

# Annual Audit Letter

Office of the Durham Police and Crime Commissioner  
and Chief Constable of Durham Constabulary  
Year ending 31 March 2019





## CONTENTS

1. Executive summary
2. Audit of the financial statements
3. Value for money conclusion
4. Other reporting responsibilities
5. Our fees
6. Forward look

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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 Office of the Durham Police and Crime Commissioner and the Chief Constable of Durham Constabulary (the PCC and CC) for the year ended 31 March 2019. Although this letter is addressed to the PCC and CC, 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 31 July 2019 included our opinion that the financial statements:</p> <ul style="list-style-type: none"><li>• give a true and fair view of the PCC and CC's financial position as at 31 March 2019 and of their expenditure and income for the year then ended; and</li><li>• have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19</li></ul>
Other information published alongside the audited financial statements	<p>Our auditor's report issued on 31 July 2019 included our opinion that:</p> <ul style="list-style-type: none"><li>• the other information in each of the Statements of Accounts is consistent with the audited financial statements.</li></ul>
Value for money conclusion	<p>Our report concluded that we are satisfied that in all significant respects, the PCC and CC have put in place proper arrangements to secure economy, efficiency and effectiveness in their use of resources for the year ended 31 March 2019.</p>
Reporting to the group auditor	<p>In line with group audit instructions issued by the NAO, on 31 July 2019 we reported to the group auditor in line with the requirements applicable to the PCC and CC's WGA return.</p>
Statutory reporting	<p>Our auditor's report confirmed that we did not use our powers under s24 of the 2014 Act to issue a report in the public interest or to make written recommendations to the PCC or CC.</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 PCC and CC and whether they give a true and fair view of the PCC and CC's financial positions as at 31 March 2019 and of their 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 Council'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 auditor's report, issued on 31 July 2019, stated that, in our view, the financial statements give a true and fair view of the PCC and CC's financial position as at 31 March 2019 and of its financial performance for the year then ended.

### 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 materiality 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 Executive Board. 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 2019:

Financial statement materiality	Our financial statement materiality is based on 2% of Gross Revenue Expenditure	Group - £4.109m PCC - £2.886m CC - £4.040m
Trivial threshold	Our trivial threshold is based on 3% of financial statement materiality.	Group - £0.123m PCC - £0.087m CC - £0.121m

1. Executive summary

2. Audit of the financial statements

3. Value for money conclusion

4. Other reporting responsibilities

5. Our fees

6. Forward look

## 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 PCC and CC's financial statements that required special audit consideration. We reported significant risks identified at the planning stage to the PCC and CC 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><b>Management override of controls (Commissioner and Chief Constable)</b></p> <p>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. Because of 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</p>	<p>We addressed this risk by performing audit work in the following areas:</p> <ul style="list-style-type: none"> <li>accounting estimates impacting on amounts included in the financial statements;</li> <li>consideration of identified significant transactions outside the normal course of business; and</li> <li>journals recorded in the general ledger and other adjustments made in preparation of the financial statements.</li> </ul>	<p>We found no evidence of management override of controls</p>
<p><b>Defined benefit liability valuation (Commissioner and Chief Constable)</b></p> <p>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 addressed this risk by discussing with key contacts any significant changes to the pension estimates prior to the preparation of the financial statements for the PCC, CC and Group. In addition to our standard programme of work, we also:</p> <ul style="list-style-type: none"> <li>evaluated the management controls in place to assess the reasonableness of the figures provided by the actuaries; and</li> <li>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.</li> </ul>	<p>Our work has provided us with the assurance we sought. The draft accounts were amended to reflect the impact of legal cases which impacted on pension liabilities of the Commissioner and Chief Constable. These matters were national issues and management have, where material, adjusted the accounts to reflect the impact on the pension liabilities.</p>
<p><b>Property, plant and equipment valuation (Commissioner)</b></p> <p>The PCC's financial statements contain material entries in the Balance Sheet as well as material disclosure notes in relation to the Commissioner's holding of buildings.</p> <p>Although the PCC employs an external valuation expert there remains a high degree of estimation uncertainty associated with the revaluation of PPE due to the significant judgements and number of variables involved.</p>	<p>We considered the PCC's arrangements for ensuring that buildings values are reasonable and used our own expert, engaged by the NAO, to provide data to assess the reasonableness of the valuations provided by the PCC's valuer. We also assessed the competence, skills and experience of the valuer.</p> <p>We performed audit procedures on individual assets to ensure that the basis and level of valuation was appropriate.</p>	<p>Our work has provided us with the assurance we sought and has not highlighted any material issues to bring to your attention.</p>

1. Executive summary

2. Audit of the financial statements

3. Value for money conclusion

4. Other reporting responsibilities

5. Our fees

6. Forward look

## 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. We identified the following deficiencies in internal control as part of our audit.

#### Description of deficiency

Our IT user access testing for leavers in 2018/19 identified a weakness of communication between HR and ICT. In particular, for a small number of individuals we tested we noted that the ICT department did not get notified of leavers and therefore their user account was not disabled in a timely manner. A compensating control is that any user account inactive for 3 months is deactivated.

In addition, we noted an issue with duplicate accounts where users had access to two accounts as their 'old' account was not deleted after a change in role. This again was due to communication between HR and ICT.

#### Potential effects

Leavers are not deactivated in a timely manner, meaning that inappropriate access to business critical systems would be possible. Users with duplicate accounts can access systems which their new role no longer requires.

We confirmed the individuals tested had not accessed the system after they had left the organisation or started their new role. Our testing identified no risk to the financial systems for either of the above matters.

#### Recommendation

While compensating controls are in place the communication arrangements between HR and ICT in regards to the leavers should be improved.

#### Description of deficiency

During our review of related party disclosures we noted that some Senior Officers had not submitted a declaration of interests form for the year ending 31 March 2019.

#### Potential effects

Interests are not declared in a timely manner.

#### Recommendation

We would recommend the Force considers introducing an annual procedure requesting Senior Officers to declare interests (including nil declarations).

### 3. VALUE FOR MONEY CONCLUSION

Value for money conclusion

Unqualified

#### Our audit approach

We are required to consider whether the PCC and CC have 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 PCC and CC had proper arrangements to ensure they 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; and
- working with partners and other third parties.

Our auditor's reports, issued to the PCC and CC on 31 July 2019, stated that that, in all significant respects, the PCC and CC put in place proper arrangements to secure economy, efficiency and effectiveness in their use of resources for the year ended 31<sup>st</sup> March 2019.

Sub-criteria	Commentary	Arrangements in place?
Informed decision making	<p>During the year we reviewed financial, performance and risk management reports. We attended meetings of the Joint Independent Audit Committee. We identified no matters to suggest the Commissioner or Chief Constable were using inappropriate or unreliable information to support decision making.</p> <p>Financial performance was reported at appropriate levels in a timely manner during the year.</p> <p>A Medium Term Financial Plan has been developed. It has been updated to reflect the expected demand and funding of the force.</p> <p>Annual Governance Statements are prepared, reviewed and subsequently approved by the Commissioner and Chief Constable.</p> <p>Internal Audit have delivered to plan and have reported regularly to those charged with governance and the Joint Independent Audit Committee. No significant matters have been identified to suggest a risk.</p> <p>The Joint Audit Committee is in place to provide independent scrutiny of both the Office of the PCVC and the CC. Senior Officers attend the Committee and act on recommendations made.</p>	Yes

1. Executive summary

2. Audit of the financial statements

3. Value for money conclusion

4. Other reporting responsibilities

5. Our fees

6. Forward look

### 3. VALUE FOR MONEY CONCLUSION

Sub-criteria	Commentary	Arrangements in place?
Sustainable resource deployment	<p>The 2018/19 HMICFRS PEEL inspection rated the Constabulary as 'Outstanding' for efficiency. The inspection highlighted the constabulary's ICT strategy as being 'impressive and comprehensive'.</p> <p>The 2018/19 budget was delivered and reserves remain within the acceptable range set by the Commissioner. A comprehensive and balanced Medium Term Financial Plan has been developed which incorporates anticipated funding pressures. The PEEL report details that Durham Constabulary is 'outstanding' in its planning for the future.</p> <p>Demand management work is undertaken to identify areas for future focus and prioritisation. The Constabulary works with other bodies to understand the pressures faced across sectors.</p> <p>Capital spend in the year was below the budgeted position, in particular IT. This is owing to careful consideration of which schemes best meet the need of Durham Constabulary. A capital plan is in place covering the period up to 2022/23.</p>	Yes
Working with partners and other third parties	<p>There are numerous examples of the Constabulary working with partners during the year. Note 21 of the Commissioner's Statement of Accounts details examples of collaboration regionally. The Medium Term Financial Plan includes assumptions regarding future collaboration.</p>	Yes

### 3. VALUE FOR MONEY CONCLUSION

#### Significant audit risks

The NAO's guidance requires us to carry out work to identify whether or not a risk to our conclusion exists. Risk, in the context of our work, is the risk that we come to an incorrect conclusion rather than the risk of the arrangements in place at the PCC and CC being inadequate. In our Audit Strategy Memorandum, we reported that we had identified no significant audit risks.

1. Executive summary

2. Audit of the financial statements

3. Value for money conclusion

4. Other reporting responsibilities

5. Our fees

6. Forward look

## 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 PCC and CC'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 statutory recommendations that must be considered and responded to publicly;
- apply to the court for a declaration that an item of account is contrary to law; and
- issue an advisory notice under schedule 8 of the 2014 Act.

We have not exercised any of these statutory reporting powers.

The 2014 Act also gives rights to local electors and other parties, such as the right to ask questions of the auditor and the right to make an objection to an item of account. We did not receive any such objections or questions.

### 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 31 July 2019.

### 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 PCC and CC. In our opinion, the other information in the Statements of Accounts is consistent with the audited financial statements.

## 5. OUR FEES

### Fees for work as the PCC and CC's auditor

We reported our proposed fees for the delivery of our work in the Audit Strategy Memorandum, presented to the PCC and CC in February 2019.

Having completed our work for the 2018/19 financial year, we can confirm that our final fees are as follows:

Area of work	2018/19 proposed fee	2018/19 final fee
Delivery of audit work under the NAO Code of Audit Practice – Office of the Durham Police and Crime Commissioner	£24,971	£24,971
Delivery of audit work under the NAO Code of Audit Practice – Chief Constable of Durham Constabulary	£11,550	£11,550

### Fees for other work

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

1. Executive summary

2. Audit of the financial statements

3. Value for money conclusion

4. Other reporting responsibilities

5. Our fees

6. Forward look

## 6. FORWARD LOOK

### Financial outlook

The PCC and CC are well aware of the financial challenges facing it in the future. The MTFP has been refreshed and updated for known pressures, events and assumptions as part of the 2018/19 budget setting process. The plan covers 2019/20 to 2022/23 and balanced budgets for each of these years have been set.

The Home Office has indicated that it may review the Police Funding Formula in the near future and this could have an adverse impact on the overall funding available. This would place further pressure on the MTFP, and work has already commenced on scenario planning with a view to identifying specific areas in which expenditure may be reduced.

### Operational challenges

The difficulty in sustaining ongoing service delivery at the same time as finding savings is recognised as a key operational challenge. As summarised in both the PCC's and CC's annual governance statements, other operational challenges include:

- further funding reductions;
- continued focus on collaboration and transformation;
- potential impact of the Strategic Policing Requirement; and
- continued expansion in the commissioning of services

During 2018/19, the Constabulary received a rating of "outstanding" from HMICFRS in its PEEL inspection. There is, therefore, the further challenge of continuing to maintain these high standards, particularly against a backdrop of continued reductions in funding and future uncertainty, alongside increasing demand.

In order to meet these challenges, the Constabulary will require organisational capacity, continued good governance and strong risk and project management arrangements. With a financial outlook that is increasingly challenging, the PCC and CC will need to ensure operational and financial plans deliver statutory duties and consider the needs and expectations of citizens and service users within available resources.

In terms of technical challenges that officers face around the production of the statement of accounts, a key focus for 2019/20 will be the adoption of IFRS 16 which is a new standard which established a new model for lessees and removes existing classifications of operating and finance leases. The impact on the statement of accounts of this new standard could be material, and so should be monitored by the Group.

### How we will work with the Group

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

We will also share with you 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.

1. Executive summary

2. Audit of the financial statements

3. Value for money conclusion

4. Other reporting responsibilities

5. Our fees

6. Forward look

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