

# The Joint Audit Findings for Lancashire Police and Crime Commissioner and Lancashire Chief Constable

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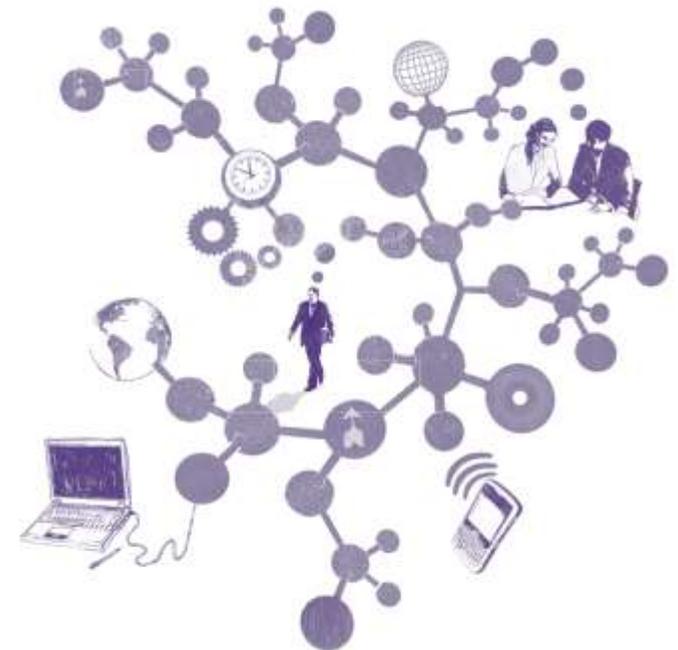
**Year ended 31 March 2017**

28 July 2017

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28 July 2017

### **Audit Findings for Lancashire Police and Crime Commissioner and Lancashire Chief Constable for the year ending 31 March 2017**

This Audit Findings report highlights the key findings arising from the audits of the Police and Crime Commissioner and Chief Constable for the benefit of those charged with governance, as required by International Standard on Auditing (UK & Ireland) 260, the Local Audit and Accountability Act 2014 and the National Audit Office Code of Audit Practice. For police bodies, those charged with governance are the Police and Crime Commissioner and the Chief Constable for the respective corporations sole. The contents of the report have been discussed with officers.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements and giving a value for money conclusion. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

We would like to take this opportunity to record our appreciation for the kind assistance provided by management, the finance team and other staff during our audit.

Yours sincerely

Robin Baker

Engagement lead

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# Section 1: Executive summary

**01. Executive summary**

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05. Fees, non audit services and independence

06. Communication of audit matters

## Purpose of this report

This report highlights the key issues affecting the results of Lancashire Police and Crime Commissioner ('the PCC') and Lancashire Chief Constable and the preparation of the financial statements of the group, the PCC and the Chief Constable for the year ended 31 March 2017. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing (UK & Ireland) 260, and the Local Audit and Accountability Act 2014 ('the Act').

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the PCC's and the Chief Constable's financial statements give a true and fair view of the financial position of the respective bodies and their income and expenditure for the year and whether the financial statements have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting.

We are also required to consider other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report), whether it is consistent with the financial statements and our knowledge of the PCC and the Chief Constable acquired in the course of performing our audit.

We are required to carry out sufficient work to satisfy ourselves on whether the PCC and the Chief Constable have each made proper arrangements to secure economy, efficiency and effectiveness in their use of resources ('the value for money (VFM) conclusion'). Auditor Guidance Note 7 (AGN07) clarifies our reporting requirements in the Code and the Act. We are required to provide conclusions whether in all significant respects, the PCC and the Chief Constable have each put in place proper arrangements to secure value for money through economic, efficient and effective use of their resources for the relevant period.

The Act also details the following additional powers and duties for local government auditors, which we are required to report to you if applied:

- a public interest report if we identify any matter that comes to our attention in the course of the audits that in our opinion should be considered by the PCC or the Chief Constable or both, or brought to the public's attention (section 24 of the Act);
- written recommendations which should be considered by the PCC or the Chief Constable or both and responded to publicly (section 24 of the Act);
- application to the court for a declaration that an item of account is contrary to law (section 28 of the Act);
- issue of an advisory notice (section 29 of the Act); and
- application for judicial review (section 31 of the Act).

We are also required to give electors the opportunity to raise questions about the accounts and consider and decide upon objections received in relation to the accounts under sections 26 and 27 of the Act.

## Introduction

In the conduct of our audit we have not had to alter or change our audit approach, which we communicated to you in our Joint Audit Plan dated 23<sup>rd</sup> February 2017. Our audit is substantially complete although we are finalising our procedures in the following areas:

- receipt and review of the final version of the financial statements
- obtaining and reviewing the management letter of representation
- updating our post balance sheet events review, to the date of signing the opinion
- receipt and review of your Whole of Government Accounts return, and
- completion of our review of journal entries.

We received draft financial statements on the 26th May, which is six days earlier than last year. This is a significant achievement and places you in a good position going forward, for the new earlier deadline next year.

## Key audit and financial reporting issues

### Financial statements opinion

We have identified no adjustments affecting the Chief Constable's or the PCC's reported financial position. The financial statements for the group for the year ended 31 March 2017 recorded net expenditure on the provision of services of £69.584m. We have recommended a number of adjustments to improve the presentation of the financial statements.

The key messages arising from our audit of the PCC's and Chief Constable's financial statements are:

- the financial statements were of a high standard, with only minor amendments required
- the accounts were supported by good quality working papers, and
- the finance team were proactive in engaging with the audit team allowing us to complete significant amounts of audit work ahead of our final accounts work in June and July.

Further details are set out in section two of this report.

At this stage there are no material errors or uncertainties arising from our audit. We therefore anticipate providing an unqualified audit opinion in respect of the PCC's financial statements, including the group financial statements, which consolidate the financial activities of the Chief Constable (see Appendix B). We also anticipate providing an unqualified opinion in respect of the Chief Constable's financial statements (see Appendix C).

### Other financial statement responsibilities

As well as an opinion on the financial statements, we are required to give an opinion on whether other information published together with each of the audited financial statements is consistent with the financial statements. This includes considering if the Annual Governance Statements do not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or are misleading or inconsistent with the information of which we are aware from our audits.

Based on our review of the PCC's and Chief Constable's Narrative Reports and AGSs we are satisfied that they are consistent with the audited financial statements. We are also satisfied that the AGSs meet the requirements set out in the CIPFA/SOLACE guidance and that the disclosures included in the Narrative Reports are in line with the requirements of the CIPFA Code of Practice.

## Controls

### Roles and responsibilities

The PCC's and Chief Constable's management are responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the systems of internal control. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to the PCC and Chief Constable.

### Findings

Our work has not identified any significant control weaknesses, but we have highlighted one issue which we bring to your attention. This is covered in detail on page 21.

Further details are provided within section two of this report.

## Value for Money

Based on our review we are satisfied that, in all significant respects, the PCC and Chief Constable each had proper arrangements in place to secure economy, efficiency and effectiveness in their use of resources. The PCC and Chief Constable have appropriate arrangements in place to manage their financial position and delivered an underspend of £4.054m. There continue to be strong and well established financial planning arrangements in place. The Constabulary was assessed as *good* in the most recent HMIC inspection of Police effectiveness, efficiency and legitimacy.

Further details of our work on Value for Money are set out in section three of this report.

### **Other statutory powers and duties**

We have not identified any issues that have required us to apply our statutory powers and duties under the Act.

### **The way forward**

Matters arising from the financial statements audits and our review of the PCC's and Chief Constable's arrangements for securing economy, efficiency and effectiveness in their use of resources have been discussed with the Chief Finance Officer to the PCC and the Chief Finance Officer to the Chief Constable, as well as with the PCC and Chief Constable as the two individuals charged with overall governance for the office of the PCC and the police force respectively.

We have made one recommendation, which is set out in the action plan at Appendix A. This has been discussed and agreed with management and those charged with governance, and their responses are included.

### **Acknowledgement**

We would like to take this opportunity to record our appreciation for the assistance provided by management, the finance team and other officers in both the office of the PCC and the police force during our audits.

**Grant Thornton UK LLP**  
**July 2017**

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## Section 2: Audit findings

01. Executive summary

**02. Audit findings**

03. Value for Money

04. Other statutory powers and duties

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# Materiality

In performing our audits, we apply the concept of materiality, following the requirements of International Standard on Auditing (UK & Ireland) (ISA) 320: Materiality in planning and performing an audit. The standard states that 'misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'.

As we reported in our joint audit plan, we determined overall materiality for the financial statements as a proportion of the smaller of gross revenue expenditure of the PCC and the gross revenue expenditure of the Chief Constable. This was £7.072m being 2% of gross revenue expenditure of the PCC (Single Entity). We have considered whether this level remained appropriate during the course of the audits and have made no changes to our overall materiality.

We also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulated effect of such amounts would have a material impact on the financial statements. We have defined the amount below which misstatements would be clearly trivial to be £0.354m. This remains the same as reported in our audit plan.

As we reported in our audit plan, we identified the following items where we decided that separate materiality levels were appropriate. These remain the same as reported in our audit plan.

Balance/transaction/disclosure	Explanation	Materiality level
Disclosures of officers' remuneration, salary bandings and exit packages in the notes to the financial statements	Due to public interest in these disclosures and the statutory requirement for them to be made.	£20,000
Related Party Transactions	Due to public interest in these disclosures and the statutory requirement for them to be made.	£20,000 – individual mis-statements will also be evaluated with reference to how material they are to the other party.

Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements; Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered. (ISA (UK&I) 320)

# Audit findings against significant risks

In this section we detail our response to the significant risks of material misstatement which we identified in the Joint Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

	Risks identified in our audit plan	Relevant to PCC / Chief Constable / Both?	Work completed	Assurance gained and issues arising
1	<p><b>The revenue cycle includes fraudulent transactions</b></p> <p>Under ISA (UK&amp;I) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p>	Both	<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"> <li>• there is little incentive to manipulate revenue recognition;</li> <li>• for the PCC opportunities to manipulate revenue recognition are very limited as revenue is principally grant allocations from central and local government;</li> <li>• 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</li> <li>• the culture and ethical frameworks of local authorities, including Lancashire PCC and Chief Constable, mean that all forms of fraud are seen as unacceptable.</li> </ul>	Our audit work has not identified any issues in respect of revenue recognition.

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty." (ISA (UK&I) 315) . In making the review of unusual significant transactions "the auditor shall treat identified significant related party transactions outside the entity's normal course of business as giving rise to significant risks." (ISA (UK&I) 550)

# Audit findings against significant risks continued

We have also identified the following significant risks of material misstatement from our understanding of the entities. We set out below the work we have completed to address these risks.

	<b>Risks identified in our audit plan</b>	<b>Relevant to PCC / Chief Constable / Both?</b>	<b>Work completed</b>	<b>Assurance gained and issues arising</b>
<b>2</b>	<p><b>Management over-ride of controls</b></p> <p>Under ISA (UK&amp;I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.</p>	Both	<ul style="list-style-type: none"> <li>Review of accounting estimates, judgments and decisions made by management.</li> <li>Review of journal entry process and selection of unusual journal entries for testing back to supporting documentation.</li> <li>Review of unusual significant transactions.</li> </ul>	<p>Our audit work has not identified any evidence of management over-ride of controls.</p> <p>We set out later in this section of the report our work and findings on key accounting judgements and estimates.</p>
<b>3</b>	<p><b>Valuation of pension fund net liability</b></p> <p>The Chief Constable's pension fund asset and liability as reflected in its balance sheet represent significant estimates in the financial statements.</p>	Both	<ul style="list-style-type: none"> <li>Identify the controls put in place by management to ensure that the pension fund liability is not materially misstated and assessed whether these controls were implemented as expected and whether the controls are sufficient to mitigate the risk of material misstatement.</li> <li>Review the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. We gained an understanding of the basis on which the valuation is carried out.</li> <li>Undertook procedures to confirm the reasonableness of the actuarial assumptions made.</li> <li>Review the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary.</li> </ul>	<p>The Pension fund liability for the Group at 31/3/2017 stood at £3.698bn an increase of £0.752bn since last year. We have verified the year end liability to information received from the Actuary and the pension fund auditor.</p> <p>Our audit work has not identified any significant issues in relation to the risk identified.</p>

# Audit findings against significant risks continued

	Risks identified in our audit plan	Relevant to PCC / Chief Constable / Both?	Work completed	Assurance gained and issues arising
4	<p><b>Valuation of property, plant and equipment</b>                      The PCC revalues its assets on a rolling basis over a three year period. The Code requires that the PCC ensures that the carrying value at the balance sheet date is not materially different from the current value. This represents a significant estimate by management in the financial statements.</p>	PCC	<ul style="list-style-type: none"> <li>Review of management's processes and assumptions for the calculation of the estimate.</li> <li>Review of the competence, expertise and objectivity of any management experts used.</li> <li>Review of the instructions issued to valuation experts and the scope of their work.</li> <li>Discussions with valuer about the basis on which the valuation is carried out and challenge of the key assumptions.</li> <li>Review and challenge of the information used by the valuer to ensure it is robust and consistent with our understanding.</li> <li>Testing of revaluations made during the year to ensure they are input correctly into the PCC's asset register.</li> <li>Evaluation of 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.</li> </ul>	<p>The PCC's Property, plant and equipment assets are valued by Lancashire County Council's Estates Department. Our work has assessed them as having a good knowledge of PCC's portfolio, and they have used information from the Asset Registers in carrying out their valuation of PCC assets. The assumptions used are reasonable and we are satisfied that the valuer had full access to appropriate level of information to complete reliable valuations.</p> <p>Our audit work has not identified any significant issues in relation to the risk identified.</p>

# Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Joint Audit Plan.

Transaction cycle	Description of risk	Relevant to PCC / Chief Constable / Both?	Work completed	Assurance gained & issues arising
Operating expenses	Creditors understated or not recorded in the correct period	Both	<ul style="list-style-type: none"> <li>• Identification of controls and walkthrough testing of the operating expenses transaction cycle.</li> <li>• Testing the reconciliation of operating expenditure recorded in the general ledger to the subsidiary systems and interfaces.</li> <li>• Testing of payments made after the year-end to identify potential unrecorded liabilities and gain assurance over the completeness of the payables balance in the accounts.</li> <li>• Substantive testing of operating expenses.</li> </ul>	<p>Our testing confirmed that controls around operating expenses are working as expected and our testing of year end creditors and accruals found that they had been properly accounted for and posted to the correct period.</p> <p>Our audit work has not identified any significant issues in relation to the risk identified.</p>
Employee remuneration	Employee remuneration accruals understated	Both	<ul style="list-style-type: none"> <li>• Identification of controls and walkthrough testing of the employee remuneration transaction cycle.</li> <li>• Testing the reconciliation of payroll expenditure recorded in the general ledger to the subsidiary systems and interfaces.</li> <li>• Analysis of trends and relationships to identify any anomalous areas for further investigation.</li> <li>• Testing to confirm the completeness of payroll transactions and appropriate cut-off.</li> </ul>	<p>Our testing included selecting a random sample of 45 employees to confirm that pay costs were correct, agreed to payslips and HR records, and that there was appropriate evidence of employment. We also reviewed the payroll reconciliation.</p> <p>Our audit work has not identified any significant issues in relation to the risk identified.</p>

# Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Joint Audit Plan.

Transaction cycle	Description of risk	Relevant to PCC / Chief Constable / Both?	Work completed	Assurance gained & issues arising
<p><b>Police Pensions Benefits Payable</b></p>	<p>Benefits improperly computed / Claims liability understated</p>	<p>Chief Constable</p>	<ul style="list-style-type: none"> <li>• Identification of controls and walkthrough testing of the pension benefit payments transaction cycle.</li> <li>• Testing the reconciliation of pension benefit payments recorded in the general ledger to the subsidiary systems and interfaces.</li> <li>• We will rationalise pensions paid with reference to changes in pensioner numbers and increases applied in the year together with a comparison of pensions paid on a monthly basis to ensure that any unusual trends are satisfactorily explained.</li> <li>• Substantive testing of monthly pension benefit payments made in the year.</li> <li>• Substantive testing of lump sum pension benefit payments made in the year.</li> </ul>	<p>Our testing confirmed that controls around the system for making pension benefits payments are working as expected and our testing of a sample of 10 pension benefit payments and 10 lump sum calculations identified no issues.</p> <p>Our audit work has not identified any significant issues in relation to the risk identified.</p>

# Group audit scope and risk assessment

ISA (UK&I) 600 requires that as Group auditors we obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

Component	Significant?	Level of response required under ISA 600	Work completed	Assurance gained & issues raised
Police and Crime Commissioner (parent)	Yes	Comprehensive	Full scope UK statutory audit performed by Grant Thornton	Our audit work has not identified any issues in respect of the risks on pages 10 to 14.
Chief Constable (subsidiary)	Yes	Comprehensive	Full scope UK statutory audit performed by Grant Thornton	Our audit work has not identified any issues in respect of the risks on pages 10 to 14.

# Accounting policies, estimates and judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the PCC's and Chief Constable's financial statements.

Accounting area	Relevant to PCC / Chief Constable / Both?	Summary of policy	Comments
<b>Revenue recognition</b>	Both	<ul style="list-style-type: none"> <li>• Revenue from the provision of services is recognised when probable that economic benefit will transfer.</li> <li>• Revenue from sale of goods recognised when significant risk and rewards of transfer are passed to the purchaser.</li> <li>• Grant income recognised when conditions are met and reasonable assurance that grant income will be received.</li> <li>• Accounting policy on recognising council tax income.</li> </ul> <p><b>Chief Constable</b></p> <ul style="list-style-type: none"> <li>• The Chief Constable receives no income directly but is funded by a contribution from the PCC.</li> </ul>	<p>Our review of accounting policies for the PCC and Chief Constable has not highlighted any issues which we wish to bring to your attention.</p> <p>The policies are in accordance with the requirements of the CIPFA Code of Practice.</p>
<b>Cost recognition</b>	Both	<p><b>PCC</b></p> <ul style="list-style-type: none"> <li>• Supplies are recorded as expenditure when they are consumed.</li> <li>• Expenses in respect of services received are recorded as expenditure when the services are received rather than when payments are made.</li> </ul> <p><b>Chief Constable</b></p> <ul style="list-style-type: none"> <li>• Expenses in respect of services received are recorded as expenditure when the services are received rather than when payments are made.</li> </ul>	<p>The policies are in accordance with the requirements of the CIPFA Code of Practice for Local Government.</p>

**Assessment**

● Marginal accounting policy which could potentially attract attention from regulators  
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● Accounting policy appropriate but scope for improved disclosure

● Accounting policy appropriate and disclosures sufficient

# Accounting policies, estimates and judgements continued

Accounting area	Relevant to PCC / Chief Constable / Both?	Summary of policy	Comments
<b>Judgements and estimates</b>	Both	<p><b>PCC:</b> Key estimates and judgements are disclosed in notes 3 and 5 and included:</p> <ul style="list-style-type: none"> <li>– uncertainty about future levels of funding</li> <li>– the need to produce group accounts</li> <li>– property, plant and equipment (PPE) valuations</li> <li>– pension fund valuations and settlements.</li> </ul> <p><b>Chief Constable:</b> Key estimates and judgements are disclosed in notes 3 and 5 and included:</p> <ul style="list-style-type: none"> <li>– uncertainty about future levels of funding</li> <li>– pension fund valuations and settlements.</li> </ul>	<p>We have reviewed the PCC and Chief Constable's judgements and estimates against the requirements of the Code of Practice.</p> <ul style="list-style-type: none"> <li>• PCC and Chief Constable's judgements and estimates in the financial statements are supported with methodologies and a clear explanation of the assumptions applied.</li> <li>• Our work on IAS 19 figures has included specific enquiries to the auditor of Lancashire County Council, the pension fund's administering body. We have also considered work carried out centrally by PWC as consulting actuary to review the actuaries used by the Local Government Pension Scheme (LGPS). No issues identified.</li> <li>• PPE valuations and pension fund valuations are considered separately on pages 18 and 19.</li> </ul>
<b>Judgements - changes to the presentation of local authority financial statements</b>	Both	<p>CIPFA has been working on the 'Telling the Story' project, for which the aim was to streamline the financial statements and improve accessibility to the user and this has resulted in changes to the 2016/17 Code of Practice.</p> <p>The changes affect the presentation of income and expenditure in the financial statements and associated disclosure notes. A prior period adjustment (PPA) to restate the 2015/16 comparative figures is also required.</p>	<p>Notes 1 and 2 of the PCC and Chief Constable's financial statements analyse the income and expenditure in line with the new format. The figures have been agreed to supporting working papers and the PPA for the 2015/16 comparative figures has also been agreed.</p>

**Assessment**

● Marginal accounting policy which could potentially attract attention from regulators  
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● Accounting policy appropriate but scope for improved disclosure

● Accounting policy appropriate and disclosures sufficient

# Accounting policies, estimates and judgements continued

Accounting area	Relevant to PCC / Chief Constable / Both?	Summary of policy	Comments
<p><b>Judgements – pension fund liability</b></p>	<p>Both</p>	<p><b>Local Government Pension Scheme (LGPS)</b></p> <p>The LGPS is the pension scheme for police staff. This is a funded defined benefit scheme. The scheme is administered by Lancashire County Council.</p> <p>The liability showing the underlying long term commitment to fund future retirement benefits is shown on the relevant PCC and CC balance sheet with a corresponding pension reserve.</p> <p><b>Police Officers Pension Schemes</b></p> <p>The Chief Constable operates three pension schemes for police officers. These are the 1987, 2006, 2015 Police Pension Schemes for officers.</p> <p>All of these schemes are unfunded defined benefit schemes.</p> <p>The liabilities relating to these schemes increased by £752m in 2016/17. The liability at the 31<sup>st</sup> March 2017 stood at £3.698bn.</p>	<p>For both the LGPS and the three police officer pension schemes we have undertaken a review of the relevant actuary’s work to satisfy ourselves that the pension liabilities are fairly stated in the financial statements. In doing so we engaged our own independent actuary to assess the methodology and assumptions used by the scheme’s actuaries.</p> <p>For LGPS we have confirmed with the external auditor of the pension fund that the controls over membership data were operating as intended. For the three police pension schemes we have performed audit procedures on membership data to ensure it is consistent with our expectations.</p> <p>For both the LGPA and the police schemes we have reviewed the information submitted to the actuaries to confirm that it is consistent with underlying records.</p> <p>The pension fund liabilities are most sensitive to changes in the following key assumptions:</p> <ul style="list-style-type: none"> <li>• discount rates</li> <li>• mortality</li> <li>• inflation; and</li> <li>• future salary increases.</li> </ul> <p>For both LGPS and the police pension schemes we have reviewed the assumptions used for each of these variables. Our own independent actuary has also confirmed that they are comfortable that the assumptions used by Mercers are reasonable for the purpose of valuing the liabilities at 31 March 2017.</p>

**Assessment**

● Marginal accounting policy which could potentially attract attention from regulators

● Accounting policy appropriate but scope for improved disclosure

● Accounting policy appropriate and disclosures sufficient

# Accounting policies, estimates and judgements continued

Accounting area	Relevant to PCC / Chief Constable / Both?	Summary of policy	Comments
<b>Judgements – property, plant and equipment</b>	PCC	<p>The CIPFA Code requires that authorities revalue their land and building assets on a regular basis. The PCC engaged Lancashire County Council Estates, to provide land and building valuations for financial reporting purposes.</p> <p>The PCC revalues its PPE assets on a rolling programme.</p>	<p>We have undertaken a review of the work performed by Lancashire County Council Estates to provide land and building valuations for financial reporting purposes. We are satisfied from our review that the methodology and assumptions used were reasonable.</p> <p>For the land and building assets not revalued in 2016/17, the external valuer undertook a review to determine whether it was necessary to increase or decrease the value of all properties in aggregate. The valuer concluded that properties not materially misstated at 31 March 2017.</p> <p>We are satisfied that the PCC's property, plant and equipment assets are not materially misstated as at 31 March 2017.</p>
<b>Going concern</b>	Both	<p>The Police and Crime Commissioner and Chief Constable both have a reasonable expectation that the services they provide will continue for the foreseeable future. For this reason, the bodies continue to adopt the going concern basis in preparing the financial statements.</p>	<p>We have reviewed the PCC's and Chief Constable's assessments and are satisfied that the going concern basis is appropriate for the 2016/17 financial statements.</p>
<b>Other accounting policies</b>	Both	<p>We have reviewed the Police and Crime Commissioner's and the Chief Constable's policies against the requirements of the CIPFA Code and accounting standards.</p>	<p>Our review of accounting policies has not highlighted any issues which we wish to bring to your attention.</p>

**Assessment**

● Marginal accounting policy which could potentially attract attention from regulators

● Accounting policy appropriate but scope for improved disclosure

● Accounting policy appropriate and disclosures sufficient

# Other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

	Issue	Commentary
1.	<b>Matters in relation to fraud</b>	<ul style="list-style-type: none"> <li>We have discussed the risk of fraud with the Police and Crime Commissioner and the Chief Constable and have not been made aware of any incidents under criminal investigation in relation to alleged fraudulent activity. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit. We are satisfied that the potential frauds do not have a material impact on the accounts</li> </ul>
2.	<b>Matters in relation to related parties</b>	<ul style="list-style-type: none"> <li>From the work we carried out, we have not identified any related party transactions which have not been disclosed.</li> </ul>
3.	<b>Matters in relation to laws and regulations</b>	<ul style="list-style-type: none"> <li>You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.</li> </ul>
4.	<b>Written representations</b>	<ul style="list-style-type: none"> <li>A standard letter of representation has been requested from each of the PCC and Chief Constable.</li> </ul>
5.	<b>Confirmation requests from third parties</b>	<ul style="list-style-type: none"> <li>We obtained direct confirmations for PWLB loans and for bank and investment balances.</li> </ul>
6.	<b>Disclosures</b>	<ul style="list-style-type: none"> <li>Our review found no material omissions in the financial statements. A number of disclosure amendments have been made to the financial statements arising from the audit and these are summarised on pages 22-23.</li> </ul>
7.	<b>Matters on which we report by exception</b>	<p>We have not identified any issues we would be required to report by exception. The</p> <ul style="list-style-type: none"> <li>Annual Governance Statement meets the disclosure requirements set out in the CIPFA/SOLACE guidance and is consistent with the information of which we are aware from our audit; and</li> <li>The information in the Narrative Reports is materially inconsistent with the information in the audited financial statements or our knowledge of the PCC and Chief Constable acquired in the course of performing our audit, or otherwise misleading.</li> </ul>
8.	<b>Specified procedures for Whole of Government Accounts</b>	<p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.</p> <p>As the PCC Group exceeds the specified group reporting threshold of £350m we are required to examine and report on the consistency of the WGA consolidation pack with the PCC Group's audited financial statements.</p> <p>Note that work is not yet completed but will be delivered to meet the WGA deadline.</p>

# Internal controls

The purpose of an audit is to express an opinion on the financial statements.

Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. We considered and walked through the internal controls for Employee Remuneration and Operating Expenses and Police Officer Pensions as set out on pages 13 and 14. The controls were found to be operating effectively.

The matters that we identified during the course of our audit are set out in the table below. These and other recommendations, together with management responses, are included in the action plan attached at Appendix A.

	Assessment	Issue and risk	Recommendations
1.		<ul style="list-style-type: none"> <li><b>IT control issues</b></li> </ul> <p>A small number of IT control issues were identified from our review of Lancashire County Council's (LCC) Oracle system. We have shared the issues with the Council's IT department. The issues related to excessive number of administrators and access to critical functions in Oracle E-Business Suite.</p>	<ul style="list-style-type: none"> <li>Management should seek assurance that actions are undertaken to address the Oracle IT issues.</li> </ul>

"The purpose of an audit is for the auditor to express an opinion on the financial statements.

Our audit included consideration of internal control relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control.

The matters being reported are limited to those deficiencies that the auditor has identified during the audit and that the auditor has concluded are of sufficient importance to merit being reported to those charged with governance." (ISA (UK&I) 265)

**Assessment**

-  Significant deficiency – risk of significant misstatement
-  Deficiency – risk of inconsequential misstatement

## Misclassifications and disclosure changes – Police and Crime Commissioner, Chief Constable and Group

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Adjustment type	Value £'000	Account balance	Impact on the financial statements
1 Classification	5.082	Debtors (Note 20)	Our testing identified that the analysis in the debtors note was incorrect. Whilst the overall total of year-end debtors remains the same, debtors of £5.082m within other entities and individuals had been incorrectly classified. An additional classification has been added for this amount in respect of amounts owed by the police pension account.
2 Classification	n/a	Creditors (Note 21)	Our testing identified that the analysis of creditors within note was incorrect. Whilst the overall total of year end creditors remains the same, a number of classification amendments were required.
3 Disclosure	14.500	Financial Instruments (Note 27)	Within the he financial instruments note, the balance for financial assets carried at contract amounts, included £14.500m in respect of Police Pension Fund top up grant from the Home Office. This top up grant is a statutory debt and does not meet the definition of a financial instrument and should be excluded. The note has now been amended to reflect this.
4 Disclosure	0.002	External audit costs (Note 31)	The external audit fee disclosed in Note 31 was incorrectly disclosed. The actual audit fee for the year is £0.051m as opposed to £0.049m disclosed. This is a disclosure issue only and has been correctly amended.
5 Disclosure	n/a	Police Pension Account (Note 1)	Note 1 of the Police Pension Account provides membership numbers for the three police pension schemes. The membership numbers brought forward from last year were incorrectly stated for active and deferred members. In addition adjustments were required to membership numbers as at 31 March 2017 to reflect 2015 scheme members with duplicate records in the pensions system.

## Misclassifications and disclosure changes – Police and Crime Commissioner, Chief Constable and Group

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Adjustment type	Value £'000	Account balance	Impact on the financial statements
6 Disclosure	n/a	Officers Remuneration (Note 16)	<p>A number of changes have been made to the officers remuneration notes, namely:</p> <ul style="list-style-type: none"> <li>• The police staff banding summary within the PCC note incorrectly included one employee in banding £120,000 - £124,999, who should not have been disclosed.</li> <li>• Comparative disclosures for 2015/16 in respect of the Chief Constable's note incorrectly included one employee in the banding £65,000 - £69,999 under the heading police staff</li> <li>• The analysis of the Constabulary's exit packages for 2015/16 excluded one compulsory redundancy in banding £40,001 - £60,000.</li> </ul>

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## Section 3: Value for Money

01. Executive summary

02. Audit findings

**03. Value for Money**

04. Other statutory powers and duties

05. Fees, non-audit services and independence

06. Communication of audit matters

## Background

We are required by section 21 of the Local Audit and Accountability Act 2014 ('the Act') and the NAO Code of Audit Practice ('the Code') to satisfy ourselves that the PCC and Chief Constable have each put in place proper arrangements for securing economy, efficiency and effectiveness in their use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at both the Office of the PCC and the Force. The Act and NAO guidance state that for local government bodies, auditors are required to give a conclusion on whether the PCC and Chief Constable have put proper arrangements in place.

In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2016. AGN 03 identifies one single 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.*

AGN03 provides examples of proper arrangements against three sub-criteria but specifically states that these are not separate criteria for assessment purposes and that auditors are not required to reach a distinct judgement against each of these.

## Risk assessment

We carried out an initial risk assessment in February 2017 and identified one significant risk, which we communicated to you in our Audit Plan dated 23rd February 2017.

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

We carried out further work only in respect of the significant risk we identified from our initial and ongoing risk assessment. Where our consideration of the significant risks determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.

## Significant qualitative aspects

AGN 03 requires us to disclose our views on significant qualitative aspects of the Council's arrangements for delivering economy, efficiency and effectiveness. We have focused our work on the significant risks that we identified in the Council's arrangements. The PCC and Chief Constable have appropriate arrangements in place to manage their financial position and delivered an underspend of £4.054m. There continue to be strong and well established financial planning arrangements in place. The Constabulary was assessed as *good* in the most recent HMIC inspection of Police effectiveness, efficiency and legitimacy.

We have set out more detail on the risk we identified, the results of the work we performed and the conclusions we drew from this work on page 26.

## Overall conclusion – Police and Crime Commissioner and Chief Constable

Based on the work we performed to address the significant risk, we concluded that the PCC and Chief Constable had proper arrangements in all significant respects to ensure they delivered value for money in their use of resources.

The text of our reports, which confirm this, can be found at Appendices B and C.

## Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Work to address	Findings and conclusions
<p><b>Financial sustainability</b></p> <p>The PCC and Constabulary continue to operate within a challenging financial environment. Savings of £3.9m have been identified for 2017/18 but in the period to 2019/20 it is estimated that there will be a funding gap of £13.4m.</p> <p>Even though Lancashire Police has a good record of delivering savings to date, whilst ensuring that the Constabulary can continue to delivery policing services, the shortfall represents a significant challenge.</p> <p>To meet the outstanding funding gap £13.4m of savings will therefore need to be delivered.</p>	<p>We will review the PCC's and Chief Constable's arrangements for updating, agreeing and monitoring its financial plans including the assumptions within them.</p>	<p>The PCC and Constabulary has a well established rolling 5 year plan which is kept under regular review and updated throughout the year. In line with best practice, assumptions regarding future funding and costs are reviewed on a regular basis in order to inform the budget setting process for future years.</p> <p>The 3 year Medium Term Financial Strategy (MTFS) is approved in the February before the start of the financial year and is revisited and updated after six months, with a revised updated MTFS reported to the Joint Management Board. The PCC/Constabulary has a rigorous process for assessing and updating assumptions and takes account of factors that it predicts will influence the level of funding it will receive, as well as expected cost pressures. A review of the assumptions applied as part of the 3 year MTFS for 2017/18 - 2019/20 has confirmed that they appear reasonable. Indeed evidence has been seen that assumptions have not automatically been rolled forward from one year to another, with the inclusion in 2017/18 of an additional cost pressure arising from the introduction of the apprenticeship levy.</p> <p>Whilst there remains a number of uncertainties going forward around the level of police funding, in particular arising from the on-going review of the funding formula, the PCC and Constabulary has, wherever possible, tried to be realistic yet not over optimistic in its future funding forecasts.</p> <p>There is also a commitment from the PCC/Constabulary that as part of its financial strategy, any future underspend on the revenue budget will be reviewed and where appropriate be set aside in reserves to be used to help fund investments to deliver the permanent savings in the revenue budget that are required in future years. This helps ensure that costs associated with savings initiatives are accounted for.</p> <p><b>Overall arrangements for monitoring, updating and agreeing financial plans appear sound. On that basis we have concluded that the risk was sufficiently mitigated and the PCC and Chief Constable each has proper arrangements.</b></p>

**Significant difficulties in undertaking our work**

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

**Significant matters discussed with management**

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

**Any other matters**

There were no other matters from our work which were significant to our consideration of your arrangements to secure value for money in your use of resources.

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## Section 4: Fees, non-audit services and independence

01. Executive summary

02. Audit findings

03. Value for Money

04. Other statutory powers and duties

**05. Fees, non audit services and independence**

06. Communication of audit matters

We confirm below our final fees charged for the audit.

### Fees

	Proposed fee £	Final fee £
Police and Crime Commissioner audit	32,168	32,168
Chief Constable audit	18,750	18,750
<b>Total audit fees (excluding VAT)</b>	<b>50,918</b>	<b>50,918</b>

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

There have been no non-audit or audit related services undertaken for the PCC or Chief Constable.

### Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

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## Section 5: Communication of audit matters

01. Executive summary

02. Audit findings

03. Value for Money

04. Other statutory powers and duties

05. Fees, non audit services and independence

06. Communication of audit matters

# Communication to those charged with governance

International Standards on Auditing ISA (UK&I) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

This document, The Audit Findings, outlines those key issues and other matters arising from the audit, which we consider should be communicated in writing rather than orally, together with an explanation as to how these have been resolved.

## Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by Public Sector Audit Appointments Limited (<http://www.psa.co.uk/appointing-auditors/terms-of-appointment/>)

We have been appointed as the PCC's and Chief Constable's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England at the time of our appointment. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the NAO (<https://www.nao.org.uk/code-audit-practice/about-code/>). Our work considers the PCC's and Chief Constable's key risks when reaching our conclusions under the Code.

It is the responsibility of the PCC and Chief Constable to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the PCC and Chief Constable are fulfilling these responsibilities.

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged Details of safeguards applied to threats to independence	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to auditor's report or emphasis of matter		✓
Unadjusted misstatements and material disclosure omissions		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓
Significant matters in relation to the Group audit including: Scope of work on components, involvement of group auditors in component audits, concerns over quality of component auditors' work, limitations of scope on the group audit, fraud or suspected fraud.	✓	✓

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# Appendices

- A. **Joint action Plan**
- B. **Audit opinion - Police and Crime Commissioner**
- B. **Audit opinion – Chief Constable**

# Appendix A: Joint action plan

Rec no.	Recommendation	Priority	Management response	Implementation date and responsibility
1	<ul style="list-style-type: none"> <li>IT control issues</li> </ul> <p>A small number of IT control issues were identified from our review of Lancashire County Council's (LCC) Oracle system. We have shared the issues with the Council's IT department. The issues related to excessive number of administrators and access to critical functions in Oracle E-Business Suite.</p> <p>Management should seek assurance that actions are undertaken to address the Oracle IT issues. 1</p>	Medium		

**Priority**

- High – Significant effect on control system
- Medium – Effect on control system
- Low – Best practice

# Appendix B: Audit opinion – Police and Crime Commissioner

**We anticipate we will provide the PCC and the group with an unmodified audit report.**

## **INDEPENDENT AUDITOR'S REPORT TO THE POLICE AND CRIME COMMISSIONER FOR LANCASHIRE**

We have audited the financial statements of the Police and Crime Commissioner for Lancashire (the "Police and Crime Commissioner") for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014 (the "Act"). The financial statements comprise the Group and Police and Crime Commissioner Comprehensive Income and Expenditure Statements, the Group and Police and Crime Commissioner Movement in Reserves Statements, the Group and Police and Crime Commissioner Balance Sheets, the Group and Police and Crime Commissioner Cash Flow Statements and the related notes and include the police pension account financial statements of Lancashire Pension Fund comprising the Police Pension Account, the Net Assets Statement and the related notes 1 to 4. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

This report is made solely to the Police and Crime Commissioner, as a body, in accordance with Part 5 of the Act and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Police and Crime Commissioner those matters we are required to state to the Police and Crime Commissioner in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Police and Crime Commissioner as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of the Chief Financial Officer and auditor**

As explained more fully in the Statement of Responsibilities, the Chief Financial Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17, which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law, the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the "Code of Audit Practice") and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Police and Crime Commissioner and Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Financial

Officer; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Narrative Report and the Annual Governance Statement to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### **Opinion on financial statements**

In our opinion:

- the financial statements present a true and fair view of the financial position of the Police and Crime Commissioner and Group as at 31 March 2017 and of the Police and Crime Commissioner's and Group's expenditure and income for the year then ended; and
- the financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and applicable law.

### **Opinion on other matters**

In our opinion, the other information published together with the audited financial statements in the Narrative Report, and the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the audited financial statements.

### **Matters on which we are required to report by exception**

We are required to report to you if:

- in our opinion the Annual Governance Statement does not comply with the guidance included in 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA/SOLACE; or
- we have reported a matter in the public interest under section 24 of the Act in the course of, or at the conclusion of the audit; or
- we have made a written recommendation to the Police and Crime Commissioner under section 24 of the Act in the course of, or at the conclusion of the audit; or
- we have exercised any other special powers of the auditor under the Act.

We have nothing to report in respect of the above matters.

**Conclusion on the Police and Crime Commissioner's arrangements to for securing economy, efficiency and effectiveness in its use of resources**

**Respective responsibilities of the Police and Crime Commissioner and auditor**

The Police and Crime Commissioner is responsible for putting in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements. We are required under Section 20(1)(c) of the Act to be satisfied that the Police and Crime Commissioner has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Police and Crime Commissioner's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

**Scope of the review of the Police and Crime Commissioner's arrangements for securing economy, efficiency and effectiveness in its use of resources**

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2016, as to whether the Police and Crime Commissioner had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criteria as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Police and Crime Commissioner put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether in all significant respects the Police and Crime Commissioner has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

**Conclusion**

On the basis of our work, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2016, we are satisfied that in all significant respects the Police and Crime Commissioner put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

**Certificate**

We cannot formally conclude the audit and issue an audit certificate in accordance with the requirements of the Act and the Code of Audit Practice until we have completed the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance Statement for the Police and Crime Commissioner for the year ended 31 March 2017. We are satisfied that this work does not have a material effect on the financial statements or on our conclusion on the Police and Crime Commissioner's arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

Robin Baker  
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Royal Liver Building  
LIVERPOOL  
L3 1PS

July 2017

# Appendix C: Audit opinion – Chief Constable

**We anticipate we will provide the Chief Constable with an unmodified audit report.**

## **INDEPENDENT AUDITOR'S REPORT TO THE CHIEF CONSTABLE FOR LANCASHIRE CONSTABULARY**

We have audited the financial statements of the Chief Constable for Lancashire Constabulary (the "Chief Constable") for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014 (the "Act"). The financial statements comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement and the related notes and include the Police Pension Account financial statements of Lancashire Pension Fund comprising the Police Pension Account, the Net Assets Statement and the related notes 1 to 4. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

This report is made solely to the Chief Constable, as a body, in accordance with Part 5 of the Act and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Chief Constable those matters we are required to state to the Chief Constable in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Chief Constable as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of the Chief Finance Officer and auditor**

As explained more fully in the Statement of the Chief Finance Officer's Responsibilities, the Chief Financial Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17, which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law, the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the "Code of Audit Practice") and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

### **Scope of the audit of the financial statements**

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

This includes an assessment of whether the accounting policies are appropriate to the Chief Constable's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Finance Officer; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Narrative Report and the Annual Governance Statement to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### **Opinion on financial statements**

In our opinion:

- the financial statements present a true and fair view of the financial position of the Chief Constable as at 31 March 2017 and of its expenditure and income for the year then ended; and
- the financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and applicable law.

### **Opinion on other matters**

In our opinion, the other information published together with the audited financial statements in the Narrative Report, and the Annual Governance Statement for the financial year for which the statements are prepared is consistent with the audited financial statements.

### **Matters on which we are required to report by exception**

We are required to report to you if:

- in our opinion the Annual Governance Statement does not comply with the guidance included in 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA/SOLACE; or
- we have reported a matter in the public interest under section 24 of the Act in the course of, or at the conclusion of the audit; or
- we have made a written recommendation to the Chief Constable under section 24 of the Act in the course of, or at the conclusion of the audit; or
- we have exercised any other special powers of the auditor under the Act.

We have nothing to report in respect of the above matters.

**Conclusion on the Chief Constable’s arrangements for securing economy, efficiency and effectiveness in its use of resources**

**Respective responsibilities of the Chief Constable and auditor**

The Chief Constable is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

We are required under Section 20(1)(c) of the Act to be satisfied that the Chief Constable has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Chief Constable’s arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

**Scope of the review of the Chief Constable’s arrangements to secure value for money through economic, efficient and effective use of its resources**

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2016, as to whether the Chief Constable had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criteria as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Chief Constable put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether in all significant respects the Chief Constable has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

**Conclusion**

On the basis of our work, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2016, we are satisfied that in all significant respects the Chief Constable put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

**Certificate**

We cannot formally conclude the audit and issue an audit certificate in accordance with the requirements of the Act and the Code of Audit Practice until we have completed the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance Statement for the Chief Constable for the year ended 31 March 2017. We are satisfied that this work does not have a material effect on the financial statements or on our conclusion on the Chief Constable’s arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

Robin Baker  
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Royal Liver Building  
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July 2017



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