



Annual Audit Letter

Police and Crime Commissioner for Northumbria
Year ending 31 March 2018





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1. EXECUTIVE SUMMARY

Purpose of the Annual Audit Letter

Our Annual Audit Letter summarises the work we have undertaken as the auditor for the Police and Crime Commissioner for Northumbria (the Commissioner) for the year ended 31 March 2018. Although this letter is addressed to the Commissioner, it is designed to be read by a wider audience including members of the public and other external stakeholders.

Our responsibilities are defined by the Local Audit and Accountability Act 2014 (the 2014 Act) and the Code of Audit Practice issued by the National Audit Office (the NAO). The detailed sections of this letter provide details on those responsibilities, the work we have done to discharge them, and the key findings arising from our work. These are summarised below.

| Area of responsibility | Summary |
|--|--|
| Audit of the financial statements | <p>Our auditor's report issued on 27 July 2018 included our opinion that the financial statements:</p> <ul style="list-style-type: none">gave a true and fair view of the Commissioner's financial position as at 31 March 2018 and of its expenditure and income for the year then ended; andhad been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 |
| Other information published alongside the audited financial statements | <p>Our auditor's report issued on 27 July 2018 included our opinion that the other information in the Statement of Accounts was consistent with the audited financial statements.</p> |
| Value for Money conclusion | <p>Our auditor's report concluded that we were satisfied that in all significant respects, the Commissioner has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.</p> |
| Reporting to the group auditor | <p>In line with group audit instructions issued by the NAO, on 27 July 2018 we reported to the group auditor in line with the requirements applicable to the Commissioner's WGA return.</p> |

2. AUDIT OF THE FINANCIAL STATEMENTS

Opinion on the financial statements

Unqualified

The scope of our audit and the results of our work

The purpose of our audit is to provide reasonable assurance to users that the financial statements are free from material error. We do this by expressing an opinion on whether the statements are prepared, in all material respects, in line with the financial reporting framework applicable to the Commissioner and whether they give a true and fair view of the Commissioner's financial position as at 31 March 2018 and of its financial performance for the year then ended.

Our audit was conducted in accordance with the requirements of the Code of Audit Practice issued by the NAO, and International Standards on Auditing (ISAs). These require us to consider whether:

- the accounting policies are appropriate to the Commissioner's circumstances and have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management in the preparation of the financial statements are reasonable; and
- the overall presentation of the financial statements provides a true and fair view.

Our approach to materiality

We apply the concept of materiality when planning and performing our audit, and when evaluating the effect of misstatements identified as part of our work. We consider the concept of materiality at numerous stages throughout the audit process, in particular when determining the nature, timing and extent of our audit procedures, and when evaluating the effect of uncorrected misstatements. An item is considered material if its misstatement or omission could reasonably be expected to influence the economic decisions of users of the financial statements.

Judgements about materiality are made in the light of surrounding circumstances and are affected by both qualitative and quantitative factors. As a result we have set materiality for the financial statements as a whole (financial statement materiality) and a lower level of materiality for specific items of account (specific materiality) due to the nature of these items or because they attract public interest. We also set a threshold for reporting identified misstatements to the Commissioner. We call this our trivial threshold.

The table below provides details of the materiality levels applied in the audit of the financial statements for the year ended 31 March 2018:

| | | |
|---------------------------------|---|---|
| Financial statement materiality | Our financial statement materiality was based on 2% of Gross Revenue Expenditure. | £5.771 million Commissioner £6.509 million Group |
| Trivial threshold | Our trivial threshold was based on 3% of financial statement materiality. | £173,000 Commissioner £195,000 Group |
| Specific materiality | We applied a lower level of materiality to the following areas of the accounts: | <ul style="list-style-type: none">• Related Party Transactions• Officer Remuneration |

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2. AUDIT OF THE FINANCIAL STATEMENTS

Our response to significant risks

As part of our continuous planning procedures we considered whether there were risks of material misstatement in the Commissioner's financial statements that required special audit consideration. We reported significant risks identified at the planning stage to the Joint Independent Audit Committee within our Audit Strategy Memorandum and provided details of how we responded to those risks in our Audit Completion Report. The table below outlines the identified significant risks, the work we carried out on those risks and our conclusions.

| Identified significant risk | Our response | Our findings and conclusions |
|---|---|--|
| <p>Management override of controls (relevant to single entity and group accounts)</p> <p>Management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur there is a risk of material misstatement due to fraud on all audits.</p> | <p>We addressed this risk through performing audit work over accounting estimates, journal entries and significant transactions outside the normal course of business or otherwise unusual.</p> | <p>Our work provided the assurance we sought and did not highlight any material issues to bring to the Commissioner's attention</p> |
| <p>Revenue recognition (relevant to single entity and group accounts)</p> <p>There is a risk of fraud in the financial reporting relating to revenue recognition due to the potential to inappropriately record revenue in the wrong period.</p> <p>Due to there being a risk of fraud in revenue recognition we consider it to be a significant risk.</p> | <p>We tested cut off to assess whether transactions were included in the appropriate year. We also carried out analytical review procedures</p> | <p>Our work provided the assurance we sought and did not highlight any material issues to bring to the Commissioner's attention.</p> |
| <p>Treasury Management (relevant to single entity and group accounts)</p> <p>The Commissioner took a decision to bring the Treasury Management function in-house from January 2018.</p> <p>This change brought with it the potential for a material misstatement in the 2017/18 financial statements.</p> <p>Given the complexity and large volume of significant material cash transactions involved and potential issues, we identified this as a significant risk.</p> | <p>We liaised with officers and carried out substantive testing in order to gain assurance that the transfer of information between organisations was carried out accurately and did not result in a material financial misstatement.</p> | <p>Our work provided the assurance we sought and did not highlight any material issues to bring to the Commissioner's attention</p> |

2. AUDIT OF THE FINANCIAL STATEMENTS

| Identified significant risk | Our response | Our findings and conclusions |
|---|--|---|
| <p>Defined benefit liability valuation (relevant to group accounts only) The financial statements contain material pension entries in respect of the retirement benefits. The calculation of these pension figures, both assets and liabilities, can be subject to significant volatility and includes estimates based upon a complex interaction of actuarial assumptions. This results in an increased risk of material misstatement.</p> | <p>We discussed with key contacts the significant changes to the pensions estimates prior to the preparation of the final accounts. In addition to our standard programme of work in this area, we:</p> <ul style="list-style-type: none"> evaluated the management controls you have in place to assess the reasonableness of the figures provided by the actuaries; and considered the reasonableness of the actuaries outputs, referring to an expert's report on all actuaries nationally which is commissioned annually by the National Audit Office. | <p>Our work provided the assurance we sought and did not highlight any material issues to bring to the Commissioner's attention</p> |



2. AUDIT OF THE FINANCIAL STATEMENTS

Internal control recommendations

As part of our audit we considered the internal controls in place that are relevant to the preparation of the financial statements. We did this to design audit procedures that allow us to express our opinion on the financial statements, but this did not extend to us expressing an opinion on the effectiveness of internal controls.

Our findings and recommendations are set out below.

We have not identified any significant deficiencies as a result of our work this year.

Follow up of previous internal control points.

We did not raise any internal control points in 2016/17.

3. VALUE FOR MONEY CONCLUSION

Value for Money conclusion

Unqualified

Our approach to Value for Money

We are required to consider whether the Commissioner has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out in order to form our conclusion, and sets out the criterion and sub-criteria that we are required to consider.

The overall criterion is that, 'in all significant respects, the Commissioner had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.' To assist auditors in reaching a conclusion on this overall criterion, the following sub-criteria are set out by the NAO:

- Informed decision making.
- Sustainable resource deployment.
- Working with partners and other third parties.

Significant Value for Money risks

The NAO's guidance requires us to carry out work to identify whether or not a risk to the Value for Money conclusion exists. Risk, in the context of our Value for Money work, is the risk that we come to an incorrect conclusion rather than the risk of the arrangements in place at the Commissioner being inadequate. In our Audit Strategy Memorandum, we reported that we had not identified any significant Value for Money risks.

Our auditor's report, issued to the Commissioner on 27 July 2018, stated that that, in all significant respects, the Commissioner put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31st March 2018.

| Sub-criteria | Commentary | Arrangements in place? |
|--------------------------|---|------------------------|
| Informed decision making | <p>There is an up-to-date Governance Framework available on the website covering both the Commissioner and Chief Constable.</p> <p>Delivery of the Police and Crime Plan is the responsibility of the Chief Constable. Performance is monitored at the Strategic Management Board, underpinned by a number of operational delivery groups. The Commissioner and the Chief of Staff scrutinise progress, along with performance, at a monthly scrutiny meeting with the Chief Constable and his team.</p> <p>Experienced management team are in place who regularly report appropriate both performance and financial information to the Commissioner and Chief Constable.</p> <p>The Police and Crime Panel (hosted by Gateshead Council and independent of both the Commissioner and Chief Constable) meet 6 times per year and hold the Commissioner to account.</p> <p>There is a Police and Crime Plan in place for the period 2017 to 2021 in place along with other key documents such as an updated Medium Term Financial Strategy, risk management arrangements and a comprehensive workforce strategy.</p> | Yes |

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3. VALUE FOR MONEY CONCLUSION

Value for Money conclusion

Unqualified

| Sub-criteria | Commentary | Arrangements in place? |
|---|--|------------------------|
| Sustainable resource deployment | <p>An updated MTFS, covering the period 2018/19 to 2021/22, and including the 2018/19 budget was approved in February 2018. The MTFS is clearly linked to the Police and Crime Plan.</p> <p>Both the CC and Commissioner have a history of meeting financial targets with no previous budget deficits. The level of general fund balances is approved annually as part of the approval of the MTFS.</p> <p>An up to date asset register is in place.</p> <p>The Capital Programme, included in the 2018/19 to 2021/22 approved MTFS, sets out the Police's investment priorities. Capital schemes are appraised and prioritised to ensure they reflect key investment requirements.</p> <p>A Workforce Strategy is in place that includes recruitment, training and development of officers and police staff.</p> | Yes |
| Working with partners and other third parties | <p>Collaboration agreements to which the Commissioner and Chief Constable are parties to are published on the Commissioner's website.</p> <p>Both the Commissioner and Chief Constable are aware of the importance of collaboration. This is evidenced in the Collaboration and Partnership Strategy, updated May 2016.</p> <p>The force is involved in a number of relevant areas of collaboration with other police forces and public organisations, including:</p> <ul style="list-style-type: none"> • Co-locating with partners wherever possible, including fire and rescue services, councils and local community groups. • Continuation of the 7 force Section 22A collaboration agreement. The agreement provides an overarching framework for areas of collaboration in the region. Currently the agreement covers the following capabilities across the 7 forces: Disaster Recovery Identification and CBRN (Chemical, Biological, Radiological and Nuclear incidents). • The North East Regional Special Operations Unit (NERSOU) collaboration between Northumbria, Durham and Cleveland forces. • Northumbria participates in National Procurement Frameworks which are delivering significant savings on an on-going basis. | Yes |

4. OTHER REPORTING RESPONSIBILITIES

| | |
|--|-------------------------|
| Exercise of statutory reporting powers | No matters to report |
| Completion of group audit reporting requirements | Below testing threshold |
| Other information published alongside the audited financial statements | Consistent |

The NAO's Code of Audit Practice and the 2014 Act place wider reporting responsibilities on us, as the Commissioner's external auditor. We set out below, the context of these reporting responsibilities and our findings for each.

Matters which we report by exception

The 2014 Act provides us with specific powers where matters come to our attention that, in our judgement, require reporting action to be taken. We have the power to:

- issue a report in the public interest;
- make a referral to the Secretary of State where we believe that a decision has led to, or would lead to, unlawful expenditure, or an action has been, or would be unlawful and likely to cause a loss or deficiency; and
- make written recommendations to the Commissioner which must be responded to publically.

We have not exercised any of these statutory reporting powers.

Reporting to the NAO in respect of Whole of Government Accounts consolidation data

The NAO, as group auditor, requires us to complete the WGA Assurance Statement in respect of its consolidation data. We submitted this information to the NAO on 27 July 2018.

Other information published alongside the financial statements

The Code of Audit Practice requires us to consider whether information published alongside the financial statements is consistent with those statements and our knowledge and understanding of the Commissioner. In our opinion, the other information in the Statement of Accounts was consistent with the audited financial statements.

5. OUR FEES

Fees for work as the Commissioner's auditor

We reported our proposed fees for the delivery of our work in the Audit Strategy Memorandum, presented to the Joint Independent Audit Committee in February 2018.

Having completed our work for the 2017/18 financial year, we can confirm that our final fees are as follows:

| Area of work | 2017/18 proposed fee | 2017/18 final fee |
|--|----------------------|-------------------|
| Delivery of audit work under the NAO Code of Audit Practice – Police and Crime Commissioner for Northumbria | £37,050 | £37,050 |
| Delivery of audit work under the NAO Code of Audit Practice – Chief Constable for Northumbria | £18,750 | £18,750 |

Fees for other work

We confirm that we have not undertaken any non-audit services for the Commissioner in the year.

6. FORWARD LOOK

Financial outlook

The Police and Crime Commissioner for Northumbria (the Commissioner) and the Chief Constable continue to experience financial pressures as a result of the funding available from central government and these challenges are likely to remain for the foreseeable future.

The 2018/19 to 2021/22 Medium Term Financial Strategy demonstrates the need to continue to identify cost efficiencies whilst also outlining a manageable position over the next four years.

Operational challenges

The Commissioner's Police and Crime Plan 2017-2021 and Strategy 2025 set out the strategic priorities, direction and vision of Northumbria Police. The Police and Crime Plan sets out the priorities set for the Chief Constable against which he will be held to account for their delivery. Delivery of the Strategy 2025 priorities require organisational capacity, and strong governance, risk and project management arrangements.

How we will work with the Commissioner

We will focus our 2018/19 audit on the risks that the above challenges present to the Commissioner's financial statements and ability to maintain proper arrangements for securing value for money. We will also share with the Commissioner and appropriate staff relevant insights that we have as a national and international accounting and advisory firm with experience of working with other public sector and commercial service providers.

We will have a 'lessons learnt' session with the finance team to carry out a review of the 2017/18 earlier deadline and identify anything that could be done better and quicker

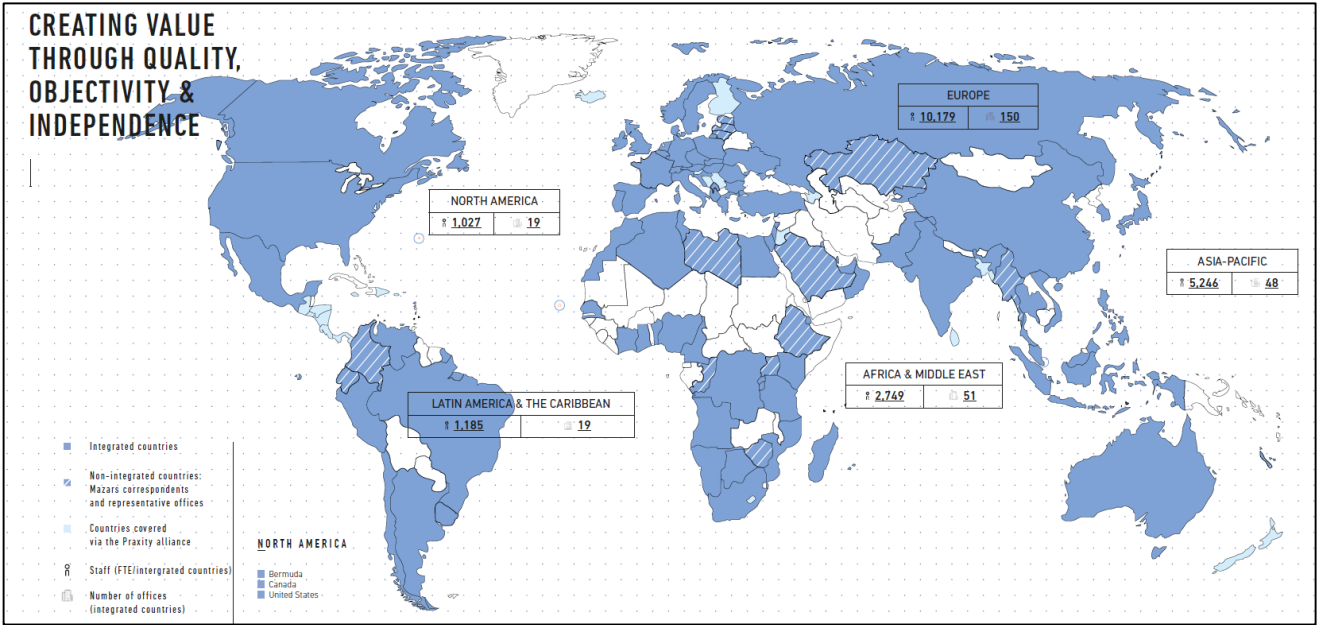
In terms of the technical challenges that the finance team face around the production of the statement of accounts, we will continue to work with them to share our knowledge of new accounting developments and we will be on hand to discuss any issues as and when they arise.

MAZARS AT A GLANCE

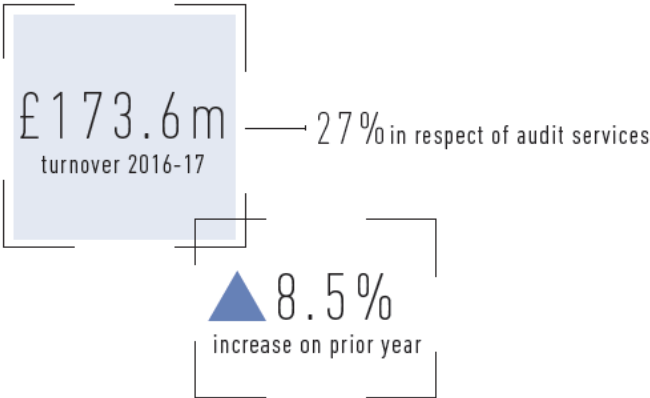
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Mazars Internationally



Mazars in the UK



As at 31 August 2017

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