

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

Year ended 31 March 2021

April 2022



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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the PCC and Chief Constable or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. 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.

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1. Headlines

This table summarises the key findings and other matters arising from the statutory audits of Lancashire Police and Crime Commissioner ('the PCC') and The Chief Constable for Lancashire Constabulary and the preparation of the PCC's and Chief Constable's financial statements for the year ended 31 March 2021 for those charged with governance.

Financial Statements

Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion the financial statements:

- give a true and fair view of the financial positions of the PCC and Chief Constable's income and expenditure for the year; and
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

We are also required to report whether other information published together with each set of audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report) is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Our audit work was completed remotely during August - April. Our findings are summarised on pages 5 to 19.

We have identified no adjustments to the financial statements of the Chief Constable other than minor disclosure issues.

We identified two material adjustments to the financial statements of the PCC and Group, which has been adjusted by management. Both adjustments net to nil within the PCC and Group Comprehensive Income and Expenditure Statement and Balance Sheets respectively. A separate adjustment was identified and made by management relating to both debtors and creditors. This had a net impact on the PCC and Group Balance Sheet of £0.633m. All adjustments are explained on page 27.

We have identified three unadjusted misstatements with the financial statements of the Group and PCC, these are highlighted on page 28.

It is acknowledged that working practices during the pandemic brings with it many challenges. There were a large number of relatively basic errors including prior year figures being incorrect as well as some arithmetical errors. These are summarised on page 30. We are happy to report that management has agreed to correct these within the final statements.

Our work is complete. There are no matters of which we are aware that would require modification of our audit opinion for the PCC's and Group's financial statements (including the financial statements which consolidate the financial activities of the Chief Constable) or the Chief Constable's financial statement.

We have concluded that the other information to be published with each set of financial statements is consistent with our knowledge of your organisations and the financial statements we have audited.

Our anticipated audit report opinion will be unmodified.

1. Headlines

Value for Money (VFM) arrangements

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether in our opinion, both entities have put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are now required to report in more detail on the overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

Auditors are required to report their commentary on the arrangements under the following specified criteria:

- Improving economy, efficiency and effectiveness;
- Financial sustainability; and
- Governance.

We have not yet completed all of our VFM work and so are not in a position to issue our Auditor's Annual Report. We expect to issue our Auditor's Annual Report in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements.

As part of our work, we considered whether there were any risks of significant weakness in the PCC and Chief Constable's arrangements for securing economy, efficiency and effectiveness in its use of resources. An update on our work to date is set out in the value for money arrangements section of this report. We have not identified any significant weaknesses from the work completed so far.

Statutory duties

The Local Audit and Accountability Act 2014 ('the Act') also requires us to:

- report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and
- to certify the closure of the audits.

We have not exercised any of our additional statutory powers or duties.

We expect to certify the completion of the audits upon the completion of our work on the PCC and Chief Constable's VFM arrangements, which will be reported in our Annual Auditor's report.

Significant Matters

We did not encounter any significant difficulties or identify any significant matters arising during our audit.

2. Financial Statements

Overview of the scope of our audit

This Joint Audit Findings Report presents the observations arising from the audits that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management.

As auditor we are responsible for performing the audits, in accordance with International Standards on Auditing (UK) and the Code, which are directed towards forming and expressing an opinion on each set of 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.

Audit approach

Our audit approach was based on a thorough understanding of the group's/PCC and Chief Constable's business and is risk based, and in particular included:

- An evaluation of the PCC's and Chief Constable's internal controls environment, including its IT systems and controls;
- An evaluation of materiality considering the PCC and Chief Constable's gross revenue expenditure; and
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks.

We have not had to alter our audit plan, as communicated to you in June 2021.

Conclusion

We have completed our audits of your financial statements and anticipate issuing an unqualified audit opinion on both financial statements. The outstanding work highlighted in our draft Audit Findings Report presented at our meeting with the PCC and the Chief Constable on 21st February 2022, has now been concluded.

Acknowledgements

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

2. Financial Statements



Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Materiality levels remain the same as reported in our audit plan in June 2021.

We detail in the table opposite our determination of materiality.

	Group (£)	PCC (£)	Chief Constable Amount (£)	Qualitative factors considered
Materiality for the financial statements	£7,184k	£6,982k	£6,667k	Financial performance, focussing on the expenditure.
Performance materiality	£5,388k	£5,236k	£5,000k	Quality of working papers in prior year and client's response to audit processes.
Trivial matters	£359k	£349k	£333k	The amount below which matters would be considered trivial to the reader of the accounts.
Materiality for senior officer remuneration	£50k	£50k	£50k	Materiality has been reduced for remuneration disclosures due to the sensitive nature and public interest.

We have determined financial statement materiality based on a proportion of the gross expenditure of the group, the PCC and the CC for the financial year. In the prior year we used the same benchmark. For our audit testing purposes we apply the lowest of these materialities, which is £6,667k (PY £6,000k), which equates to 1.85% of the CC's prior year gross expenditure or the year.



2. Financial Statements - Significant risks

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

This section provides commentary on the significant audit risks communicated in the Audit Plan.

Risks identified in our Audit Plan	Relates to	Commentary
<p>Management override of controls</p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.</p> <p>The PCC and Chief Constable face external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	PCC / CC /Group	<p>We have:</p> <ul style="list-style-type: none"> evaluated the design effectiveness of management controls over journals; analysed the journals listing and determined the criteria for selecting high risk unusual journals; identified and tested unusual journals made during the year and the accounts production stage for appropriateness and corroboration; and gained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness. <p>A sample of journals was selected based on consideration of specific risk based criteria. Testing has not identified any instances of management override and that journal entries are consistent with expectations. One internal control deficiency was identified relating to self authorisation of journals as outlined on page 14, we are satisfied that the journals in question were appropriate and reasonable.</p> <p>We did not identify any changes in accounting policies or estimation processes and review of key estimates has not identified any matters to bring to your attention.</p> <p>Our audit work has not identified any evidence of management over-ride of controls.</p>



2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Relates to	Commentary
<p>ISA240 revenue and expenditure recognition risk</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>In the public sector, whilst it is not a presumed significant risk, in line with the requirements of Practice Note (PN) 10: Audit of financial statements of public sector bodies in the United Kingdom, we also consider the risk of whether expenditure may be misstated due to the improper recognition of expenditure.</p> <p>This risk is rebuttable if the auditor concludes that there is no risk of material misstatement due to fraud relating to expenditure recognition.</p>	Both	<p><u>Revenue</u></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.</p> <p>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"> • there is little incentive to manipulate revenue recognition; • for the PCC opportunities to manipulate revenue recognition are very limited as revenue is principally grant allocations from central and local government; • 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 • the culture and ethical frameworks of both the PCC and Chief Constable, mean that all forms of fraud are seen as unacceptable. <p>Therefore and as reported in our Audit Plan, we do not consider this to be a significant risk. Whilst not a significant risk we have performed audit procedures and testing of material revenue items. Our work did not identify any matters that would lead to a change in our risk assessment.</p> <p><u>Expenditure</u></p> <p>Our Audit Plan highlighted that we consider that we are able to rebut the significant risk in relation to expenditure as we concluded that there is no risk of material misstatement due to fraud relating to expenditure recognition.</p> <p>Our work did not identify any matters that would lead to a change in our risk assessment.</p>

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Relates to	Commentary
<p>Valuation of land and buildings</p> <p>The PCC and Group revalue their land and buildings on a rolling two-yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£187m as at 31 March 2021) and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the PCC and Group financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date, where a rolling programme is used.</p> <p>We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk of material misstatement.</p>	<p>PCC and Group</p>	<p>We have:</p> <ul style="list-style-type: none"> • reviewed management's processes and assumptions for the calculation of the estimate; • the instructions issued to valuation experts and the scope of their work; • evaluated the competence, capabilities and objectivity of the valuation expert; • 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; • challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding; and • tested revaluations made during the year to see if they had been input correctly into the PCC's asset register. <p>Findings</p> <p>Our review of the calculations performed by the valuer shows that the valuations had been based on realistic and sound assumptions supported by appropriate evidence including site plans verifying square meterage figures, building rate costs and rationale for various obsolescence factors applied.</p> <p>We did identify an issue with regards to the accounting treatment for revalued assets, which has led to an unadjusted misstatement as highlight on page 28. Further explanation of this issue is at page 11.</p> <p>We are satisfied that the value of Property, Plant and Equipment is not materially misstated within the financial statements.</p>

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Relates to	Commentary
<p>Valuation of pension fund net liability</p> <p>The group's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.</p> <p>The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£4.438bn in the group's balance sheet) and the sensitivity of the estimate to changes in key assumptions. 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>	Both	<p>We have:</p> <ul style="list-style-type: none"> • updated our understanding of the processes and controls put in place by management to ensure that the PCC and CC's pension fund net liability is not materially misstated and evaluate the design of the associated controls; • evaluated the instructions issued by management to their management experts (actuaries) for this estimate and the scope of the actuary's work; • assessed the competence, capabilities and objectivity of the actuaries who carried out the pension fund valuations; • assessed the accuracy and completeness of the information provided by the PCC and CC to the actuaries; • tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial reports; and • undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report. <p>Page 12 provide a detailed assessment of the estimation process for the valuation of the pension fund net liability.</p> <p>Our review of the assumptions used in calculating the net pension liability of both schemes are considered to be in line with expectations and we have not identified any issues with the estimation process.</p> <p>Our audit work has not identified any issues in respect of valuation of the pension fund liability.</p>

2. Financial Statements – key judgements and estimates

This section provides commentary on key estimates and judgements inline with the enhanced requirements for auditors.

Significant judgement or estimate	Relates to	Summary of management's approach	Audit Comments	Assessment
Land and Building valuations – £187m	PCC/ Group	<p>Land and buildings comprises of specialised assets such as police stations, which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. The remainder of other land and buildings are not specialised in nature and are required to be valued at existing use in value (EUV) at year end.</p> <p>The PCC has engaged Aspen and Co. to complete the valuation of properties as at 31/3/2021 on a three yearly cyclical basis.</p> <p>The total year end valuation of land and buildings was £186.9m, a net increase of £6.514m from 2019/20.</p>	<p>The PCC's accounting policy on valuation of land and buildings is included in Note 18 to the financial statements.</p> <p>Key observations</p> <p>The values in the valuation report have been used to inform the measurement of property assets at valuation in the financial statements.</p> <p>The PCC has disclosed the estimation uncertainty related to the year-end valuations of land and buildings to the financial statements as set out above.</p> <ul style="list-style-type: none"> • We assessed the qualifications, skills and experience of the Valuer and determined the service to be appropriate; • The underlying information prepared by the PCC and supplied by the Valuer was considered to be complete and accurate; • The Valuer prepared their valuations in accordance with the RICS Valuation – Global Standards using the information that was available to them at the valuation date in deriving their estimates; and • Following the update to reflect the material valuation uncertainty, we consider the level of disclosure in the financial statements to be appropriate. <p>Our review of the calculations performed by the valuer showed that these had been based on realistic and sound assumptions supported by appropriate evidence. We identified that the accounting treatment in respect of revaluations during the year was incorrect with depreciation charged on revalued assets during the year. The PCC had calculated depreciation on all revalued assets, however, as the asset valuations provided by the valuer reflect the position as at 31/3/21 no depreciation should have been charged. The impact of this accounting treatment was that depreciation of £1.149m had been incorrectly charged in 2020/21. The audited body revalues its assets on a three yearly cycle. The cumulative effect of the depreciation charge over the revaluation cycle is £3.571m.</p>	Blue

2. Financial Statements – key judgements and estimates

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Significant judgement or estimate	Relates to	Summary of management's approach	Audit Comments	Assessment
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Assessment

- [Blue] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Relates to	Summary of management's approach	Audit Comments	Assessment																								
<p>Net pension liability:</p> <p>LGPS : £205.3m</p> <p>Police Officer Pension Scheme: £4.438bn</p>	Both	<p>The PCC's and Chief Constable's total net pension liability at 31 March 2021 is £4.438bn (PY £3.795bn) comprising the Local Government Pension Scheme (LGPS) (The LGPS is a funded defined benefit scheme for police staff, administered by Lancashire County Council) and Police Officers Pension Scheme (the Chief Constable operates three pension schemes for police officers, these are the 1987, 2006, 2015 Police Pension Schemes for officers)</p> <p>The PCC and Chief Constable uses Mercers to provide actuarial valuations of the Group's assets and liabilities derived from these schemes. A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2019. A roll forward approach is used in intervening periods, which utilises key assumptions such as life expectancy, discount rates, salary growth and investment returns. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements.</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>We have reviewed the information submitted to the actuaries to confirm that it is consistent with underlying records. We have used of PwC as auditors expert to assess the key actuary and assumptions made by actuary.</p> <table border="1"> <thead> <tr> <th>LGPS Assumptions</th> <th>Actuary Value</th> <th>PwC range</th> <th>Assessment</th> </tr> </thead> <tbody> <tr> <td>Discount rate</td> <td>2.20% (Police Schemes) 2.10% (LGPS PCC) 2.20% (LGPS CC)</td> <td>2.10% - 2.20% 2.10% - 2.20% 2.10% - 2.20%</td> <td>● ● ●</td> </tr> <tr> <td>CPI and Pension increase rate</td> <td>2.70% (Police Scheme and LGPS) 2.80% (Police Schemes and LGPS)</td> <td>2.70% 2.80%</td> <td>● ●</td> </tr> <tr> <td>Salary growth</td> <td>4.20% (Police Schemes and LGPS)</td> <td>3.95%- 4.20%</td> <td>●</td> </tr> <tr> <td>Life expectancy future pensioners (Police Schemes) at 60</td> <td>Men 29.3. Women 31.4</td> <td>28.5 - 29.3 30.6 – 31.3</td> <td>● ●</td> </tr> <tr> <td>Life expectancy future pensioners (LGPS) at 60</td> <td>Men 23.9 Female 26.9</td> <td>22.5 – 24.7 25.9 – 27.7</td> <td>● ●</td> </tr> </tbody> </table>	LGPS Assumptions	Actuary Value	PwC range	Assessment	Discount rate	2.20% (Police Schemes) 2.10% (LGPS PCC) 2.20% (LGPS CC)	2.10% - 2.20% 2.10% - 2.20% 2.10% - 2.20%	● ● ●	CPI and Pension increase rate	2.70% (Police Scheme and LGPS) 2.80% (Police Schemes and LGPS)	2.70% 2.80%	● ●	Salary growth	4.20% (Police Schemes and LGPS)	3.95%- 4.20%	●	Life expectancy future pensioners (Police Schemes) at 60	Men 29.3. Women 31.4	28.5 - 29.3 30.6 – 31.3	● ●	Life expectancy future pensioners (LGPS) at 60	Men 23.9 Female 26.9	22.5 – 24.7 25.9 – 27.7	● ●	Light purple
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			<p>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 2021.</p> <ul style="list-style-type: none"> ● We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated ● We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic ● We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious ● We consider management's process and key assumptions to be reasonable 																									
		<p>Overall Assessment</p> <ul style="list-style-type: none"> ● Dark Purple We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated ● Blue We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic ● Grey We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious ● Light Purple We consider management's process is appropriate and key assumptions are neither optimistic or cautious 																										

2. Financial Statements - Internal Control

Assessment	Issue and risk	Recommendations
●	Our work on journals identified a control deficiency where staff at level LC9 are able to self approve journals. Testing has confirmed that the journals in question were appropriate and not unusual, however best practice is that all journals are authorised by another person.	<p>It would be good practice to have posting and authorisation of journals by separate members of staff.</p> <p>Management response</p> <p>A revised process has been put in place within the team to ensure that approver of journals no longer upload journals to ORACLE unless in exceptional circumstances. Where this does occur approval must be sought from a member of the Senior Management Team. The staff who upload journals have been reminded to ensure that when uploading a journal that approval is obtained and that approval is included in the workbook as evidence. The record of journals kept by the team has been amended to include a column for the approver so that any issues can be identified at an early stage.</p>
●	Our audit work on the debtors balance identified that the supporting working papers and populations included historic data which needed to be cleansed and filtered prior to selecting samples to test.	<p>There is a need to ensure that audit evidence including populations provided has been cleansed to remove historic debtors balances that are no longer outstanding.</p> <p>Management Response</p> <p>This issue will be reviewed and addressed as part of the 2021/22 closedown arrangements.</p>

Assessment

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

2. Financial Statements - 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
Matters in relation to fraud	We have previously discussed the risk of fraud with the PCC and Chief Constable. 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 procedures.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
Matters in relation to laws and regulations	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.
Written representations	Letters of representation has been requested from both the PCC and the Chief Constable.

2. Financial Statements - other communication requirements



Issue	Commentary
Confirmation requests from third parties	We requested from management permission to send confirmation requests in relation to cash and investment balances. This permission was granted and the requests were sent. All of these requests were returned with positive confirmation.
Accounting practices	We have evaluated the appropriateness of the PCC's and Chief Constable's accounting policies, accounting estimates and financial statement disclosures. Our review found no material omissions in the financial statements.
Audit evidence and explanations/ significant difficulties	All information and explanations requested from management was provided.

2. Financial Statements - other communication requirements



Our responsibility

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK) 570).

Issue	Commentary
Going concern	<p>In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies. Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities:</p> <ul style="list-style-type: none"> the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Our consideration of the PCC's and Chief Constable's financial sustainability is addressed by our value for money work, which is covered elsewhere in this report. <p>Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the PCC and Chief Constable meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated:</p> <ul style="list-style-type: none"> the nature of the PCC and Chief Constable and the environment in which they operate the PCC's and Chief Constable's financial reporting framework the PCC's and Chief Constable's system of internal control for identifying events or conditions relevant to going concern management's going concern assessment. <p>On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that:</p> <ul style="list-style-type: none"> a material uncertainty related to going concern has not been identified for either the PCC or the Chief Constable management's use of the going concern basis of accounting in the preparation of both sets of financial statements is appropriate.

2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Other information	<p>We are required to give an opinion on whether the other information published together with each set of audited financial statements including the Annual Governance Statement and Narrative Report, is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p> <p>No inconsistencies have been identified.</p> <p>We plan to issue an unmodified opinion in this respect.</p>
Matters on which we report by exception	<p>We are required to report on a number of matters by exception in a number of areas:</p> <ul style="list-style-type: none"> • if the Annual Governance Statements do not comply with disclosure requirements set out in CIPFA/SOLACE guidance or are misleading or inconsistent with the information of which we are aware from our audits; • if we have applied any of our statutory powers or duties; and • where we are not satisfied in respect of arrangements to secure value for money and have reported [a] significant weakness/es. <p>We have nothing to report on these matters other than the amendment made to the Annual Governance Statement as highlighted on page 31.</p>



2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Specified procedures for Whole of Government Accounts	<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 audit instructions.</p> <p>However, in the case of the PCC & CC, no work is required as the entity is below the audit threshold determined by the NAO.</p>
Certification of the closure of the audit	<p>We intend to delay the certification of the closure of the 2020/21 audit of PCC and CC in the audit report, due to further time being needed to complete our VFM. The NAO has extended the timetable for completion of this work to three months post completion of the financial statements audit.</p>

3. Value for Money arrangements

Revised approach to Value for Money work for 2020/21

On 1 April 2020, the National Audit Office introduced a new Code of Audit Practice which comes into effect from audit year 2020/21. The Code introduced a revised approach to the audit of Value for Money. (VFM)

There are three main changes arising from the NAO's new approach:

- A new set of key criteria, covering financial sustainability, governance and improvements in economy, efficiency and effectiveness
- More extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria.
- Auditors undertaking sufficient analysis on the PCC's and Chief Constable's VFM arrangements to arrive at far more sophisticated judgements on performance, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

The Code require auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under the three specified reporting criteria.



Improving economy, efficiency and effectiveness

Arrangements for improving the way the body delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.



Financial Sustainability

Arrangements for ensuring the body can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years)



Governance

Arrangements for ensuring that the body makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the body makes decisions based on appropriate information

Potential types of recommendations

A range of different recommendations could be made following the completion of work on the body's arrangements to secure economy, efficiency and effectiveness in its use of resources, which are as follows:



Statutory recommendation

Written recommendations to the body under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the body to discuss and respond publicly to the report.



Key recommendation

The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the body. We have defined these recommendations as 'key recommendations'.



Improvement recommendation

These recommendations, if implemented should improve the arrangements in place at the body, but are not made as a result of identifying significant weaknesses in the body's arrangements

3. VFM - our procedures and conclusions

We have not yet completed our VFM work and so are not in a position to issue our Auditor's Annual Report. We expect to issue our Auditor's Annual Report in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements.

As part of our work, we considered whether there were any risks of significant weakness in the PCC and Chief Constable's arrangements for securing economy, efficiency and effectiveness in its use of resources. We have not identified any significant weaknesses from the work completed so far.

4. 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 Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, 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 Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D.

Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see [Transparency report 2020 \(grantthornton.co.uk\)](https://www.grantthornton.co.uk/transparency-report-2020)

Audit and non-audit services

No non-audit services were provided from the beginning of the financial year to September 2021.

All services have been approved by the PCC and CC. None of the services provided are subject to contingent fees.

Appendices

A. Action plan – Audit of Financial Statements

We have identified three recommendations for the PCC and Chief Constable as a result of issues identified during the course of our audits. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2021/22 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
High	<p>Revaluation of Property, Plant and Equipment (PCC)</p> <p>Our audit work identified that the accounting treatment in respect of revalued assets was incorrect, with depreciation having been charged in the year of valuation and also netted off the revalued amount.</p> <p>In addition the asset register requires a review to ensure it lends itself to the correct accounting treatment and that it agrees with the figures included within the financial statements.</p>	<p>Undertake a review of the asset register to enable it to be fit for purpose, reconciling to the figures within the financial statements.</p> <p>Ensure that the accounting treatment for revalued assets is correct and in line with the CIPFA Code of Local Authority Practice. Depreciation should not be charged on revalued assets at year end or netted off against the valuation.</p> <p>Management response</p> <p>A review of the Asset Register is being undertaken and contact has been made with other forces to see what good practice ideas can be incorporated into the process. New workbooks will be created to ensure that the correct accounting procedure and standards are followed, especially in terms of the correct treatment of depreciation.</p>
Medium	<p>Journals (PCC and CC)</p> <p>Our work on journals identified a control deficiency where staff at level LC9 are able to self approve journals. Testing has confirmed that the journals in question were appropriate and not unusual, however best practice is that all journals are authorised by another person.</p>	<p>It is good practice to have posting and authorisation of journals by separate members of staff.</p> <p>Management response</p> <p>A revised process has been put in place within the team to ensure that approver of journals no longer upload journals to ORACLE unless in exceptional circumstances. Where this does occur approval must be sought from a member of the Senior Management Team. The staff who upload journals have been reminded to ensure that when uploading a journal that approval is obtained and that approval is included in the workbook as evidence. The record of journals kept by the team has been amended to include a column for the approver so that any issues can be identified at an early stage.</p>
Medium	<p>Quality Assurance check on draft financial statements (PCC and CC)</p> <p>The draft financial statements provided for audit contained a number of basic errors including prior year figures being incorrect, and arithmetical errors.</p>	<p>Prior to submission for audit a rigorous quality assurance process should be undertaken on the draft financial statements.</p> <p>Management response</p> <p>All tables within the Statement of Accounts will now be created within the working papers rather than being typed directly into the word document. This will reduce the risk of human error and also ensure that the tables will add up. Ownership of the tables is also being spread across the team to ensure that those who are responsible for looking after the budgets are involved in creating the information needed for the Statement of Accounts. This will allow those staff who are involved in preparing the Statement of Accounts can review the figures and ensure that they are accurate. Additional time has been built into the closure timetable for review of the documents both by the preparers as well as Senior Management. The changes will also ensure that the risk of inconsistencies with the presentation of figures in tables within the Statements will be reduced.</p>

B. Follow up of prior year recommendations

We identified the following issue in the audits of Lancashire PCC and Chief Constable's 2019/20 financial statements, which resulted in one recommendation being reported in our 2019/20 Audit Findings report.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
Partial	<p>Existence Testing</p> <p>Last year as part of our audit procedures we tested a sample of assets to Land Registry documentation to ensure that you have existence rights over the asset. For one asset (Hambledon Hill transmitter) the PCC was not shown as the owner of the asset. We recommended that the Land Registry details are updated.</p>	<p>Work is on-going to progress this with the information having been passed to solicitors to ensure this gets actioned.</p>

Assessment

- ✓ Action completed
- X Not yet addressed

C. Audit Adjustments (PCC and Group)

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.



Impact of adjusted misstatements (PCC and Group)

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2021.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
Pension Upfront payment			
The PCC/Group made an upfront payment of £25.1m to the LGPS in 2020/21 to cover payments for the 2020/21 and the next two years. The element of the upfront payment relating to 2021-22 and 2022-23 (£16.892m) had been incorrectly accounted for as a payment in advance rather than reducing the Pension Liability.	Nil	Dr Pensions' Liability £16.892m Cr Payments in Advance £16.892m	Nil
Home Office Pension Grant and Additional Employer Pension Contributions			
The Home Office Pension Grant (£49.654m) had been incorrectly classified within the PCC and Group Comprehensive Income and Expenditure Statement as Other Operating Income and Expenditure rather than as Taxation and Non Specific Grant Income.	Other Operating Income and Expenditure - Dr £52.758m Taxation and non-specific Grant Income - Cr £52.758m	Nil	Nil
The figure for additional employer pensions contributions (£3.104m) had also been incorrectly classified in the same way.			
Prior year figures have also been updated.			

C. Audit Adjustments (PCC and Group cont)

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.



Impact of adjusted misstatements (PCC and Group cont)

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
Debtors and Creditors balance – revised set of statements			
An updated statement of accounts was provided during the audit which had changes to both the debtors and creditors balances.			
Debtors increased by £0.953k as a result of additional council tax returns being received thus adjusting the debtor figure.	Nil	+953	Nil
Creditors increased by £1.586m, due primarily to additional council tax creditors of £1.565m. There was also a trivial creditor adjustment relating to additional audit fees.	Nil	(+1,586)	Nil
Overall impact	Nil	(+633)	Nil

Impact of adjusted misstatements (CC)

There are no adjusted misstatements in respect of the Chief Constable's financial statements.

C. Audit Adjustments (PCC and Group cont)

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.



Impact of unadjusted misstatements (PCC and Group)

Detail	Reporting Date	Comprehensive Income and Expenditure Statement £'000	Land and Buildings £000	Revaluation Reserve £000	Capital Adjustment Account £000	Reason for not adjusting
Property Plant Equipment - Depreciation						
1/4/2019	-	955 Dr	356 Dr	1311 Cr		
Depreciation has been incorrectly charged on assets revalued in year. Given the date of valuation is 31/03/2021 there should be no depreciation charged. There was also an incorrect charge in respect of historic cost adjustment The resultant effect of this is that assets have been understated, depreciation has been overstated and the Capital Adjustment account and Revaluation Reserve are misstated.	31/3/20	-	1467 Dr	1081 Dr	2548 Cr	
Cumulative Impact as at 31/3/20		-	2422 Dr	1437 Dr	3859 Cr	
	31/3/21	1149 Cr	1149 Dr	947 Dr	2096 Cr	
Cumulative Impact as at 31/3/21		1149 Cr	3571 Dr	2384 Dr	5955 Cr	
Property Plant and Equipment - Componentisation						
31/3/20			905 Cr		905 Dr	
An adjustment was made to depreciation in 2017/18 and 2018/19 to reflect componentisation within certain assets. This adjustment was not made in either 2019/20 and 2020/21	31/3/21	1172 Dr	1172 Cr		1172 Dr	
Overall impact		23 Dr	1494 Dr	2384 Dr	3878 Dr	Not Material

C. Audit Adjustments – PCC and CC



Impact of unadjusted misstatements (Cont).

Disclosure omission	Detail	Reason for not adjusting
Leases	The PCC utilises land and buildings and equipment assets under operating leases. Future minimum lease payments not later than one year, between one and 5 years and over 5 years should be disclosed as a disclosure note. There is no disclosure of the future minimum lease payments totalling £0.678m in the financial statements.	Not material

There were no unadjusted misstatements in respect of the CC financial statements.

C. Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.



Misclassification and disclosure changes

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.

Disclosure omission	Relates to	Auditor recommendations	Adjusted?
<p>Incorrect prior year figures and arithmetical errors</p> <p>There was a considerable number of errors identified in relation to ensuring that prior year figures agreed to the 2019/20 audited accounts and that the accounts were arithmetically correct. The key errors being:</p> <ul style="list-style-type: none"> • PCC Budget figures in the Narrative Report did not add up • 2019/20 figures for unusable reserves in the PCC Movement in Reserves statement incorrect • Note 13 2020-21 Taxation and non specific grant income figure did not add up • Note 14 Total for 2019-20 did not add up and not consistent with prior year figures • Note 18 figure for assets revalued in 2019/20 did not agree to prior year accounts • Note 18 Total figure for accumulated depreciation and impairment for 2019/20 did not add up • Note 21 PCC creditors opening balance did not agree to prior year accounts • Police Pension Fund prior year figures for contributions for the 2015 scheme did not add up. 	PCC/CC	All errors identified to be corrected, with future quality assurances measures in place to ensure draft financial statements prepared for audit do not contain basic errors.	✓

C. Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.



Disclosure omission	Relates to	Auditor recommendations	Adjusted?
Note 18 Property Plant and Equipment Land and Buildings additions had been incorrectly disclosed with the Note, with the note understated by £2.184m. There was a corresponding amendment made to the figure in the note for revaluation increase recognised in the revaluation reserve.	PCC	The land and buildings additions balance and the revaluation increase recognised in the revaluation reserve have both been amended.	✓
Annual Governance Statement The Chief Constable's Annual Governance Statement made no reference to the Head of Internal Audit Opinion for 2020/21 of moderate assurance.	CC	CC Annual Governance Statements to be amended to refer to the Head of Internal Audit opinion.	✓
Note 31 External Audit Costs The audit fee disclosed for 2020/21 did not reflect additional fees paid in the year of £6.9k.	PCC/CC	Note to be amended to reflect the correct fee paid.	✓
Note 1 Expenditure and Funding Analysis The note has been amended as funding received in respect of additional pension contributions had not been accounted for in accordance with the Cipfa Code of Accounting Practice. In the note the pension contribution had been treated within Other Operating Income and Expenditure rather than included within Net Cost of Services.	PCC/CC	The Expenditure and Funding Analysis has been amended to be compliant with the Cipfa Code.	✓

D. Fees

We confirm below our final fees charged for the audit and we confirm there were no non audit services or audited related services have been undertaken for the PCC and Chief Constable.

Audit fees	Proposed fee	Final fee
PCC Audit	£39,519	TBC
Chief Constable Audit	£20,688	TBC
Total audit fees (excluding VAT)	£60,207	TBC



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