



# The Joint Annual Audit Letter For The Police and Crime Commissioner for Lancashire and The Chief Constable for Lancashire Constabulary

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Year ended 31 March 2020

17 February 2021



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Your key Grant Thornton team members are:

**Iain Murray**

**Key Audit Partner**

T: +44 2077283328  
E: iain.g.murray@uk.gt.com

**Gareth Winstanley**

**Audit Manager**

T: +441612346343  
E: Gareth.J.Winstanley@uk.gt.com

**Olalekan Ayilara**

**Audit In-Charge**

T: +441619536471  
E: Olaken.Layilara@uk.gt.com

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# Executive Summary

## Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Lancashire Police and Crime Commissioner ('the PCC') and The Chief Constable for Lancashire Constabulary for the year ended 31 March 2020.

This Letter is intended to provide a commentary on the results of our work to the PCC and The Chief Constable for Lancashire Constabulary and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the Joint Audit Committee as those charged with governance in our Audit Findings Report on 19th November 2020.

## Our work

## Respective responsibilities

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

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

In our audit of the PCC/Group and The Chief Constable for Lancashire Constabulary financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

<b>Materiality</b>	We determined materiality for the audit of the PCC/Group and The Chief Constable for Lancashire Constabulary's financial statements to be £6m, which is 1.58% of your gross operating expenditure.
<b>Financial Statements opinion</b>	We gave an unqualified opinion on the PCC/Group and The Chief Constable for Lancashire Constabulary's financial statements on 14th December 2020.
<b>Whole of Government Accounts (WGA)</b>	We completed work on the Group's consolidation return following guidance issued by the NAO.
<b>Use of statutory powers</b>	We did not identify any matters which required us to exercise our additional statutory powers.
<b>Value for Money arrangements</b>	We were satisfied that the PCC and The Chief Constable for Lancashire Constabulary put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We reflected this in our audit report to the PCC/Group and The Chief Constable for Lancashire Constabulary on 14 <sup>th</sup> December 2020.
<b>Certificate</b>	We certified that we have completed the audit of the financial statements of the PCC/Group and The Chief Constable for Lancashire Constabulary in accordance with the requirements of the Code of Audit Practice on 14 <sup>th</sup> December 2020.

# Executive Summary

## **Working with the PCC/Group and The Chief Constable for Lancashire Constabulary**

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

- Excellent teamworking – we have worked closely with you during these difficult times affected by the pandemic and the need for remote working. Restrictions for non-essential travel has meant that PCC and Constabulary staff, as well as your audit team have had to adapt to new remote working arrangements, including use of teams calls and screensharing in order to obtain audit assurance.
- Understanding your operational health – through the value for money conclusion we provided you with assurance on your operational effectiveness.
- Sharing our insight – we provided regular audit committee updates covering best practice. We also shared our thought leadership reports

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

**Grant Thornton UK LLP**  
February 2021

# Audit of the Financial Statements

## Our audit approach

### Materiality

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

We determined materiality for the audit of the group, PCC and Chief Constable's financial statements to be £6m, which is 1.58% of the group's gross cost of services. We used this benchmark as, in our view, users of the group, PCC and Chief Constable's financial statements are most interested in where the group, PCC and Chief Constable has spent its revenue in the year.

We set a lower threshold of £300,000, above which we reported errors to the Joint Audit Committee in our Audit Findings Report.

### The scope of our audit

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

- the accounting policies are appropriate, have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the remainder of the Statement of Accounts to check it is consistent with our understanding of the group, PCC and Chief Constable and with the financial statements included in the Statement of Accounts on which we gave our opinion.

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

Our audit approach was based on a thorough understanding of the PCC and Chief Constable's business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

# Audit of the Financial Statements

## Significant Audit Risks

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Covid-19</b></p> <p>The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expect current circumstances will have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to;</p> <ul style="list-style-type: none"> <li>- Remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation</li> <li>- Volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we can obtain to corroborate management estimates</li> <li>- Financial uncertainty will require management to reconsider financial forecasts supporting their going concern assessment and whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and</li> <li>- Disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties.</li> </ul> <p>We therefore identified the global outbreak of the Covid-19 virus as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We worked with management to understand the implications the response to the Covid-19 pandemic had on the organisation's ability to prepare the financial statements and update financial forecasts and assessed the implications for our materiality calculations. No changes were made to materiality levels previously reported. The draft financial statements were provided on 22 July 2020. We also</p> <ul style="list-style-type: none"> <li>• liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross-sector responses to issues as and when they arose. Examples included the material uncertainty disclosed by the PCC's property valuation expert/ PCC/group's actuary;</li> <li>• evaluated the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic;</li> <li>• evaluated whether sufficient audit evidence could be obtained through remote technology;</li> <li>• evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as assets and pension fund net liability valuations;</li> <li>• evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment; and</li> <li>• discussed with management the implications for our audit report if we have been unable to obtain sufficient audit evidence.</li> </ul>	<p>Results of our work concluded that appropriate arrangements had been put in place to manage the Covid-19 situation which included establishing a Covid-19 Gold Command Group to discuss and review Covid-19 issues.</p> <p>Due to the potential impact that Covid-19 has on the value of your land and buildings at 31 March 2020, your valuer disclosed a material valuation uncertainty within their valuers report (in line with VPGA 10 of the RICS Red Book Global). We reflected this within an "emphasis of matter" paragraph in our opinion. This is not a modification or qualification of the opinion and is consistent with other audited bodies where the valuer has highlighted a material valuation uncertainty.</p> <p>Similarly there was an impact of Covid-19 on the valuation of the LGPS Police Pension Fund property assets. Lancashire's LGPS's accounts included a material uncertainty around the valuation of property and Lancashire's LGPS auditor included an emphasis of matter in their auditor's report in respect of the effects of Covid-19 on the valuation of its direct property holding. Our audit report also contained an "emphasis of matter" paragraph in this respect.</p>

# Audit of the Financial Statements

## Significant Audit Risks - continued

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><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 therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We have:</p> <ul style="list-style-type: none"> <li>evaluated the design effectiveness of management controls over journals;</li> <li>analysed the journals listing and determine the criteria for selecting high risk unusual journals;</li> <li>tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration;</li> <li>gained an understanding of the accounting estimates and critical judgements applied made by management and considered their reasonableness with regard to corroborative evidence; and</li> <li>evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.</li> </ul>	<p>Our audit work did not identified any evidence of management over-ride of controls.</p>

# Audit of the Financial Statements

## Significant Audit Risks - continued

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Valuation of land and buildings</b></p> <p>The PCC revalues its land and buildings on a two yearly basis. In the intervening years to ensure the carrying value is not materially different from the current value at the financial statements date, the PCC requests a desktop valuation from its valuation expert to ensure that there is no material difference. The valuation of land and buildings represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions.</p> <p>We therefore identified valuation of land and buildings as a significant risk, which was one of the most significant assessed risks of material misstatement.</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>• evaluated the competence, capabilities and objectivity of the valuation expert;</li> <li>• written to the valuer to confirm the basis on which the valuation was carried out in order to ensure that the requirements of the Code are met;</li> <li>• challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding; and</li> <li>• tested revaluations made during the year to see if they had been input correctly into the PCC's asset register.</li> </ul>	<p>The valuer provided an assessment as to why assets not revalued in the year were not materially mis-stated. The assessment only considered one years valuation indices when assets may not have been valued for more than one year. We undertook our own additional procedures to satisfy ourselves that assets not revalued in 2019/20 were not materially misstated but suggest that Lancashire PCC/CC when agreeing the valuers brief request a more detailed assessment.</p> <p>We had no other matters to report to you other than in relation to the impact on property valuation of the Covid-19 pandemic and resultant uncertainties.</p> <p><b>Disclosures regarding material valuation uncertainty</b></p> <p>The outbreak of Covid-19 caused uncertainty in property markets. As a result, the PCC's valuers included reference to a material uncertainty in their valuation report.</p> <p>The estimation uncertainty was disclosed in Note 6 to the financial statements.</p> <p>We considered the disclosure was sufficiently detailed to meet the requirements of the accounting standards and that it was important to a readers understanding of the financial statements. As such, we drew attention to the uncertainty through the inclusion of an Emphasis of Matter within the audit report.</p> <p>We were satisfied that the value of Property, Plant and Equipment was not materially misstated within the financial statements.</p>

# Audit of the Financial Statements

## Significant Audit Risks - continued

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Valuation of pension fund net liability</b></p> <p>The group's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.</p> <p>The pension fund net liability is considered a significant estimate due to the size of the numbers involved (the 2019/20 pension fund liability is £3.79bn in the group's balance sheet) and the sensitivity of the estimate to changes in key assumptions.</p> <p>We therefore identified valuation of the group's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We have:</p> <ul style="list-style-type: none"> <li>• identified the controls put in place by management to ensure that the pension fund net liability is not materially misstated and assessed whether those controls were implemented as expected and whether they were sufficient to mitigate the risk of material misstatement;</li> <li>• reviewed of the competence, expertise and objectivity of the actuary who carried out the PCC and Chief Constable's pension fund valuations;</li> <li>• undertaken procedures to confirm the reasonableness of the actuarial assumptions made; and</li> <li>• checked the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary.</li> </ul>	<p>The Lancashire Pension Fund financial statements disclosed a material valuation uncertainty relating to the Fund's real estate portfolio and the Pension Fund Auditor included an emphasis of matter in their audit report drawing attention to a material valuation. Your financial statements have been updated to refer to this and drew attention to the uncertainty through the inclusion of an Emphasis of Matter within our audit report.</p> <p>Subsequent to the publication of the draft financial statements, the proposed remedy to the McCloud judgement was published for consultation. The Actuary notified management that their approach when calculating the past service cost in respect of McCloud/Sargeant in the 2018/19 pension liabilities and the current service cost in respect of McCloud/Sargeant in the 2019/20 accounts was in line with the eligibility criteria set out in the published consultation and that the calculations of additional liabilities and service costs are in line with those proposed in the consultation. Your financial statements were updated to reflect this.</p> <p>We were satisfied that the value of the pension fund liability was not materially misstated within the financial statements.</p>

# Audit of the Financial Statements

## **Audit opinion**

We gave an unqualified opinion on the group, PCC and Chief Constable's financial statements on 14th December 2020.

## **Preparation of the financial statements**

The group, PCC and Chief Constable presented us with draft financial statements in July in accordance with the agreed timescale, and provided a good set of working papers to support them. The finance team responded promptly and efficiently to our queries during the course of the audit.

## **Issues arising from the audit of the financial statements**

We reported the key issues from our audit to the PCC and Chief Constable on the 14<sup>th</sup> December 2020.

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

We are also required to review the Annual Governance Statements and Narrative Reports. These were published on your website as part of the draft Statement of Accounts inline with the national deadline.

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

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

We carried out work in line with instructions provided by the NAO. We issued an assurance statement which confirmed the group was below the audit threshold on 14th December 2020.

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

We certified that we have completed the audit of the financial statements of the PCC and Chief Constable for Lancashire Constabulary in accordance with the requirements of the Code of Audit Practice on 14th December 2020.

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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 April 2020 which specified the criterion for auditors to evaluate:

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

## Key findings

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

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

As part of our Audit Findings report agreed with the PCC and Chief Constable in December 2020, we agreed recommendations to address our findings.

## Overall Value for Money conclusion

We are satisfied that in all significant respects the PCC and Chief Constable put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2020.

# Value for Money conclusion

## Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Financial Sustainability</b></p> <p>The PCC and Chief Constable, along with many other forces faces increasing financial pressures including the need to delivery savings and the Medium Term Financial Strategy up to 2021/22 identified the need to achieve savings of £18m for the period 2019-20 to 2021/22. Going forward the future budget gap represent a serious challenge.</p> <p>We will review the arrangements that are in place for the regular monitoring of the in year financial position in 2019/20 and assess how the future financial challenges including the need to deliver savings are being addressed. We will also consider the arrangements put in place to address the challenges created by the COVID 19 pandemic, which undoubtedly creates financial pressures and future financial uncertainties.</p>	<p>Review of the December 2019 budget monitoring report and March 2020 outturn report showed that the reports highlighted the current forecast net expenditure position compared to the revised budget, alongside detail on the capital programme and the forecast year-end position. There is also quarterly information on the forecast reserves position at year end, as well as highlighting the key future risks and opportunities facing Lancashire.</p> <p>The outturn financial performance for 2019/20 showed an overspend for the group of £1.184m was delivered based on a Constabulary overspend of £1.392m and a PCC underspend of £0.208m. The year end overspend position is made up of a number of cost pressures during the year in particular around overspends on overtime costs, costs associated with organisational change and Operation Bermuda.</p> <p>The overall level of general fund reserves was £10.071m, which represents 3.3% of the 2020/21 budget. Other earmarked reserves total £12.502m, a reduction of £7.6m. £7.150m of earmarked reserves is held in the transition reserve to provide investment for the PCC's capital investment programme in future years.</p> <p>A national comparison across forces shows that Lancashire's level of useable reserves as a % of gross expenditure is below the national average at 5.98% of gross expenditure compared nationally to an average of 9.19%. Whilst the reduction in the level of reserves over the past three years, was planned to help fund some significant investment to improve the efficiency of the Constabulary's assets such as buildings, infrastructure and IT networks and equipment, it remains important that this is kept under review and that there is regular consideration of what is an acceptable level.</p> <p>The PCC and Chief Constable, along with many other forces faces increasing financial pressures including the need to delivery savings and the Medium Term Financial Strategy up to 2021/22 identified the need to achieve savings of £18m for the period 2019-20 to 2021/22. Savings plans are being progressed, however, in the event that this is not achieved, reserves will be required to bridge the gap and will result in the level of reserves being depleting.</p> <p>The PCC and Chief Constable has risen to the challenge of the Covid-19 pandemic and put in place arrangements to manage it including several daily strategic meetings as well as the implementation of COVID 19 governance arrangements.</p>	<p>We concluded that there are appropriate arrangements in place for the in year reporting and monitoring of the financial position of both the Chief Constable and the Police and Crime commissioner.</p>

## A. Reports issued and fees

We confirm below our final reports issued and fees charged for the audit. There were no fees for the provision of non audit services.

### Reports issued

Report	Date issued
Audit Plan and addendum	26 <sup>th</sup> June 2020
Audit Findings Report	9th December 2020
Annual Audit Letter	17 <sup>th</sup> February 2021

### Fees

	Planned £	Actual fees £	2018/19 fees £
Statutory audit			
- PCC	28,769	28,769	24,769
- Chief Constable	16,938	16,938	14,438
Additional Fee		6,850	4,500
<b>Total fees</b>	<b>45,707</b>	<b>52,557</b>	<b>43,707</b>

### Non- audit services

- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the group, PCC and Chief Constable. There were no fees for the provision of non-audit services..

### Audit Fee Variation

As outlined in our audit plan, the 2019-20 scale fee published by PSAA of £45,707 assumes that the scope of the audit does not significantly change. There are a number of areas where the scope of the audit has changed, which has led to additional work.

Remote working has taken additional time to explain the audit trail of transactions through remote working rather than discussing processes and procedures in person. There has also been additional work undertaken in response to McCloud and the revised IAS 19 reports and through discussions with the external valuer. We estimate that the impact of remote working this has extended the audit process by 15%.

Fee variations are subject to PSAA approval



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