

Audit Completion Report

Police and Crime Commissioner for Northumbria – year ended 31 March 2016

September 2016



Mazars LLP
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Durham
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Mrs V Baird
Police and Crime Commissioner for Northumbria
Victory House
Balliol Business Park
Newcastle upon Tyne
NE12 8EW

15 September 2016

Dear Mrs Baird

Audit Completion Report – Year ended 31 March 2016

We are delighted to present our Audit Completion Report for the year ended 31 March 2016. The purpose of this document is to summarise our audit conclusions.

The scope of our work, including identified significant audit risks and areas of management judgement was outlined in our Audit Strategy Memorandum which we presented on 22 February 2016. We have reviewed our Audit Strategy Memorandum and concluded that the original significant audit risks and areas of management judgement remain appropriate.

I would like to take this opportunity to express our thanks to your officers for their assistance during the course of our audit.

If you would like to discuss any matters in more detail then please do not hesitate to contact me on 0191 3836314 or cameron.waddell@mazars.co.uk

Yours faithfully

Cameron Waddell
Partner
Mazars LLP

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Our reports are prepared in the context of the Statement of responsibilities of auditors and audited bodies issued by Public Sector Audit Appointments Ltd. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the audited body and we take no responsibility to any member or officer in their individual capacity or to any third party.

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01 Executive summary

Purpose of this document

This document has been prepared to communicate the findings of our audit for the year ended 31 March 2016 to the Police and Crime Commissioner for Northumbria and forms the basis for discussion at the Joint Independent Audit Committee meeting on 12 September 2016 before being presented to the Joint Meeting on 15 September 2016.

Our communication with you is important to:

- share information to assist both the auditor and those charged with governance to fulfil our respective responsibilities;
- provide you with constructive observations arising from the audit process;
- ensure, as part of the two-way communication process, we gain an understanding of your attitude and views in respect of the internal and external operational, financial, compliance and other risks facing the Police and Crime Commissioner for Northumbria; and
- receive feedback from yourselves as to the performance of the engagement team.

Our work on the Police and Crime Commissioner for Northumbria's accounts is designed to provide reasonable assurance that they are free from material misstatement. In performing our audit, we apply the concept of materiality, following the requirements of International Standard on Auditing (UK & Ireland) (ISA) 320: Materiality in planning and performing an audit. The standard states that 'misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'. We consider materiality when planning and performing our work and in assessing audit results.

At the planning stage, we made a judgement about the size of misstatements which we would consider to be material and which gave a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures. We determined overall materiality to be £6.122 million (being 2% of gross revenue expenditure), with a clearly trivial threshold of £0.184m below which identified errors will not usually be reported. We also set lower materiality values for accounting entries we consider to be more sensitive, for example, senior officer's remuneration.

We updated our materiality calculation when we received the draft accounts and set the overall level at £5.921 million (being 2% of gross revenue expenditure) with a clearly trivial threshold of £0.178m. Appendix C provides more information on our approach.

As outlined in our Audit Strategy Memorandum, our audit has been conducted in accordance with International Standards of Auditing (UK and Ireland) which means we focus on audit risks that we have assessed as resulting in a higher risk of material misstatement. Section 3 of this report includes our conclusions on the significant risks and areas of management judgement that we set out in our Audit Strategy Memorandum.

We also set out details of internal control recommendations in section 3 and a summary of misstatements discovered as part of the audit in section 4.

Status and audit opinion

We have substantially completed our audit of the financial statements for the year ended 31 March 2016.

At the time of preparing this report, the following matters remain outstanding:

Area outstanding	Work to be completed
Pension Fund auditor assurance	We need to consider the findings of the Pension Fund auditor (EY) when these are received.
Closure procedures	We will complete our standard closure procedures, including review of the amended financial statements and consideration of post balance sheet events.

We will provide an update on these outstanding matters in the form of a letter to the Police and Crime Commissioner for Northumbria.

Subject to the satisfactory conclusion of the remaining audit work, we anticipate:

- issuing an unqualified opinion, without modification, on your statement of accounts; and
- concluding that you have made proper arrangements to secure economy, efficiency and effectiveness in your use of resources.

We also anticipate completing our work in respect of your Whole of Government Accounts submission in line with the group instructions issued by the National Audit Office by the deadline of 21 October 2016.

Our proposed audit report is as set out in Appendix B.

02 Significant findings

Set out below are the significant findings from our audit. These findings include:

- Our audit conclusions regarding the significant risks and key areas of management judgement outlined in the Audit Strategy Memorandum.
- Our comments in respect of the accounting policies and disclosures that you have adopted in the financial statements. On page 6 we have concluded whether the financial statements have been prepared in accordance with the financial reporting framework and commented on any significant accounting policy changes that have been made during the year.
- Any significant difficulties we experienced during the audit.

Significant risks

Management override of controls (relevant to single entity and group accounts)

Description of the risk

In all entities, 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, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits.

How we addressed this risk

We addressed this risk through performing audit work over:

- accounting estimates impacting amounts included in the financial statements;
- consideration of identified significant transactions outside the normal course of business; and
- journals recorded in the general ledger and other adjustments made in preparation of the financial statements.

Audit conclusion

Our work has provided the assurance we sought and has not highlighted any material issues to bring to your attention.

Revenue recognition (relevant to single entity and group accounts)

Description of the risk

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.

How we addressed this risk

We tested cut off to assess whether transactions are included in the appropriate year. We will also carried out analytical review procedures.

Audit conclusion

Our work has provided the assurance we sought and has not highlighted any material issues to bring to your attention.

Pension costs and pensions liability

Description of the risk

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

How we addressed this risk

We discussed with key contacts any 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:

- 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.

Audit conclusion

We need to consider the findings of the Pension Fund auditor (EY) when these are received.

Key areas of management judgement

Year-end annual leave accrual

Description of the area of management judgement

Accounting standards require that an estimate be made of the value of accumulated absences awarded but not taken as at 31 March 2016.

How we addressed this area of management judgement

We:

- examined the method used for producing this estimate and compared it against that used in previous years; and
- reviewed the detail of the calculation for accuracy.

Audit conclusion

Our work has provided the assurance we sought and has not highlighted any material issues to bring to your attention.

Property, plant and equipment (relevant to single entity and group accounts)

Description of the area of management judgement

Valuations of these assets, in particular of land and buildings, require work from an expert valuer. Valuations of buildings must reflect both the condition of the building but also the valuation basis for that class of building as required by the CIPFA 'code'.

How we addressed this area of management judgement

We examined the professional qualifications and assumptions used by your valuer in making valuations, ensuring that these have been done on the correct basis for each item. We assessed whether the report produced by the valuer has been correctly reflected in the accounts.

Audit conclusion

Our work identified two errors in relation to the assignment of the valuations of assets between the land and building components. This is outlined in more detail on page 8.

Accounting policies and disclosures

We have reviewed the Police and Crime Commissioner for Northumbria's accounting policies and disclosures and concluded they comply with the requirements of the Code of Practice on Local Authority Accounting 2015/16.

Significant difficulties during the audit

During the course of the audit we did not encounter any significant difficulties and we have had the full co-operation of management.

Electors' rights to inspect the accounts

The Accounts and Audit (England) Regulations 2015 ('the regulations'), introduced new requirements in respect of publishing the financial statements and the period within which local electors may raise questions on the financial statements or make an objection to an item of account. For 2015/16 the Authority set this period as from 1 July 2016 to 11 Aug 2016. We received no questions or objections within this period.

03 Internal control recommendations

The purpose of our audit is to express an opinion on the financial statements. As part of our audit we considered the internal controls in place relevant to the preparation of the financial statements in order to design audit procedures to allow us to express an opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of internal control or to identify any significant deficiencies in their design or operation.

The matters reported are limited to those deficiencies and other control recommendations that we have identified during our normal audit procedures and that we consider to be of sufficient importance to merit being reported. If we had performed more extensive procedures on internal control we might have identified more deficiencies to be reported or concluded that some of the reported deficiencies need not in fact have been reported. Our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.

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 the prior year.

04 Summary of misstatements

We are required to bring to your attention the misstatements found during the course of our audit that have not been corrected, unless they are clearly trivial.

The misstatements identified for adjustment during the course of the audit that are above the trivial level, are set out below.

Adjusted misstatements 2015/16

		CIES		Balance Sheet	
		Dr £'000	Cr £'000	Dr £'000	Cr £'000
1	Dr: (Surplus)/deficit on Revaluation of Non-Current Assets	4,753			
	Cr: PCC Financing of Police Services Expenditure		4,753		
	Dr: PCC Financing of Police Services Expenditure	180			
	Cr: Revaluation Reserve				180

Two errors were made in assigning the valuations of assets between the land and buildings components. The errors related to the Follingsby Training Centre and the Market Street Police Station. As a result revaluations were misstated in the Comprehensive Income and Expenditure Statement (CIES) as follows:

- Downward revaluation (loss) overstated by £4.753 million in Net Cost of Services.
- Upward revaluation (gain) overstated by £4.753 million in Other Comprehensive Income and Expenditure.

An additional consequence of the error in respect of Follingsby was that depreciation was understated by £0.180 million. The net effect of the adjustment is an increase in net expenditure in the CIES of £0.180 million and a matching reduction in unusable reserves. There is no impact on the general fund in relation to the adjustment required.

Other matters

A contingent liability was included in the Chief Constable's draft accounts in relation to an ongoing Employment Tribunal (Employment Tribunal 1). The status as set out in the draft accounts was correct, however notification has been received that the court has made a final judgement on the case on 18 August 2016 and the liability has been settled at £227,505.

Relevant amendments have now been made to disclose this in the revised 2015/16 accounts.

Disclosure amendments

Our audit identified the following disclosure amendments which management has agreed to amend:

- Note 11 (Government and non-government grants) – Pension top-up grant and Capital grant figures were corrected to ensure consistency with the figures shown in Note 8 (Taxation and Non Specific Grant Income).
- Additional text included in the Narrative Statement to strengthen wording in relation to outlining how the PCC manages financial performance, economy, efficiency and effective use of resources.
- Additional disclosure added to give further information on Assets Held for sale.

- Additional text included in the accounting policy in relation to Assets Held for sale.
- A small number of minor presentational matters.

05 Value for money

We are required to conclude whether the Police and Crime Commissioner for Northumbria put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources by considering one overall criterion which is made up of three sub-criteria.

The overall criterion set out by the NAO is:

'In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.'

In the Audit Strategy Memorandum we identified a significant risk relevant to the value for money conclusion. We detail below how we have addressed this risk and our conclusions.

We intend to issue an unqualified Value for Money conclusion as set out in Appendix B.

Significant Value for Money risk

Financial resilience

Description of the risk

The financial resilience of the Police and Crime Commissioner for Northumbria is under considerable pressure due to continued financial pressures which included proposed 2015/16 budget savings of £16.2 million.

The risk is that the action taken by the Police and Crime Commissioner for Northumbria is insufficient to deliver quality services in line with the policing plan and within available resources.

How we addressed this risk

We carried out the following work:

- reviewed the Medium-Term Financial Strategy;
- reviewed budget monitoring reports and other finance updates; and
- reviewed the progress made in identifying and delivering the savings required.

Key findings and Conclusion

Review of the Medium Term Financial Strategy (MTFS)

The latest MTFS covers the four year period of 2016/17 to 2019/20. The Strategy includes a budget savings target of £38.5m along with planned use of reserves of £6.2m over the period.

When assessing the robustness of the MTFS, the Chief Finance Officer (CFO) carried out a Risk Assessment before it was submitted for approval. The MTFS was subsequently approved on 11 February 2016.

Work is continuing in relation to identifying budget savings initiatives to support the proposed savings included in the MTFS.

As part of our detailed work, we challenged officers to supply us with evidence that the savings figures included in the MTFS were fully supported.

More than £33m of the £38.5m savings identified in the MTFS relate to workforce savings, split £27.5m officers and £5.5m staff savings. Given these figures, we challenged finance officers to provide evidence to support the annual staffing savings figures included in the MTFS. Our work identified that there are detailed plans in place to allow the savings to be achieved. We will revisit these annually.

Other main areas of potential savings included:

- Officer savings of approx. £1.8 million due to retirements and phasing out of individual allowances.

- Estates rationalisation saving of £1.0 million as a result of building closures.
- IT savings of £1.5 million due to building closures and contract savings.

We are satisfied that plans are in place to achieve the savings required.

Review of budget monitoring reports and other finance updates

The 2015/16 budget was approved by the PCC and Chief Constable on 19 February 2015.

The annual budgets for both bodies are reviewed and determined based on the same timetable and principles. The precept and budget report can be found on the individual websites.

During the year, budget monitoring reports were presented to the Chief Constable's Executive Board and the PCC's Joint Business meeting on a monthly basis.

The risk that expenditure will exceed budget is reduced by the existence of a robust revenue monitoring framework.

The key responsibilities are outlined in Governance Framework which is available on the PCC website.

The systems of budget monitoring and control during 2015/16 have been reviewed by Internal Audit and found to be Operating Well.

Achievement of 2015/16 savings

As outlined above, the Force are considering a number of budget saving initiatives to meet the on-going financial challenges.

The 2015/16 Budget highlighted savings of £16.2 million, by far the biggest element of which was savings in salaries and wages of £12 million, split Police Officers £9.5 million and Police Staff £2.5 million.

We challenged finance officers to provide evidence to support that the above savings had been achieved in 2015/16. Our audit testing provided assurance that savings had been achieved in line with original plans.

The remaining required savings of £4.2 million were realised by a combination of:

- Rationalisation of Estates and new operating model of three Area Commands: The new area command structure went live on 1 April 2015. Approx. £1.5 million savings made from energy, rates, repairs and cleaning budgets as buildings are sold.
- Fleet costs: A total of £0.6 million saved as a result of £0.5 million saving in fuel as a result of price reductions. Other savings in Vehicle Parts and Outside Firms budgets resulting from disposal of older vehicles and capital vehicle replacement programme.
- Other miscellaneous savings, for example, Commissioners Fund: Third party contributions reduced by £0.5 million.

The group revenue outturn position for 2015/16 was an under spend of £1.946 million. As the identified savings were built into the base budget then the savings overall have been successfully delivered.

The tables below summarise our findings in respect of the three sub-criteria applicable to the PCC specified by the NAO.

Informed decision making

Proper arrangements	Arrangements of the Police and Crime Commissioner for Northumbria	Audit Assurance obtained?
<p>Acting in the public interest, through demonstrating and applying the principles and values of sound governance</p>	<ul style="list-style-type: none"> • There is a Governance Framework available on the website, which is applicable to both the Police and Crime Commissioner and Chief Constable. • There is a Police and Crime Plan in place for the period 2013 to 2018. The purpose, vision, values, priorities and strategic objectives of the PCC are developed in consultation with the Chief Constable. In turn, the Chief Constable draws the Policing Plan, for which he is responsible, from the Police and Crime Plan. • Performance is monitored through a robust framework based around the Chief Constable's Delivery Plan. The PCC attends the Force's Strategic Management Board to scrutinise progress. In addition, Joint Business Meetings that are held every 2 weeks • The Police and Crime Panel (hosted by Gateshead Council and independent of both the PCC and Chief Constable) hold the PCC to account. • The PCC and Chief Constable's management team have been in post for a number of years. • There is a Joint Independent Audit Committee (JIAC) in place which meets four times per year. Standing items on the agenda include Strategic Risk Management along with progress reports by both Internal and External Audit. 	<p>Yes</p>
<p>Understanding and using appropriate and reliable financial and performance information (including, where relevant, information from regulatory/monitoring bodies) to support informed decision making and performance management.</p>	<ul style="list-style-type: none"> • There is regular reporting to the PCC and Chief Constable of both performance and financial information. • The latest Medium Term Financial Strategy (MTFS) covers the four year period of 2016/17 to 2019/20 and is subject to an annual update and linked to the Police and Crime Plan. This was approved by the PCC on 2 February 2016. 	<p>Yes</p>

Proper arrangements	Arrangements of the Police and Crime Commissioner for Northumbria	Audit Assurance obtained?
Reliable and timely financial reporting that supports the delivery of strategic priorities.	<ul style="list-style-type: none"> • There is a Police and Crime Plan in place for the period 2013 to 2018. • There is regular reporting to the PCC and Chief Constable of both performance and financial information. • The latest Medium Term Financial Strategy (MTFS) covers the four year period of 2016/17 to 2019/20 and is subject to an annual update and linked to the Police and Crime Plan. This was approved by the PCC on 2 February 2016. 	Yes
Managing risks effectively and maintaining a sound system of internal control.	<ul style="list-style-type: none"> • Risk register and risk management arrangements in place. Risks reported to JIAC and regular reporting by Internal Audit. • Annual governance statement prepared, reviewed and approved. 	Yes

Sustainable resource deployment

Proper arrangements	Arrangements of the Police and Crime Commissioner for Northumbria	Audit Assurance obtained?
Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions.	<ul style="list-style-type: none"> • There is a MTFS 2016/17 - 2019/20 in place which is subject to an annual update and linked to the Police and Crime Plan. This was approved by the Police & Crime Panel on 2 February 2016. • The MTFS is used for the annual budgets which are set by the PCC and scrutinised by the Police and Crime Panel. • The organisation has an adequate level of reserves available. • There is a history of meeting financial targets with no previous sustained or excessive budget deficits. The level of general fund balances is approved annually as part of the approval of the MTFS. 	Yes
Managing and utilising assets effectively to support the delivery of strategic priorities.	<ul style="list-style-type: none"> • An up to date Asset register in place. • The Capital Programme included in the MTFS sets out the PCC investment priorities. All capital schemes are appraised and prioritised to ensure they reflect the key investment requirements in the strategy. • The Capital programme is included in the MTFS which was approved by the PCC on 2 February 2016. 	Yes

Proper arrangements	Arrangements of the Police and Crime Commissioner for Northumbria	Audit Assurance obtained?
Planning, organising and developing the workforce effectively to deliver strategic priorities.	<ul style="list-style-type: none"> A Workforce Strategy is in place that includes recruitment, training and development of officers and police staff whilst continuing to manage necessary change through the prudent use of reserves. 	Yes

Working with partners and other third parties

Proper arrangements	Arrangements of the Police and Crime Commissioner for Northumbria	Audit Assurance obtained?
Working with third parties effectively to deliver strategic priorities.	<ul style="list-style-type: none"> Both the PCC and Chief Constable are aware of the importance of collaboration which led to the introduction of the Collaboration Strategy in September 2014 A Partnership Toolkit is also in place, the purpose of which is to highlight key factors that should be considered when establishing future partnerships. A Strategic Partnership Team is in place to act as the focal point for further advice and support at any stage of considering, establishing, or working in partnership. The force has a Collaboration and Partnership Delivery Plan which outlines all of the arrangements in which it is currently involved. Areas of collaboration with other police forces and public organisations include: <ul style="list-style-type: none"> co-locating with partners wherever possible – so far co-located with Northumberland Fire and Rescue Service, Newcastle City Council, North Tyneside Council, and Northumberland County Council, with plans progressing to co-locate with Tyne and Wear Fire and Rescue Service, and two local community trusts; a collaborative working agreement between the legal teams of Northumbria Police and North Tyneside Council in order to provide advice, support and resilience to one another; and an arrangement in place with Northumberland County Council with regard to the provision of ICT support and maintenance. In addition Northumbria, Durham and Cleveland forces have agreed to collaborate on covert policing from 1st April 2016. Further collaboration opportunities are being explored with Durham Constabulary in a number of other areas of operational policing. 	Yes
Commissioning services effectively to support the delivery of strategic priorities.		Yes

Proper arrangements	Arrangements of the Police and Crime Commissioner for Northumbria	Audit Assurance obtained?
Procuring supplies and services effectively to support the delivery of strategic priorities.	<ul style="list-style-type: none"> The organisation has written procedures for procuring products and services, which are within its Code of Corporate Governance. 	Yes

Having gathered evidence of the PCC’s arrangements for each criterion we conducted a ‘reality check’, building upon our existing knowledge of the PCC and considering the robustness of our assessment by referring to:

- reports by statutory inspectorates or other regulators;
- achievement of performance and other targets; and
- performance against budgets and other financial targets.

Evidence	Auditor assessment
Reports by statutory inspectorates or other regulators	<p>We considered reports by any statutory inspectorates (HMIC) or other regulatory bodies during the year which might impact on our conclusion.</p> <p>We reviewed the value for money profiles (based on data from Public Sector Audit Appointments). Based on this review, there were no indicators which would suggest weaknesses in the Commissioner’s arrangements, or any information contrary to our knowledge of the Commissioner.</p>
Achievement of performance and other targets	Performance is good overall and Northumbria do not appear to be an outlier.
Performance against budgets and other financial targets	The Commissioner has a history of achieving budget targets.

Overall conclusion

Having completed our assessment, and having carried out a ‘reality check’, we can conclude that our initial risk assessment remains appropriate and we can be confident in our conclusion that the PCC has adequate arrangements in place for each criterion.

We intend to issue an unqualified Value for Money conclusion as set out in Appendix B.

Appendix A – Draft management representation letter

The Police and Crime Commissioner for Northumbria and its Group - audit for year ended 31 March 2016

This representation letter is provided in connection with your audit of the statement of accounts for the Police and Crime Commissioner for Northumbria (the PCC) and its Group for the year ended 31 March 2016 for the purpose of expressing an opinion as to whether the statement of accounts give a true and fair view in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

I confirm that the following representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, inspection of supporting documentation) sufficient to satisfy ourselves that I can properly make each of the following representations to you.

My responsibility for the statement of accounts and accounting information

I believe that I have fulfilled my responsibilities for the true and fair presentation and preparation of the statement of accounts in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

My responsibility to provide and disclose relevant information

I have provided you with:

- access to all information of which we are aware that is relevant to the preparation of the statement of accounts such as records, documentation and other material;
- additional information that you have requested from us for the purpose of the audit; and
- unrestricted access to individuals within the PCC you determined it was necessary to contact in order to obtain audit evidence.

I confirm that I have taken all the necessary steps to make me aware of any relevant audit information and to establish that you, as auditors, are aware of this information. As far as I am aware there is no relevant audit information of which you, as auditors, are unaware.

Accounting records

I confirm that all transactions that have a material effect on the financial statements have been recorded in the accounting records and are reflected in the financial statements. All other records and related information, including minutes of all relevant meetings, have been made available to you.

Accounting policies

I confirm that I have reviewed the accounting policies applied during the year in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom and International Accounting Standard 8 and consider these policies to faithfully represent the effects of transactions, other events or conditions on the PCC's and Group's financial position, financial performance and cash flows.

Accounting estimates, including those measured at fair value

I confirm that any significant assumptions used by the PCC and Group in making accounting estimates, including those measured at fair value, are reasonable.

Contingencies

There are no material contingent losses including pending or potential litigation that should be accrued where:

- information presently available indicates that it is probable that an asset has been impaired or a liability had been incurred at the balance sheet date; and
- the amount of the loss can be reasonably estimated.

There are no material contingent losses that should be disclosed where, although either or both the conditions specified above are not met, there is a reasonable possibility that a loss, or a loss greater than that accrued, may have been incurred at the balance sheet date.

There are no contingent gains which should be disclosed.

All material matters, including unasserted claims, that may result in litigation against the PCC and Group have been brought to your attention. All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to you and accounted for and disclosed in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

Laws and regulations

I confirm that I have disclosed to you all those events of which I am aware which involve known or suspected non-compliance with laws and regulations, together with the actual or contingent consequences which may arise therefrom.

The PCC and Group has complied with all aspects of contractual agreements that would have a material effect on the accounts in the event of non-compliance.

Fraud and error

I acknowledge my responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

I have disclosed to you:

- all the results of my assessment of the risk that the statement of accounts may be materially misstated as a result of fraud;
- all knowledge of fraud or suspected fraud affecting the PCC and Group involving:
 - management and those charged with governance;
 - employees who have significant roles in internal control; and
 - others where fraud could have a material effect on the financial statements.

I have disclosed to you all information in relation to any allegations of fraud, or suspected fraud, affecting the PCC's and Group's statement of accounts communicated by employees, former employees, analysts, regulators or others.

Related party transactions

I confirm that all related party relationships, transactions and balances, have been appropriately accounted for and disclosed in accordance with the requirements of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

I have disclosed to you the identity of the PCC's and Group's related parties and all related party relationships and transactions of which I am aware.

Impairment review

To the best of my knowledge, there is nothing to indicate that there is a permanent reduction in the recoverable amount of the property, plant and equipment below their carrying value at the balance sheet date. An impairment review is therefore not considered necessary.

Future commitments

I am not aware of any plans, intentions or commitments that may materially affect the carrying value or classification of assets and liabilities or give rise to additional liabilities.

Subsequent events

I confirm all events subsequent to the date of the financial statements and for which the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 require adjustment or disclosure have been adjusted or disclosed.

Should further material events occur after the date of this letter which may necessitate revision of the figures included

in the financial statements or inclusion of a note thereto, I will advise you accordingly.

Going concern

To the best of my knowledge there is nothing to indicate that the PCC or Group will not continue as a going concern in the foreseeable future. The period to which I have paid particular attention in assessing the appropriateness of the going concern basis is not less than twelve months from the date of approval of the accounts.

Yours sincerely

Mike Tait

Treasurer

Date.....

Appendix B – Draft audit report

INDEPENDENT AUDITOR'S REPORT TO THE POLICE AND CRIME COMMISSIONER FOR NORTHUMBRIA

Opinion on the Authority financial statements

We have audited the financial statements of the Police and Crime Commissioner for Northumbria (PCC) for the year ended 31 March 2016 under the Local Audit and Accountability Act 2014. The financial statements comprise the PCC and Group Movement in Reserves Statements, the PCC and Group Comprehensive Income and Expenditure Statements, the PCC and Group Balance Sheets, the PCC and Group Cash Flow Statements, the Group Pension Fund Accounts and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

This report is made solely to the PCC in accordance with Part 5 of the Local Audit and Accountability Act 2014, and paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the PCC, as a body, for our audit work, for this report or for the opinions we have formed.

Respective responsibilities of the Chief Financial Officer and auditor

As explained more fully in the Statement of the Chief Financial Officer's Responsibilities, the Chief Financial Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the PCC's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Financial Officer; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Narrative Statement to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of the Police and Crime Commissioner for Northumbria as at 31 March 2016 and of its expenditure and income for the year then ended;
- give a true and fair view of the financial position of the Group as at 31 March 2016 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

Opinion on other matters

In our opinion, the information given in the Narrative Statement for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007 and the December 2012 addendum;
- we issue a report in the public interest under section 24, schedule 7 of the Local Audit and Accountability Act 2014;
- we make a recommendation under section 24, schedule 7 of the Local Audit and Accountability Act 2014; or
- we exercise any other special powers of the auditor under the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

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

Respective responsibilities of the PCC and the auditor

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

We are required under section 20 of the Local Audit and Accountability Act 2014 to satisfy ourselves that the PCC has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office, requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the National Audit Office.

We report if significant matters have come to our attention which prevent us from concluding that the PCC has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the PCC's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We are required to conclude whether the PCC has put in place arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

We have planned and undertaken our work in accordance with the Code of Audit Practice as issued by the National Audit Office and had regard to relevant guidance. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the PCC had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of our work, having regard to the guidance on the specified criterion published by the National Audit Office, we are satisfied that, in all significant respects, the Office of the Police and Crime Commissioner for Northumbria put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2016.

Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the authority's Whole of Government Accounts consolidation pack. We are satisfied that this work does not have a material effect on the financial statements or on our value for money conclusion.

Cameron Waddell

Partner

For and on behalf of Mazars LLP, Appointed Auditors

The Rivergreen Centre

Aykley Heads

Durham, DH1 5TS

xx September 2016

Appendix C - Materiality

Materiality is an expression of the relative significance or importance of a particular matter in the context of financial statements as a whole.

Misstatements in financial statements are considered to be material if they, individually or in aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Judgements on materiality are made in light of surrounding circumstances and are affected by the size and nature of a misstatement, or a combination of both. Judgements about materiality are based on consideration of the common financial information needs of users as a group and not on specific individual users.

The assessment of what is material is a matter of professional judgement and is affected by our perception of the financial information needs of the users of the financial statements. In making our assessment we assumed that users:

- have a reasonable knowledge of business, economic activities and accounts;
- have a willingness to study the information in the financial statements with reasonable diligence;
- understand that financial statements are prepared, presented and audited to levels of materiality;
- recognise the uncertainties inherent in the measurement of amounts based on the use of estimates, judgement and the consideration of future events; and
- will make reasonable economic decisions on the basis of the information in the financial statements.

We considered materiality whilst planning and performing our audit.

Whilst planning, we made judgements about the size of misstatements which we considered to be material and which provided a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures.

In 2015/16 we set materiality at the planning stage at £6.122 million (2% of gross revenue expenditure) with a clearly trivial threshold of £0.184 million below which identified errors will not usually be reported. We set lower materiality levels for the accounting entries we consider to be more sensitive, for example, senior officer's remuneration, as we considered these items to be of specific interest to users of the accounts sufficient to warrant audit procedures which would not otherwise be applied based on the materiality level for the audit as a whole. The materiality determined at the planning stage did not necessarily establish an amount below which uncorrected misstatements, either individually or in aggregate, would be considered as immaterial.

We revised materiality for the financial statements as our audit progressed. Our closing assessment of materiality in 2015/16, based upon the final version of the financial statements, was £5.834 million with a clearly trivial threshold of £0.175 million below which identified errors were not reported.

We discussed with management any significant misstatements or anomalies that we identified during the course of the audit, all of which were adjusted.

Appendix D - Independence

As part of our ongoing risk assessment we monitor our relationships with you to identify any new actual or perceived threats to our independence within the regulatory or professional requirements governing us as your auditors.

We can confirm that no new threats to independence have been identified since issuing the Audit Strategy Memorandum and therefore we remain independent.