



# Annual Audit Letter

*Year ending 31 March 2018*

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**Police and Crime Commissioner for Lancashire and Chief Constable for Lancashire**

**9 August 2018**



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# Executive Summary

## Purpose

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

This Letter is intended to provide a commentary on the results of our work 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 for Lancashire and the Chief Constable on 20<sup>th</sup> July 2018.

## Our work

<b>Materiality</b>	We determined materiality for the audit of the group, PCC's and Chief Constable's financial statements to be £6.74m, which is 2% (of gross expenditure) based on the lowest for the group, PCC and Chief Constable.
<b>Financial Statements opinion</b>	We gave an unqualified opinion on the group, PCC's and Chief Constable's financial statements on 20 July 2018.
<b>Whole of Government Accounts (WGA)</b>	We completed work on the consolidation return following guidance issued by the NAO.
<b>Value for Money arrangements</b>	We were satisfied that the PCC and Chief Constable put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We reflected this in our audit report on 20 July 2018.
<b>Certificate</b>	We certify that we have completed the audit of the accounts of the PCC and Chief Constable in accordance with the requirements of the Code of Audit Practice.
<b>Use of statutory powers</b>	We did not identify any matters which required us to exercise our additional statutory powers.

## Working with the PCC and Chief Constable

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

- An efficient audit – we delivered an efficient audit with you in June/July 2018 delivering the audited accounts before the deadline and seven days earlier than last year.
- Sharing our insight – we provided regular joint audit and ethics committee updates covering best practice. We also shared our thought leadership reports.

## Respective responsibilities

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

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

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

- Providing training – We provided training on local government financial accounts and annual reporting which was attended by your finance staff.

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

**Grant Thornton UK LLP**  
August 2018

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# Audit of the Accounts

## Our audit approach

### Materiality

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

We determined materiality for the audit to be £6.74m, which is 2% of gross expenditure based on the lowest for the Group, PCC and Chief Constable. We also set a lower level of specific materiality for senior officer remuneration and related party transactions.

We set a lower threshold of £340,000, above which we reported errors 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 Statement of Accounts, the narrative report, the annual governance statement to check they are consistent with our understanding of the PCC and Chief Constable and with the financial statements on which we gave our opinion.

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

Our audit approach is based on a thorough understanding of the PCC and Chief Constable's business and is risk based. We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

# Audit of the Accounts

## Significant Audit Risks

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Improper revenue recognition</b></p> <p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>As detailed in our Joint Audit Plan, we do not consider this to be a significant risk for the PCC and the Chief Constable. Having considered the risk factors set out in ISA 240 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 intergroup 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>	<p>Our audit work has not identified any issues in respect of revenue recognition.</p>
<p><b>Management override of controls</b></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 faces external scrutiny of its spending, and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We identified management override of controls as a risk requiring special audit consideration.</p>	<p>As part of our work we:</p> <ul style="list-style-type: none"> <li>• gained an understanding of the accounting estimates, judgements applied and decisions made by management and consider their reasonableness;</li> <li>• obtained a full listing of journal entries, identify and test unusual journal entries for appropriateness; and</li> <li>• evaluated the rationale for any changes in accounting policies or significant unusual transactions.</li> </ul>	<p>Our audit work to date has not identified any evidence of management over-ride of controls. We set out later in this section of the report our work and findings on key accounting judgements and estimates.</p>

# Audit of the Accounts

## Significant Audit Risks

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Valuation of property, plant and equipment</b> The PCC revalues its land and buildings on an annual basis to ensure that carrying value is not materially different from fair value. This represents a significant estimate by management in the financial statements.</p> <p>We identified the valuation of land and buildings revaluations and impairments as a risk requiring special audit consideration.</p>	<p>We have:</p> <ul style="list-style-type: none"> <li>• reviewed management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work;</li> <li>• considered the competence, expertise and objectivity of any management experts used;</li> <li>• discussed with the valuer the basis on which the valuation was carried out and challenged key assumptions;</li> <li>• reviewed and challenged the information used by the valuer to ensure it was robust and consistent with our understanding;</li> <li>• tested revaluations made during the year to ensure they were input correctly into the PCC's asset register; and</li> <li>• 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.</li> </ul>	<p>Our audit work has not identified any significant issues in relation to the risk identified. We have sought and received assurance from the valuer that for those assets not revalued during the year that they would not be materially mis-stated as at 31 March 2018.</p>
<p><b>Valuation of pension fund net liability</b> The Local Government Pension Scheme (LGPS) pension net liability, the Police Officer Pension schemes fund liability and associated disclosure notes in the financial statements, represent significant estimates in the financial statements.</p> <p>These estimates by their nature are subject to significant estimation uncertainty, being very sensitive to small adjustments in the assumptions used.</p> <p>We identified the valuation of the pension fund net liability as a risk requiring special audit consideration.</p>	<p>As part of our work we:</p> <ul style="list-style-type: none"> <li>• gained an understanding of the accounting estimates, judgements applied and decisions made by management and consider their reasonableness;</li> <li>• obtained a full listing of journal entries, identify and test unusual journal entries for appropriateness; and</li> <li>• evaluated the rationale for any changes in accounting policies or significant unusual transactions.</li> </ul>	<p>Our audit work to date has not identified any evidence of management over-ride of controls. We set out later in this section of the report our work and findings on key accounting judgements and estimates.</p>

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# Audit of the Accounts

## **Audit opinion**

We gave an unqualified opinion on the group, PCC's and Chief Constable's financial statements financial statements on 20 July 2018, in advance of the national deadline.

## **Preparation of the accounts**

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

## **Issues arising from the audit of the accounts**

We reported the key issues from our audit to the Police and Crime Commissioner and Chief Constable on 20 July 2018.

## **Annual Governance Statement and Narrative Report**

We are required to review the PCC's and Chief Constable's Annual Governance Statement and Narrative Report. These were published on its website in line with the national deadlines.

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

## **Whole of Government Accounts (WGA)**

We issued an assurance statement which confirmed the PCC and Chief Constable was below the audit threshold meaning that we did not need to undertake a detailed review of the consolidation pack.

## **Other statutory powers**

We also have additional powers and duties under the Act, including powers to issue a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the PCC's and Chief Constable's accounts and to raise objections received in relation to the accounts.

We did not identify any issues that required us to apply our statutory powers and duties under the Act. We did not receive any objections from electors to the 2017/18 accounts. There were no circumstances that required us to issue a public interest report in respect of our 2017/18 audit.

## **Certificate of closure of the audit**

We are also required to certify that we have completed the audit of the accounts of PCC and Chief Constable in accordance with the requirements of the Code of Audit Practice.

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# Value for Money conclusion

## **Background**

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

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

## **Key findings**

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

The key risk we identified and the work we performed is set out overleaf.

## **Overall Value for Money conclusion**

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



# Value for Money conclusion

## Key Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>The PCC and Chief Constable continue to operate within a challenging financial environment. Savings of £13.4m are required for the period up to 2019/20 to bridge the funding gap, which represents a significant challenge.</p> <p>The overall risk is around the ability to regularly monitor the financial performance and keep management.</p> <p>We will update our assessment of the monitoring arrangements in place to keep management and the PCC informed of the in year financial performance and long term financial plans.</p>	<p><b>Chief Constable:</b></p> <p>The year end financial position compared to the revenue budget showed that there had been an overspend of £4.2m during the year. The additional policing costs associated with the anti-fracking demonstrations in Lancashire has been the main contributory factor in this overspend. The total cost during the year was estimated at £7m for which a special government grant of £1.4m was received during the year. Other additional costs contributing towards the overspend was the government announced 2% pay award, which was double the amount anticipated, leading to additional costs of £1.4m.</p> <p><b>Police and Crime Commissioner:</b></p> <p>The year end financial position for the Police and Crime Commissioner compared to its revenue budget was a underspend for the year of £1.4m. Factors contributing to the underspend include vacancies during the year and lower than budgeted pension costs.</p> <p>The overall net financial position for the Police and Crime Commissioner, including the figures for the Chief Constable is an overspend of £2.826m.</p> <p>Budget monitoring reports covering the financial position of the Chief Constable and the Police and Crime Commissioner are produced quarterly. These are taken to the Joint Management Board attended by both the PCC and the Chief Constable and their respective senior management teams.</p> <p>Both the office of the PCC and the Constabulary also provide monthly monitoring reports that go to budget holders throughout the year.</p> <p>A review of the reports covering the financial position at the end of December 2017 and the year end 2017/18 outturn position showed that the level of detail provided to the Joint Management Board (JMB) allows members of the Board to be fully briefed on the current revenue and capital financial position. There is also useful commentary on the key factors contributing to the under or overspends during the year.</p> <p>The reports also highlight the anticipated reserves position at year end based on forecasted use of reserves during the year. The reports provide a useful breakdown of each individual earmarked reserve as well as the overall general reserves position as at 31/3/18. At year end the PCC's total of usable reserves reduced by £8.2m compared to</p>	<p>We conclude that there are appropriate arrangements in place for reporting and monitoring the financial position of both the Chief Constable and the Police and Crime commissioner.</p>

# Value for Money conclusion

## Key Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>The PCC and Chief Constable continue to operate within a challenging financial environment. Savings of £13.4m are required for the period up to 2019/20 to bridge the funding gap, which represents a significant challenge.</p> <p>The overall risk is around the ability to regularly monitor the financial performance and keep management.</p> <p>We will update our assessment of the monitoring arrangements in place to keep management and the PCC informed of the in year financial performance and long term financial plans.</p>	<p>2017/18 and stands at £38.9m. The main reasons for the reduction relates to £2.2m being used from the Operational Policing Reserve to meet the overspend arising from anti fracking protests, and the General Fund being used to meet the remaining costs of the Constabulary's overspend. Other factors contributing to the reduction in reserves included £1.5m of usable reserves being used to fund capital expenditure and use of the transition reserve during the year.</p> <p>The year end outturn report provides a useful assessment of the adequacy of reserves which considers future demands as well as highlighting future risks and opportunities.</p> <p>Given the increased financial challenges facing the PCC and the anticipation that £17m additional savings will be required by 2021/22 there is a need for the PCC to keep the level of its reserves under review going forward.</p>	<p>We conclude that there are appropriate arrangements in place for reporting and monitoring 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	February 2018
Audit Findings Report	July 2018
Annual Audit Letter	August 2018

## Fees for non-audit services

Service	Fees £
<b>Audit related services</b>	Nil
- None	
<b>Non-Audit related services</b>	Nil
- None	

## Fees

	Planned £	Actual fees £	2016/17 fees £
Statutory audit - PCC	32,168	32,168	32,168
Statutory audit - Chief Constable	18,750	18,750	18,750
<b>Total fees</b>	<b>50,918</b>	<b>50,918</b>	<b>50,918</b>

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



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