%. Verified steps taken to ensure remote working. Confirmed access to systems was maintained and underlying transaction approval processes were unaffected. Reviewed the updated Medium- Term Financial Strategy presented to Management Board in September. 	<ul style="list-style-type: none"> Cheshire Police were in a strong position to manage the impact of Covid having carried out a significant Business Disruption exercise in December 2019. the Medium-Term Financial Strategy has been updated since the year end and ahead of the next budget setting around. It includes objective scenario setting and confirms that plans are in place that continue to show the financial sustainability of the services provided.
<p>Overall Conclusion</p>	<p>The PCC and CC have adequate arrangements for securing value for money</p>	

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	29 April 2020
Audit Findings Report	7 October 2020, updated 25 November 2020
Annual Audit Letter	December 2020

	Planned £	Actual fees £	2018/19 fees £
Statutory audit	54,595	60,055	42,095
Total fees	54,595	60,055	42,095

Audit fee variation

As outlined in our audit plan, the 2019-20 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.

Fee variations are subject to PSAA approval.

Area	Reason	Fee proposed
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.	1,750
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.	1,750
Migration to Oracle Fusion	On 1 April MFSS moved to a Cloud based platform for its integrated IT systems and general ledger. This led to a change in the general IT environment controls relevant to the financial statements. Additional accounting controls were put in place to manage initial transition problems.	9,500
Increased challenge	As set out in our audit plan, the Financial Reporting Council which regulates auditors to the public sector, set a target for audit firms to meet, as a minimum the highest 2 levels of its quality grading system for FTSE 350 audits, and this has driven up the quality standard to which we work- requiring increased and closer supervision by senior members of the team.	2,500
Initial estimate of Covid impact		1,500
Total planned variation		17,000
Additional impact of Covid and other audit issues	Additional enhanced procedures required to be undertaken resulting in increased resource input.	5,460
Total		22,460



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