



The Annual Audit Letter for Police and Crime Commissioner for Lancashire and Chief Constable for Lancashire

Year ended 31 March 2019

27 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 (PCC) for Lancashire and Chief Constable for Lancashire Constabulary 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 Lancashire Constabulary 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 Police and Crime Commissioner and the Chief Constable on 29th July 2019.

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 for Lancashire Constabulary's financial statements (section two)
- assess the PCC and Chief Constable for Lancashire Constabulary'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 for Lancashire Constabulary'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 PCC and Chief Constable for Lancashire Constabulary's financial statements to be £6m, which is 1.78% of your gross operating expenditure for 2017/18 year.
Financial Statements opinion	We gave an unqualified opinion on the PCC and Chief Constable for Lancashire Constabulary's financial statements on 29th July 2019.
Use of statutory powers	We did not identify any matters which required us to exercise our additional statutory powers.
Value for Money arrangements	We were satisfied that the PCC and Chief Constable for Lancashire Constabulary put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We reflected this in our audit report on 29th July 2019.
Certificate	We certified completion the audit of the PCC and Chief Constable for Lancashire Constabulary's in accordance with the requirements of the Code of Audit Practice on 29th July 2019.

Working with the you:

During the year we have delivered a number of successful outcomes with you:

- An efficient audit – we delivered an efficient audit with you in July, delivering the financial statements ahead of the deadline
- Understanding your operational health – through the value for money conclusion we provided you with assurance on your operational effectiveness.

- Sharing our insight – we provided regular audit committee updates covering best practice. We also shared our thought leadership reports

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council'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 Lancashire Constabulary'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 PCC and Chief Constable for Lancashire Constabulary to be £6m which is 1.78% of the your 2017/18 gross operating expenditure. We used this benchmark as, in our view, users of financial statements are most interested in where the PCC and Chief Constable for Lancashire Constabulary has spent its revenue in the year.

We also set a lower level of specific materiality for senior officer remuneration and related party transactions of £50,000.

We set a lower threshold of £0.3m above which we reported errors to the Police and Crime Commissioner and Chief Constable 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 financial statements the narrative report and the annual governance statement alongside the financial statements to check it is consistent with our understanding of the Council and with the financial statements included in the Annual Report 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 for Lancashire Constabulary'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.

The Financial Reporting Council (FRC) is responsible for reviewing and assessing the quality of local public audit work undertaken by Grant Thornton and the other audit firms. In response to the latest feedback from the FRC on local public audit work we have updated and refined our approach to the audit of PPE and IAS 19 pension costs, which has resulted in additional audit procedures being undertaken. We have included a fee adjustments to cover the additional procedures which is set out at page 10 of this report.

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 revalues its land and buildings on a three yearly basis. In the intervening years, such as 2018/19, to ensure the carrying value is not materially different from the current value at the financial statements date, the PCC requests a desktop valuation from its valuation expert to ensure that there is no material difference. The valuation of land and buildings represents a significant estimate by management in the financial statements 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, which was one of the most significant assessed risks of material misstatement, and a key audit matter.</p>	<p>As part of our audit work we :</p> <ul style="list-style-type: none"> • reviewed management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work; • considered the competence, expertise and objectivity of any management experts used; • discussed with the valuer the basis on which the valuation was carried out and challenged key assumptions; • reviewed and challenged the information used by the valuer to ensure it was robust and consistent with our understanding; • tested revaluations made during the year to ensure they were input correctly into the PCC's asset register; and • evaluated the assumptions made by management for those assets not revalued during the year and how management satisfied themselves that these were not materially different to current value. 	<p>Our audit work had not identified any significant issues in relation to the risk identified. We sought and received assurance from the valuer that for those assets not revalued during the year that they are not be materially misstated as at 31 March 2019.</p>

Audit of the Financial Statements

Significant Audit Risks - continued

These are the 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</p> <p>The pension fund net liability, as reflected in the PCC's group balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements and group accounts.</p> <p>The pension fund net liability is considered a significant estimate due to the size of the numbers involved and the sensitivity of the estimate to changes in key assumptions.</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, and a key audit matter.</p>	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> • identified the controls put in place by management to ensure that the pension fund net liability is not materially misstated and assessed whether those controls were implemented as expected and whether they were sufficient to mitigate the risk of material misstatement; • reviewed of the competence, expertise and objectivity of the actuary who carried out the PCC and Chief Constable's pension fund valuations; • undertook procedures to confirm the reasonableness of the actuarial assumptions made; and • checked the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary. 	<p>Our audit work had not identified any significant issues in relation to the risk identified.</p> <p>We highlighted a national issue relevant to all local authorities and Police bodies as a result of the McCloud case which impacted upon the valuation of the pension fund net liability and the pension reserve. The McCloud cases have a direct impact on the Police and LGPS Pension Schemes. This resulted in a compensating balance sheet and comprehensive income and expenditure classification adjustment for £206.5 million in relation to the IAS19 Pension liability. There was no impact to the useable reserves of the PCC's and Chief Constable as a result of this adjustment.</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 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 completed:</p> <ul style="list-style-type: none"> • gained an understanding of the accounting estimates, judgements applied and decisions made by management and considered their reasonableness; • obtained a full listing of journal entries, identify and test unusual journal entries for appropriateness; and • evaluated the rationale for any changes in accounting policies or significant unusual transactions. 	<p>Our audit work had not identified any evidence of management over-ride of controls.</p>

Audit of the Financial Statements

Audit opinion

We gave an unqualified opinion on the PCC and Chief Constable for Lancashire Constabulary's financial statements on 29 July 2019.

Preparation of the financial statements

The PCC and Chief Constable for Lancashire Constabulary 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 Police and Crime Commissioner and the Chief Constable on 29 July 2019.

Annual Governance Statement and Narrative Report

We are required to review the Council's Annual Governance Statement and Narrative Report. It published them on its website 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 Council and with our knowledge of the Council.

Whole of Government Accounts (WGA)

We carried out work on the Council's Data Collection Tool in line with instructions provided by the NAO . We issued an assurance statement which confirmed the Council 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 PCC and Chief Constable for Lancashire Constabulary in accordance with the requirements of the Code of Audit Practice on 29th 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.

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 for Lancashire Constabulary 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 Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Financial Sustainability</p> <p>Lancashire along with many other forces continues to face increasing financial pressures and is currently forecasting a year end financial position that indicates a potential £3.3m overspend. In addition the Medium Term Financial Strategy identifies a cumulative £18m savings gap up to 2021/22.</p> <p>We will review the arrangements that are in place for the regular monitoring of the in year financial position in 2018/19 and assess how the future financial challenges including the need to deliver savings are being addressed.</p>	<p>As part of our work we have concluded that budget monitoring reports are produced quarterly and are taken to the Joint Management Board attended by both the PCC and Chief Constable and their respective senior management teams. Both the office of the PCC and the Constabulary also provide monthly monitoring reports that go to budget holders throughout the year.</p> <p>Review of the September 2018 and December 2018 quarterly budget monitoring reports, shows that the reports highlight the forecast year end position for the revenue budget compared to revised budget, as well as reporting the capital programme and forecasted reserves position at year end. There is suitable narrative around some of possible year end mitigations and the reports provide a useful breakdown of each individual earmarked reserve as well as the overall forecasted general reserves position as at 31/3/19.</p> <p>The outturn financial performance for 2018/19 shows an overspend for the PCC Group of £0.903m based on a Chief Constable overspend of £1.93m and a PCC underspend of £1.027m. This is an improvement compared to last year, which showed a group overspend of £2.8m. There has also been a significant increase in total borrowing of £44.9m - £25m of which was taken out at the end of March 2019. The increase in borrowing is aligned to the 2019/20 Medium Term Financial Strategy (MTFS) which made a conscious decision to undertake a major five year capital investment programme of £102m by 2023/34. The level of general fund reserves has reduced to £30.3m which represents 3.6% of the budget, however, the reduction is lower than was anticipated as part of the 2018/19 MTFS.</p> <p>Whilst financial challenges facing the PCC and CC exist, and the level of borrow and reserves need to be kept under review, it is clear that there is a 5 year financial plan which aims to tackle such challenges. Levels of reserves have fallen in recent years but this is based on a conscious decision to move towards longer term borrowing to support the PCC and CC's capital strategy rather than using reserves. Recent decisions to increase borrowing is aligned to the MTFS. Whilst there is an element of the five year capital programme that is currently not yet financed (£9.9m), there is sufficient funding of the capital programme for the next 2 years, and given that the main element of the funding gap is in several years time this provides sufficient time for plans to be drawn up. It is important that the revenue implications of the increased borrowing is reflected in the forward financial plans and there is an appropriate approach to setting the minimum revenue provision.</p>	<p>We concluded that there are appropriate arrangements in place for the in year reporting and monitoring of the financial position of both the Chief Constable and the Police and Crime commissioner.</p>

A. Reports issued and fees

We confirm below our final reports issued and fees charged for the audit.

Reports issued

Report	Date issued
Audit Plan	March 2019
Audit Findings Report	July 2019
Annual Audit Letter	August 2019

Fees

	Planned	Actual fees	2017/18 fees
	£	£	£
Statutory audit			
- PCC	24,769	29,269	32,168
- Chief Constable	14,438	14,438	18,750
Total fees	39,207	43,707	50,918

- Additional work was undertaken due to a national accounting issue that impacted on all authorities and required additional audit time to be spent on the audit of pensions IAS19 balances and disclosures (£2,000). In addition we have undertaken additional work on the PPE valuations (£1,500) and IAS 19 pension costs (£1,000). The additional fees will be subject to PSAA approval.
- The audit fees note within the financial statements will not include the additional fee as it has yet to be agreed with PSAA and billed.

Fees for non-audit services

Service	Fees £
Audit related services	Nil
Non-Audit related services	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 for Lancashire Constabulary. The table above summarises all non-audit services which were identified.
- We have considered whether non-audit services might be perceived as a threat to our independence as the PCC and Chief Constable for Lancashire Constabulary's auditor and have ensured that appropriate safeguards are put in place.

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
- 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 AQRT

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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