

The Joint Audit Findings Report for: Police and Crime Commissioner for Northumbria Chief Constable for Northumbria

Year ended 31 March 2021

July 2022



Contents



Your key Grant Thornton team members are:

Laurelin Griffiths

Key Audit Partner
T +44 (0)121 232 5363
E laurelin.h.griffiths@uk.gt.com

Aaron Gouldman

Audit Manager
T +44 (0)161 214 3678
E aaron.r.gouldman@uk.gt.com

Winnie Oduor

Audit Assistant Manager
T +44 (0)161 953 6451
E winnie.g.oduor@uk.gt.com

Section

- 1. Headlines
- 2. Financial statements
- 3. Value for money arrangements
- 4. Independence and ethics

Appendices

- A. Action plan
- B. Audit adjustments
- C. Fees

Page

- 3
- 5
- 15
- 16

- 18
- 20
- 23

The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the PCC and Chief Constable or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Grant Thornton UK LLP is a limited liability partnership registered in England and Wales: No.OC307742. Registered office: 30 Finsbury Square, London, EC2A 1AG. A list of members is available from our registered office. Grant Thornton UK LLP is authorised and regulated by the Financial Conduct Authority. Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. Services are delivered by the member firms. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.

1. Headlines

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

Financial Statements

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

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

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

Our audit work was completed remotely, predominantly in March and April 2022. Our findings are summarised on pages 5 to 14.

Management made one material adjustment to the financial statements of the Chief Constable and Group prior to the commencement of our audit. This adjustment was required as a result of updated information provided by Tyne and Wear Pension Fund (TWPF) and had no impact on useable reserves.

In addition, a material adjustment has been made in the PCC's financial statements in both the current period and prior periods to correct the treatment of VAT in the valuation of the PCC's specialised property.

We have identified two unadjusted misstatements with the financial statements of the group and PCC, as well as several minor disclosure issues.

Audit adjustments are detailed in Appendix B. We have also raised recommendations for management as a result of our audit work in Appendix A.

Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion for the PCC's financial statements (including the financial statements which consolidate the financial activities of the Chief Constable) or the Chief Constable's financial statements, subject to the receipt and review of the final, signed management representation letters and financial statements.

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

Our anticipated audit reports will be unmodified.

1. Headlines

Value for Money (VFM) arrangements

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

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

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

We have not yet completed all of our VFM work and so are not in a position to issue our Auditor's Annual Report. We expect to issue our Auditor's Annual Report by the JIAC meeting scheduled for 18 July 2022. This is in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements.

We consider whether there are any risks of significant weakness in the PCC's and Chief Constable's arrangements for securing economy, efficiency and effectiveness in their use of resources. In our audit plan we identified several areas of focus for our work, but we have not identified any risks of significant weakness at the time of writing this report. Our work is still underway and an update is set out in the value for money arrangements section of this report.

Statutory duties

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

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

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

We expect to certify the completion of the audit upon the completion of:

- our work on the PCC's and Chief Constable's VFM arrangements, which will be reported in our Auditor's Annual Report in July 2022.
- our work on the group's Whole of Government Accounts (WGA) return. This work is not yet completed and the timelines for this work have not yet been confirmed at the time of writing this report.

Significant Matters

We did not encounter any significant difficulties in performing our audit procedures.

A material adjustment has been made to the financial statements to correct the treatment of VAT in the PCC's specialist property valuations in both current and prior years.

2. Financial Statements

Overview of the scope of our audit

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

As auditors we are responsible for performing the audits, in accordance with International Standards on Auditing (UK) and the Code, which are directed towards forming and expressing an opinion on each set of financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Audit approach

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

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

Conclusion

We have substantially completed our audits of your financial statements and we anticipate issuing unqualified audit opinions on the financial statements of both the PCC and the Chief Constable.

Acknowledgements

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

2. Financial Statements



Our approach to materiality

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

Materiality levels remain the same as reported in our audit plan on 28 February 2022.

We detail in the table opposite our determination of materiality.

	Group	PCC	Chief Constable	Qualitative factors considered
Materiality for the financial statements	£7,600k	£6,600k	£7,500k	This benchmark is determined as a percentage of the entity's Gross Revenue Expenditure in year and considers the business environment and external factors.
Performance materiality	£5,320k	£4,600k	£5,250k	Performance Materiality is based on a percentage of the overall materiality and considers the control environment and the accuracy of accounts and working papers provided.
Trivial matters	£380k	£331k	£375k	Triviality is set at 5% of Headline Materiality.
Materiality for disclosures relating to senior officers' remuneration	£26k	£26k	£26k	Due to the sensitive nature of these disclosures, a separate, lower materiality threshold is set.

We apply the lowest of these materiality figures (£6,600k) for the purposes of our audit work, which equates to 2% of the PCC's gross expenditure.



2. Financial Statements - Significant risks

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

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

Risks identified in our Audit Plan	Relates to	Commentary
<p>Management override of controls</p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.</p> <p>The PCC and Chief Constable face external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>Chief Constable, PCC and Group</p>	<p>We have:</p> <ul style="list-style-type: none"> evaluated the design effectiveness of management controls over journals analysed the journals listing and determined the criteria for selecting high risk unusual journals tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration gained an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. <p>A sample of 30 journals was selected based on consideration of specific risk-based criteria. Testing has not identified any instances of management override of controls, and has provided us with assurance that journal entries are consistent with expectations.</p> <p>We did not identify any changes in accounting policies or estimation processes and review of key estimates has not identified any matters to bring to your attention. In particular, our work on PPE valuations and pension estimates is complete and we have not identified any instances of management override in these estimates.</p>

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Relates to	Commentary
<p>Valuation of land and buildings</p> <p>The PCC and Group revalue their land and buildings on a rolling three-yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£82.6 million as at 31 March 2021 per draft group balance sheet) and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the PCC and Group financial statements is not materially different from the current value at the financial statements date, where a rolling programme is used.</p> <p>We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk of material misstatement.</p>	PCC and Group	<p>We have:</p> <ul style="list-style-type: none"> evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work evaluated the competence, capabilities and objectivity of the valuation expert written to the valuer to confirm the basis on which the valuation was carried out to ensure that the requirements of the Code are met challenged the information and assumptions used by the valuer to assess the completeness and consistency with our understanding tested revaluations made during the year to see if they had been input correctly into the PCC asset register <p>Page 10 provides a detailed assessment of the estimation process for the valuation of the property, plant and equipment. Two significant matters were noted from this work:</p> <p>1) Our review of the underlying assumptions reflected in the valuation of specialised property identified that VAT had incorrectly been included in the valuations of assets valued using the Depreciated Replacement Cost (DRC) method. We challenged management's treatment of this, given that the group can generally recover VAT, and VAT should only be capitalised where irrecoverable. After seeking advice on the matter, management have agreed that VAT should be excluded from these valuations, and have adjusted the financial statements appropriately for this. As this issue would have had a material adjustment in previous years, a prior period adjustment was required to restate the comparative figures in the audited 2020/21 financial statements.</p> <p>2) Our review of the revaluations process and workings identified that while management's stated revaluation date was set at 1 April 2020, the effective date of the valuation calculations was 31 March 2021. While we consider this to be appropriate for the valuations' accuracy, we consider that the full year's depreciation charge on buildings is inappropriate and leads to the buildings being understated by the amount of the depreciation charge (£1,406k- revised following accounts adjustment). This is because the valuations performed already take into account the aging of the asset in the 2020/21 financial year. As the valuations are effective at 31 March 2021, the depreciation charge in year should be calculated on the opening balance and reversed out on valuation. Management's accounting policy should be updated to reflect the effective valuation date of 31 March. Management have not adjusted the accounts to reflect this matter and it is reported as an unadjusted misstatement in Appendix B.</p> <p>We have requested specific representations relating to this unadjusted misstatement within the letter of representation.</p> <p>Our work on this area is complete.</p>

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Relates to	Commentary
<p>Valuation of pension fund net liability</p> <p>The Group's pension fund net liability is made up of amounts relating to the Local Government Pension Scheme (£225m) and the Police Pension and Injury Award Schemes (£4,364m). These liabilities, totalling £4,589m in the Group balance sheet, represent a significant estimate in the financial statements that is sensitive to changes in key assumptions.</p> <p>The methods applied in the calculation of the IAS 19 estimates are routine and commonly applied by all actuarial firms in line with the requirements set out in the Code of practice for local government accounting (the applicable financial reporting framework). We have therefore concluded that there is not a significant risk of material misstatement in the IAS 19 estimate due to the methods and models used in their calculation.</p> <p>The source data used by the actuaries to produce the IAS 19 estimates is provided by administering authorities and employers. We do not consider this to be a significant risk as this is easily verifiable.</p> <p>The actuarial assumptions used are the responsibility of the entity but should be set on the advice given by the actuary. A small change in the key assumptions (discount rate, inflation rate, salary increase and life expectancy) can have a significant impact on the estimated IAS 19 liability. In particular the discount rate, where our consulting actuary has indicated that a 0.1% change in these two assumptions would have approximately 2% effect on the liability. We have therefore concluded that there is a significant risk of material misstatement in the IAS 19 estimate due to the assumptions used in their calculation. With regard to these assumptions we have therefore identified valuation of the Chief Constable's pension fund net liability as a significant risk.</p>	Chief Constable and Group	<p>We have:</p> <ul style="list-style-type: none"> • updated our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluated the design of the associated controls; • evaluated the instructions issued by management to their management experts (actuaries) for this estimate and the scope of the actuaries' work; • assessed the competence, capabilities and objectivity of the actuary who carried out the pension fund valuation; • assessed the accuracy and completeness of the information provided by the Chief Constable to the actuaries to estimate the liabilities; • tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial reports from the actuaries; • undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as the auditor's expert) and performing any additional procedures suggested within the report; and • obtained assurances from the auditor of Tyne and Wear Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the Tyne and Wear Pension Fund financial statements. <p>Page 11 provides a detailed assessment of the estimation process for the valuation of the pension fund net liability. From review of the report of the consulting actuary (as auditor's expert), we have identified that the CPI assumption used by GAD in calculating the police pension liability is outside of expectations. We have consulted with internal actuarial colleagues with regards to this and concluded that there is no material impact.</p> <p>Other assumptions in calculating the net pension liability of both schemes are considered to be in line with expectations and we have not identified any issues with the estimation process.</p> <p>Our work on the net pension liability is now complete.</p> <p>We note that management adjusted the financial statements before the commencement of our audits for an understatement in the valuation of the Tyne and Wear Pension Fund's assets. This has resulted in a decrease in the Chief Constable's net pension liability of £7,610k, as set out in Appendix B.</p>

2. Financial Statements - key judgements and estimates

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

Significant judgement or estimate	Relates to	Summary of management's approach	Audit Comments	Assessment
Land and Building valuations £83m	PCC	<p>Management engage their qualified internal valuer and estates team to perform the valuation of their land and buildings.</p> <p>The valuations are undertaken on a 3 year rolling programme. The largest three assets are valued each year on a Depreciated Replacement Cost basis. The remaining operational assets are revalued across the 3 year programme on a geographic basis, between the Northern, Southern and Central regions.</p> <p>In the year ended 31 March 2021, only the Northern freehold assets were formally revalued, but a decision was made in 2021 to do a full desktop valuation. The accounting date of the valuations is 1 April 2020 however the valuations are prepared using information relevant at the 31 March 2021 balance sheet date.</p> <p>Assumptions are selected by the valuer in accordance with the Valuation – Global Standards of the Royal Institution of Chartered Surveyors (RICS). Management review these assumptions and challenge where necessary.</p> <p>The total year end valuation of land and buildings was £83m, a net increase of £1m from 2019/20 (£82m).</p>	<p>We have:</p> <ul style="list-style-type: none"> • Deepened our risk assessment procedures performed including understanding management's processes and controls for the determination of the estimates. This included understanding methods, assumptions and data used, as well as instructions issued to management's experts and the scope of their work. • Assessed the competence, capability and objectivity of management's expert • Tested the completeness and accuracy of the underlying information used to determine the estimate • Worked with the valuer to understand the basis on which the valuations were carried out and considered whether the requirements of the Code were met • Challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding, for example by agreeing to 3rd party RICS information • Tested revaluations made during the to confirm that they had been input correctly into the fixed asset register • Considered the reasonableness of changes in estimated values based on all of the available evidence and wider sector knowledge • Considered the adequacy of the disclosure of the estimates in the financial statements. <p>The work performed identified two issues which are explained on page 8:</p> <ol style="list-style-type: none"> 1) VAT has been inappropriately included in the valuation of specialised buildings. This materially affects the current and prior year figures, requiring a prior period adjustment. 2) In our assessment the effective valuation date is at the balance sheet date, and not 1 April as adopted by management in the financial statements. This gives rise to a valuation understatement of £1.4m since depreciation has been 'double charged' on the affected assets. Management declined to adjust for this on grounds of materiality, but have agreed to review their valuation process going forward. <p>Following review of the final set of accounts, we are satisfied that the land and buildings valuation is reasonably stated and free of bias.</p>	<p>We consider management's process is appropriate and key assumptions are neither optimistic or cautious</p>

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Relates to	Summary of management's approach	Audit Comments	Assessment																
Net pension liability £4,589m	Chief Constable	<p>The actuarial gains and losses figures are calculated by PCC & Chief Constable's actuarial experts. These figures are based on making % adjustments to the closing values of assets/liabilities.</p> <p>The Group's total net pension liability at 31 March 2021 is £4,589m (PY £4,161m).</p> <p>The Group use Aon Ltd and the Government Actuary's Department to provide actuarial valuations of the Authority's assets and liabilities derived from these schemes) A full actuarial valuation is required every three years.</p> <p>The latest full actuarial valuation was completed in 2019 for LGPS, and 2020 for PPS. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £284m net actuarial loss during 2020/21.</p>	<p>We have:</p> <ul style="list-style-type: none">Deepened our risk assessment procedures performed including understanding management's processes and controls for the determination of the estimates. This included understanding methods, assumptions and data used, as well as instructions issued to management's experts and the scope of their work.Undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performed additional procedures as suggested in the report. See below for consideration of key assumptions in the PPS liability: <table><tr><th>Assumption PPS</th><th>Actuary Value PPS</th><th>PwC range</th><th>Assessment</th></tr><tr><td>Discount rate</td><td>2.00%</td><td>2.00%</td><td>●</td></tr><tr><td>Pension increase rate</td><td>2.40%</td><td>> 2.50%</td><td>●</td></tr><tr><td>Salary growth</td><td>4.15%</td><td>4.15%</td><td>●</td></tr></table> <ul style="list-style-type: none">There have been no changes to the valuation method since the previous year, other than the updating of key assumptions above, and no issues were noted with the completeness and accuracy of the underlying information used to determine the estimate. <p>From review of the report of the consulting actuary (as auditor's expert), we have identified that the CPI assumption used by GAD in calculating the police pension liability is outside of expectations. We have engaged our own internal actuarial experts to consider the impact of this, and concluded that there is no material impact.</p> <p>As noted on page 9, our work on pension liabilities is now completed.</p>	Assumption PPS	Actuary Value PPS	PwC range	Assessment	Discount rate	2.00%	2.00%	●	Pension increase rate	2.40%	> 2.50%	●	Salary growth	4.15%	4.15%	●	<p>We consider management's process is appropriate and key assumptions are neither optimistic or cautious</p>
Assumption PPS	Actuary Value PPS	PwC range	Assessment																	
Discount rate	2.00%	2.00%	●																	
Pension increase rate	2.40%	> 2.50%	●																	
Salary growth	4.15%	4.15%	●																	

2. Financial Statements - other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

Issue	Commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the PCC & Chief Constable, and with the Joint Independent Audit Committee. We have not been made aware of any incidents in the period and no issues have been identified during the course of our audit procedures
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Written representations	Letters of representation will be requested from both the PCC and the Chief Constable, including specific representations in respect of the group financial statements and the unadjusted misstatements.
Confirmation requests from third parties	We requested from management permission to send confirmation requests in relation to cash, investment and borrowing balances. This permission was granted and the requests were sent. All of these requests were returned with positive confirmation.
Accounting practices	We have evaluated the appropriateness of the PCC's & Chief Constable's accounting policies, accounting estimates and financial statement disclosures. Our work on Property Plant & Equipment identified that management's reported property valuation date (1 April) does not align with the effective date of the valuation work performed by the internal valuer (31 March), see Appendix B.
Audit evidence and explanations / significant difficulties	All information and explanations requested from management were provided. Working papers were of a good standard and replies were provided on a timely basis.

2. Financial Statements - other communication requirements



Our responsibility

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

Issue	Commentary
Going concern	<p data-bbox="871 464 2056 608">In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies.</p> <p data-bbox="871 620 2016 675">Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities:</p> <ul data-bbox="871 687 2074 987" style="list-style-type: none"> • the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities • for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Our consideration of the PCC's and Chief Constable's financial sustainability is addressed by our value for money work, which is covered elsewhere in this report. <p data-bbox="871 1000 2047 1144">Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the PCC and Chief Constable meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated:</p> <ul data-bbox="871 1157 2027 1332" style="list-style-type: none"> • the nature of the PCC and Chief Constable and the environment in which they operate • the PCC's and Chief Constable's financial reporting framework • the PCC's and Chief Constable's system of internal control for identifying events or conditions relevant to going concern • management's going concern assessment. <p data-bbox="871 1345 2051 1367">On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that:</p> <ul data-bbox="871 1380 2072 1476" style="list-style-type: none"> • a material uncertainty related to going concern has not been identified for either the PCC or Chief Constable. • management's use of the going concern basis of accounting in the preparation of both sets of financial statements is appropriate.

2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Other information	<p>We are required to give an opinion on whether the other information published together with each set of audited financial statements (including the Annual Governance Statement and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p> <p>No inconsistencies have been identified.</p>
Matters on which we report by exception	<p>We are required to report on a number of matters by exception in a number of areas:</p> <ul style="list-style-type: none"> • if the Annual Governance Statements do not comply with disclosure requirements set out in CIPFA/SOLACE guidance or are misleading or inconsistent with the information of which we are aware from our audits, • if we have applied any of our statutory powers or duties. • where we are not satisfied in respect of arrangements to secure value for money and have reported a significant weakness. <p>We have nothing to report on these matters.</p>
Specified procedures for Whole of Government Accounts	<p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.</p> <p>This work is not yet completed and the timelines for this work have not yet been confirmed. We anticipate that no work will be required as the group has previously been below the audit threshold determined by the NAO.</p>
Certification of the closure of the audit	<p>We intend to delay the certification of the closure of the 2020/21 audits of the PCC and Chief Constable in the audit reports, due to the following work being incomplete:</p> <ul style="list-style-type: none"> • work on the group's arrangements to secure value for money; and • required procedures on the PCC's WGA return.



3. Value for Money arrangements

Revised approach to Value for Money work for 2020/21

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

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

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

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



Improving economy, efficiency and effectiveness

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



Financial Sustainability

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



Governance

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

Potential types of recommendations

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



Statutory recommendation

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



Key recommendation

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



Improvement recommendation

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

We have not yet completed our VFM work and so are not in a position to issue our Auditor's Annual Report. We expect to issue our Auditor's Annual Report by July 2022, in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements.

We have not identified any risks of significant weaknesses in arrangements at the time of writing this report.

4. Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Authority's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Authority's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

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

Details of fees charged are detailed in Appendix C.

Transparency

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

Audit and non-audit services

Grant Thornton UK LLP provided a Tax and VAT Helpline service to the PCC during the 2020/21 and 2021/22 financial years. This Helpline was provided to answer non-complex queries on tax and VAT treatments. The Helpline was last used in June 2021, prior to our appointment as the group's external auditors on 27 October 2021. The service ceased on our appointment. The Helpline was provided by a separate team of tax specialists within Grant Thornton UK LLP, who will have no involvement in the external audit process.

Full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms are included in the table below.

Service	Fees £	Threats	Safeguards
Audit related			
None identified			
Non-audit related			
Tax and VAT Helpline (April 2020 – October 2021)	1,200	Self-Interest Familiarity	The level of recurring fees taken on their own is not considered a significant threat to independence as the fee for this work is £1,200 in comparison to the confirmed scale fee for the audit of £42,967 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. The service was provided by a separate team of tax specialists within Grant Thornton UK LLP, who will have no involvement in the external audit process. These factors mitigate the perceived threat to an acceptable level.

Appendices

A. Action plan – Audit of Financial Statements

Controls

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

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

Assessment	Relates to	Issue and risk	Recommendations
High	Group	<p>The results of our work on the design effectiveness of the IT general controls environment identified an instance of inappropriate access rights having been granted. The combination of privileges granted creates a risk that system-enforced internal controls could be bypassed. This could lead to:</p> <ul style="list-style-type: none"> • Unauthorised changes being made to system parameters; • Creation of unauthorised accounts; • Unauthorised updates to a users own account privileges; and • Deletion of audit logs or disabling logging mechanisms. 	<p>Access should be based on the principle of least privilege and commensurate with job responsibilities. Management should review access rights assigned to privileged system users to identify and remove conflicting access rights.</p> <p>If incompatible business functions are granted to users due to organisational size constraints, management should ensure that there are review procedures in place to monitor activities.</p> <p>Management response</p> <p>Management accept the auditors recommendation and will implement this change to this user's access.</p>
Low	Group	<p>Our work on assessing the design effective of the IT general controls identified three improvement recommendations to strengthen controls around password policies, the granting of user access rights and policies around IT change management.</p>	<p>These were discussed with management and management accepted the best practice recommendations and agreed to implement during current finance year 22/23.</p>
Medium	Chief Constable	<p>Our work on pension fund lump sums found instances of lump sum payments in 2021/22 being reported in 2020/21.</p> <p>Further investigation identified that this issue was also present in 2019/20, and the net error on the 2020/21 reported lump sum payments figure was trivial in value.</p>	<p>Management should consider the processes in place for accounting for lump sum payments, and whether improvements can be made to avoid similar issues arising in future years.</p> <p>Management response</p> <p>Management accept the auditors recommendation and will ensure that the current process is reviewed to ensure that all Lump Sum payments raised during March each year relate to the financial year ended 31 March and are not posted in advance for early April retirements.</p>

A. Action plan – Audit of Financial Statements

Controls

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

Assessment	Relates to	Issue and risk	Recommendations
Medium	PCC	<p>As part of reviewing the useful lives of assets on the Asset Register, our testing found that some assets had been decommissioned or replaced, but were still showing in the register, albeit fully depreciated.</p> <p>We gained assurance through the completion of follow up work that there was not a risk of material misstatement arising from the issue.</p>	<p>Management should actively review the full asset register each year, especially for assets which are fully depreciated, to ensure that any assets no longer owned are removed from the register. This will avoid overstatement of gross asset values.</p> <p>Management response</p> <p>We accept the recommendation and will undertake a review of fully depreciated assets on an annual basis as part of the capital accounting process to ensure that gross asset values and cumulative depreciation are not overstated.</p>
Medium	PCC	<p>As part of our capital additions testing in our work on Property Plant & Equipment, we identified a vehicle purchase that had been accounted for in 2020/21 but should not have been recognised until 2021/22.</p> <p>The item identified was clearly trivial at £55k. We performed additional sample testing of vehicles additions and did not find any similar errors. Similar trivial value errors were noted from our testing of invoices received in the new year.</p> <p>Included within Appendix C is our extrapolated error estimated based on our factual findings.</p>	<p>Management should consider the processes in place for accruing year-end purchases, and whether improvements can be made to avoid similar issues arising in future years.</p> <p>Management response</p> <p>We will undertake a review of the process to ensure that no similar issues are incurred in future years.</p>

B. Audit Adjustments

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

Impact of adjusted misstatements

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

Detail	Relates to	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £'000
<p>A current and prior period adjustment was made to correct the VAT accounting treatment in the valuation of the PCC's specialised property. VAT had been incorrectly capitalised for these assets, going back several years.</p> <p>Current year depreciation was subsequently reduced and amended as commensurate with the lower asset values.</p> <p>These adjustments had no impact on the general fund.</p>	PCC and Group	(171)	(8,427)
<p>Management adjusted for revised pension fund asset investment returns within the Tyne and Wear Pension Fund following receipt of updated information provided by the Fund after the date of publication of the Draft Statements of Account for the Chief Constable and the Group. The increased returns led to an increase in the value of the assets within the Chief Constable's net pension liability, and an increase on the return on assets within other comprehensive income.</p> <p>This adjustment had no impact on the general fund.</p>	Chief Constable	(7,610)	7,610
Overall impact		(7,781)	(817)

B. Audit Adjustments

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

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2020/21 audit which have not been made within the final set of financial statements. The PCC is required to approve management's proposed treatment of all items recorded within the table below.

Detail	Relates to	Reason for not adjusting	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £'000
Operational buildings have been revalued as at 31 March 2021 but processed with an effective date of 1 April 2020. A full year's depreciation has been charged on these assets, meaning they are held in the balance sheet at a lower value than that provided by the valuer. The value of these assets is therefore understated. This adjustment would have no impact on the general fund.	PCC	Immaterial for 2020/21 financial year Valuation method under review for 2021/22	(1,364)	1,364
Testing of capital additions identified items that had been accounted for in 2020/21 but should have been included in 2021/22. We have determined an estimate of the potential impact of this error by extrapolating our findings – indicating a potential overstatement of PPE of £1,402k, with a corresponding overstatement of the PCC's creditor balances.	PCC	Extrapolated figure Controls to be reviewed for 2021/22		(1,402) 1,402
Overall impact			(1,364)	1,364

Impact of prior year unadjusted misstatements

There were no prior year unadjusted misstatements for either the PCC or the Chief Constable.

B. Audit Adjustments

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

The final set of accounts remains subject to review ahead of closure of the audit.

Disclosure	Relates to	Auditor recommendations	Adjusted?
Movement in Reserves Statement	Group only	The presentation of the Group Movement in Reserves Statement is technically not compliant with the requirements of the Code. We are satisfied that the information presented within the statement is fairly presented, and that this non-compliance would have had no impact on how the reader of the financial statements would interpret and understand the PCC's and Group's performance and financial position.	✓
Note 1 - EFA	All	Changes have been made to the EFA in order to more clearly reflect the changes between the outturn reported to management and the public, and the outturn per the financial statements.	✓
Note 4 - Critical Judgements	All	We noted that in the draft financial statements, the disclosure of 'critical judgements in applying accounting policies' did not fully meet the requirements of the Code and IAS 1. Management agreed to review the adequacy of this disclosure note going forward from 2021/22.	X
Note 6 - Estimation Uncertainty	All	We noted that in the draft financial statements, the disclosure of 'assumptions made about the future and other major sources of estimation uncertainty' did not fully meet the requirements of the Code and IAS 1. Management agreed to review the adequacy of this disclosure note going forward from 2021/22.	X
Note 10 – Audit Fees	All	Disclosures of fees paid have been amended to reflect additional fees for earlier years in the year in which the expenditure was recognised.	✓
Note 16 – Non-Current Assets	PCC	Changes have been made to the disclosures and narrative in Note 16 to bring this in line with Code requirements and with the PCC's own revaluation processes. Notably, the table of valuations (p77 of the draft financial statements) has been amended to reconcile in total to the current year end balance, and therefore show the reader the age of the valuations included in the balance sheet, rather than presenting previous balances at each year end.	✓
Note 21 - Financial Instruments	PCC	The disclosure has been amended to include the PCC's cash as a financial asset.	✓
Unusable Reserves	PCC	The movements in the PCC's unusable reserves were not fully disclosed in the draft financial statements. We requested that this be made clearer in a separate note to the accounts.	✓
Various	All	A number of other more minor changes have been agreed with management in relation to disclosure notes and accounting policies throughout the financial statements to improve accuracy, clarity and understandability.	✓

C. Fees

We confirm below our final fees charged for the audit. These are as communicated in our audit plan on 28 February 2022, with the addition of £3,000, charged to the PCC audit, for additional work required in respect of the prior period adjustment processed by management.

For details of the non audit services provided prior to appointment see page 16. There were no other audited related services undertaken for the PCC and Chief Constable.

Audit fees	PSAA scale fee	Final proposed fee
PCC Audit	£28,529	£46,529
Chief Constable Audit	£14,438	£20,938
Total audit fees (excluding VAT)	£42,967	£67,467

The PSAA scale fees reconcile to the financial statements. Our proposed final fees are subject to PSAA approval.

