

Annual Audit Letter

Office of the Durham Police and Crime Commissioner
Chief Constable of Durham Constabulary
Year ending 31 March 2018





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

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 Office of the Durham Police and Crime Commissioner and the Chief Constable of Durham Constabulary and we take no responsibility to any member or officer in their individual capacity or to any third party.

Mazars LLP is the UK firm of Mazars, an international advisory and accountancy group. Mazars LLP is registered by the Institute of Chartered Accountants in England and Wales.

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 2018. 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 report issued on 27 July 2018 included our opinion that the financial statements:</p> <ul style="list-style-type: none">• give a true and fair view of the PCC and CC's financial position as at 31 March 2018 and of their 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 2017/18.
Other information published alongside the audited financial statements	<p>Our report issued on 27 July 2018 included our opinion that:</p> <ul style="list-style-type: none">• The other information in each of the Statements of Accounts is consistent with the audited financial statements.
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 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 PCC and CC's WGA return.</p>
Statutory reporting	<p>Our 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 2018 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 PCC and CC'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 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 Executive Board. We call this our trivial threshold.

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

Financial statement materiality	Our financial statement materiality is based on 2% of Gross Revenue Expenditure	Group - £2.763m PCC - £2.382m CC - £2.703m
Trivial threshold	Our trivial threshold is based on 3% of financial statement materiality.	Group - £83,000 PCC - £71,000 CC - £81,000

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>Management override of controls</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"> • accounting estimates impacting on 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. 	<p>We found no evidence of management override of controls.</p>
<p>Pension transactions and balances</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"> • evaluated the management controls 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 PSAA. 	<p>Our work has provided us with the assurance we sought and has not highlighted any material issues to bring to your attention.</p>
<p>Valuations of buildings</p> <p>The financial statements contain material entries on the Balance Sheet as well as material disclosure notes in relation to the PCC's holding of buildings.</p> <p>Although the PCC employs an internal valuation expert to provide information on valuations, there remains a high degree of estimation uncertainty associated with the revaluation of buildings 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 did not identify any deficiencies in internal control as part of our audit.

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

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;
- working with partners and other third parties.

Our auditor's reports, issued to the PCC and CC on 27 July 2018, 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 31st March 2018.

Sub-criteria	Commentary	Arrangements in place?
Informed decision making	<p>We reviewed financial, performance and risk management reports throughout the year and attended meetings of the Joint Audit Committee. We did not identify any concerns regarding data quality or the decision-making process.</p> <p>Regular and appropriate finance and performance monitoring is carried out, with financial reporting also being provided to the Exec Board in a regular and timely manner.</p> <p>The MTFS is updated as part of the budget setting process. Annual Governance Statements are prepared, reviewed and subsequently approved by the PCVC and CC.</p> <p>Internal Audit provide regular reports on internal control.</p> <p>The Joint Audit Committee is in place to provide independent scrutiny of both the Office of the PCVC and the CC.</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>Financial and performance reports demonstrate achievement of cost reductions whilst maintaining a rating of 'Outstanding' in the PEEL ratings provided by HMICFRS</p> <p>The Medium Term Financial Strategy reflects scenario planning and incorporates potential funding challenges.</p> <p>Demand management work is undertaken to identify areas for future focus and prioritisation.</p> <p>There is a continuing focus on collaborative arrangements with other blue light services which reduces premises costs.</p>	Yes
Working with partners and other third parties	<p>The most recent PEEL assessment noted the Force's "<i>extensive arrangements for collaborative working across many areas of policing</i>".</p> <p>We have noted numerous examples of this focus on collaborative work and these include:</p> <ul style="list-style-type: none"> • recent joint purchase of a building with other North East PCVCs to ensure receipt of additional Home Office funding; • Ongoing joint work with other regional Forces; • the PCVC's work with the Constabulary and other agencies to ensure priorities, such as Victim Support, are commissioned effectively; and • the agreement with the PCVC for Cleveland to establish two posts to support delivery of local criminal justice objectives. 	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 the Value for Money conclusion exists. Risk, in the context of our value for money conclusion work, is the risk that we come to an incorrect conclusion rather than the risk of the arrangements in place 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 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 PCC and CC 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 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 March 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 – Office of the Durham Police and Crime Commissioner	£32,430	£32,430
Delivery of audit work under the NAO Code of Audit Practice – Chief Constable of Durham Constabulary	£15,000	£15,000

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. 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 2018/19 to 2021/22.

Balanced budgets have been set for 2018/19, 2019/20 and 2020/21 with work ongoing to balance 2021/22.

The Home Office has indicated that it may review the Police Funding Formula in the near future, which could have an adverse impact on the overall funding available. This would place further pressure on the MTFP, and the Group has already commenced detailed work 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:

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

During 2017/18, the Force received a rating of "outstanding" from HMICFRS in its most recent 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.

Meeting these challenges will require organisational capacity, continued good governance and strong risk and project management arrangements.

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 focus our 2018/19 audit on the risks that your challenges present to your financial statements and your ability to maintain proper arrangements for securing value for money.

The Group successfully delivered the 2017/18 Statement of Accounts to the new, earlier deadline. New challenges in 2018/19 include the adoption in the Code of new accounting standards IFRS 9 and IFRS 15. The Group will need to consider the impact these new standards will have on its financial reporting.

1. Executive summary

2. Audit of the financial statements

3. Value for money conclusion

4. Other reporting responsibilities

5. Our fees

6. Forward look

CONTACT

Mark Kirkham

Partner

0113 387 8850

07747 764 529

mark.kirkham@mazars.co.uk

Chris Kneale

Engagement Manager

0191 383 6337

07881 283 953

chris.kneale@mazars.co.uk