The Joint Audit Findings for

Police and Crime Commissioner for Northumbria and Chief Constable for Northumbria

Year ended 31 March 2022

16 August 2023

Contents

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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, the Chief Constable and the group 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.

1. Headlines

This table summarises the key findings and other matters arising from the statutory audits of Police and Crime Commissioner ('the PCC') for Northumbria and the Chief Constable for Northumbria ('the Chief Constable') and the preparation of financial statements for the year ended 31 March 2022 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 position of the respective entity'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 the 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 predominantly took place remotely during January and February 2023. Our work is now finalised and our findings to date are summarised on pages 5 to 16. The financial statements and supporting working papers were provided ahead of time. Local Government accounts are now incredibly complex, require greater technical input and are subject to greater regulatory burden than ever before. The finance team have been responsive to our audit queries, and we thank them for their hard work throughout the audit. We have identified adjustments to the primary financial statements, and these are shown in Appendix C. Non-material and unadjusted errors and disclosure points are also detailed in Appendix C. We have not identified any recommendations for management as a result of our current year's audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B. Our work is complete, and there are no matters of which we are aware that would require modification of our expected audit opinions, or further material changes to the financial statements. We have concluded that the other information to be published with the financial statements is consistent with our knowledge of your organisations and the financial statements we have audited. Our audit report opinions on the Chief Constable's, and the PCC and Group's financial statements 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 the PCC, the Chief Constable and the group has 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 PCC, the Chief Constable and the group's 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 PCC, the Chief Constable and the group's arrangements under the following specified criteria:

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

We have finalised our VFM work and we can now issue our Auditor's Annual Report. The national deadline set by DLUHC of 30 September was moved to 30 November for 2021/22 only. Under the 2020 Code of Audit Practice we are required to communicate any delays beyond 30 September (the original deadline) to Those Charged with Governance. Separate audit letters explaining the reasons for the delay were sent to the PCC and Chief Constable.

We expect to issue our Auditor's Annual Report in August 2023. 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.

As part of our work, we considered whether there were any risks of significant weakness in the PCC, the Chief Constable and the group's arrangements for securing economy, efficiency and effectiveness in its use of resources. We did not identify any risks of significant weakness from our risk assessment performed. We identified the following areas of focus:

- Your arrangements for setting the Medium Term Financial Plan and capital strategy and achieving financial sustainability.
- Your arrangements for service transformation and innovation.
- Your arrangements for working with your key partners to deliver services efficiently and improve the lives of local residents.
- Your governance arrangements, and in particular a consideration of the end to end decision making between the Force and the PCC

Our work on these areas of focus is complete and no areas of significant weakness were identified. More detail 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 audit.

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

We have completed the majority of work under the Code, and we plan to certify the completion of the audit at the time that we issue the audit opinions, as we will have completed both of the following:

- Our work on the PCC's and the Chief Constable's VFM arrangements, as set out above. We will be report this separately in our Annual Auditor's Report by 31 August 2023.
- Specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. The NAO has confirmed that no detailed work will be required for the group due to the entity falling below the WGA materiality threshold.

Significant Matters

We did not encounter any significant difficulties during the audit. Significant matters arising during our audit are described in the body of the report.

We note there was a significant delay in receiving responses to our initial inquiries of management and those charged with governance. These planning procedures help to determine our audit strategy and so late information could result in us having to revise the work performed to date. We must emphasise the need to provide timely responses in advance of audit fieldwork commencing for future audits.

2. Financial Statements

Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit 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 those charged with governance.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming and expressing an opinion on the 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 Group's, PCC's and the Chief Constable's business and is risk based, and in particular included:

- An evaluation of the PCC's and the Chief Constable's internal controls environments, including its IT systems and controls;
- 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 completed our audit of your financial statements and plan to imminently issue unmodified audit opinions for the Chief Constable's, the PCC's and Group's financial statements, subject to receiving and checking the final, signed, financial statements and letters of representation.

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 communicated at JIAC in September 2022.

We detail in the table on this page our determination of materiality.

	Group (£000)	PCC (£000)	Chief Constable (£000)	Qualitative factors considered
Materiality for the financial statements	6,300	**5,200**	6,300	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	4,400	**3,600**	4,400	Performance Materiality is based on a percentage of the overall materiality and considers the control environment/ accuracy of accounts and working papers provided.
Trivial matters	320	**260**	310	Triviality is set at 5% of Headline Materiality. This is the level at which matters are determined to be significant enough to warrant reporting to Those Charged with Governance.
A specific materiality of £21,500 was set for officer remuneration disclosures, reflecting the increased sensitivity of these disclosures.				

We determined financial statement materiality based on a proportion of the gross expenditure of the group, the PCC and the Chief Constable for the financial year. In the prior year we used the same benchmark.

For our audit testing purposes we apply the lowest of these materiality levels, which is £5,200k (PY £6,600k), which equates to just under 1.5% of the PCC's gross expenditure for the year.

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
Management override of controls Under ISA(UK) 240 there is a non-rebuttable presumed risk that the risk of management override of controls is present in all entities. 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. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk of material misstatement	Group, PCC and Chief Constable	In response to the risk highlighted in the audit plan we have undertaken the following work: • 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 ad after the draft accounts stage for appropriateness and corroboration; • Gained an understanding of the accounting estimates and critical judgements applied made by management and considered their reasonableness with regard to corroborative evidence; and • Evaluated the rationale for any change in accounting policies, estimates or significant unusual transactions. Conclusion Our testing is complete and our work has not identified any material issues in relation to management override of controls.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Relates to	Commentary
ISA240 revenue risk Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.	Rebutted	Having considered the risk factors set out in ISA (UK) 240 and the nature of the revenue streams at the PCC, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • There is little incentive to manipulate revenue recognition • Opportunities to manipulate revenue recognition are very limited; and • The culture and ethical framework of local authorities, including the PCC, mean that all forms of fraud are seen as unacceptable. Therefore we do not consider this to be a significant risk for the PCC or the Group. For the Chief Constable, revenue is received solely from the PCC and is recognised to fund costs and liabilities relating to resources consumed in the direction and control of day-to-day policing. This is shown in the Chief Constable's financial statements as a transfer of resource from the PCC to the Chief Constable for the cost of policing services. Therefore we do not consider this to be a significant risk for the Chief Constable. Furthermore, there have been no findings in our audit fieldwork that would change our assessment reported in the audit plan. Conclusion Our audit work in this area is complete and has not identified any issues in respect of revenue recognition.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Relates to	Commentary
Valuation of land and buildings The PCC and Group revalue their land and buildings on a rolling five-yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£83m as at 31 March 2022) 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 or the fair value [for surplus assets] at the financial statements date, where a rolling programme is used. We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk of material misstatement.	PCC and group	In response to the risk highlighted in the audit plan we have undertaken the following work: • 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; • with input from internal valuation specialists, we have 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 and Group asset register; and • evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different from current value at year end. **Conclusion** Our work is complete and has not identified any material issues in relation to the valuation of land and buildings.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Relates to	Commentary
Valuation of pension net liability The group's pension net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements. The pension net liability is considered a significant estimate due to the size of the numbers involved (£4,601m in the group's balance sheet) and the sensitivity of the estimate to changes in key assumptions. 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. 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. 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 and inflation rates, where our consulting actuary has indicated that a 0.1% change in the 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 estimates due to the assumptions used in their calculation. With regard to these assumptions we have therefore identified valuation of the pension net liability as a significant risk.	Chief Constable and group	In response to the risk highlighted in the audit plan we have undertaken the following work: • updated our understanding of the processes and controls put in place by management to ensure that the group'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 actuaries who carried out the pension fund valuations; • assessed the accuracy and completeness of the information provided by the group to the actuaries to estimate the liabilities; • tested the consistency of the pension fund net liabilities and disclosures in the notes to the core financial statements with the actuarial reports from the actuaries; and • undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as an auditor's expert) and performing any additional procedures suggested within the report. We also requested assurances from the auditor of the Tyne and Wear Pension Fund as to the controls surrounding the validity and accuracy of membership data and benefits data sent to the LGPS actuary by the pension fund and the fund assets valuation in the pension fund financial statements. The assurance letter was provided on 24 March 2023 and gave rise to a non-material understatement of the Chief Constable's share of the pension fund's assets. This has been discussed with management and included in Appendix C within the Unadjusted Misstatements table. Due to the timing of this report, we were not able to complete the audit before the results of the 2022 triennial review were finalised. The results of this review provided better information on the pension fund than had initially been used in the financial statements, as these were based on the rolled forward results of the 2019 valuation. This led the PCC and Chief Constable to commission revised IAS19 reports from the scheme actuary, which resulted in material adjustment to the Chief Constable and Group's liability position. We have also requested further assurances from the pension fund auditor surrounding the accuracy of member data used in this triennial revaluation. These were received in early August 2023, and following our evaluation of this work we were able to conclude our work. **Conclusion** Our work is complete following the resolution of all material issues in relation to the valuation of the net pension liability.

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	Summary of management's approach	Audit Comments	Assessment
Land and Building valuations £83m (PCC and Group)	Land and buildings comprises £83m of assets such as police stations and custody suites, which are required to be valued at current value. The PCC has engaged its internal valuer to complete the valuation of all land and buildings as at 31 March on a three yearly cyclical basis. In order to ensure that the carrying value of all land and buildings as at 31 March 2022 is not materially different to the current value, this is supplemented by an annual review to identify assets that need to be revalued. This meant that 85% of assets were revalued in year.	We reviewed your assessment of the estimate considering: • Revised ISA 540 requirements; • Assessment of management's expert to be competent, capable and objective; • Completeness and accuracy of the underlying information used to determine the estimate; • Review of methodology and assumptions performed by internal valuation specialist colleagues; • Reasonableness of increase/decrease in estimates on individual assets; • Consistency of estimate against the Gerald Eve report on property market trends, and reasonableness of the decrease in the estimate; and • Adequacy of disclosure of estimate in the financial statements. All your buildings have been appropriately valued by the instructed valuer. We noted that there has been no changes in assumptions from the previous years and these are outlined in your accounting policies. Conclusion: Our work is complete and has not identified any material issues in relation to Valuation of land and buildings.	We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements – key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Net pension liability – £4,576m (Chief Constable and Group)	The PCC and Chief Constable's total net pension liability at 31 March 2022 is £4,576m (PY £4,518m) comprising the organisation's share of the Tyne and Wear Local Government Pension Scheme, and the Police Pension Scheme. The liabilities of the Police Pension and Compensation Schemes have been assessed by the Government Actuary's Department (GAD). The LGPS fund liabilities have been assessed by Aon Solutions to provide actuarial valuations of the group's assets and liabilities are derived from these schemes, utilising key assumptions such as life expectancy, discount rates and salary growth. Given the significant value of the net pension liability, small changes in assumptions can result in significant valuation movements.	• We have obtained an understanding of the processes and controls put in place by management to ensure the group's pension fund net liability is not materially misstated and evaluated the design of associated controls; • We have assessed the competence, capabilities and objectivity of the actuaries who carried out the pension fund valuation for LGPS and PPS; • We have assessed the impact of any changes to the valuation method; • We have assessed the accuracy and completeness of information provided by management to the actuary to estimate the liability; • We have used PwC as our auditor's expert to assess the actuaries and assumptions made by actuaries - see table below and on page 15 for comparison with the actuaries assumptions.	We consider management's process is appropriate and key assumptions are neither optimistic or cautious

LGPS Assumption	Actuary Value	PwC range	Assessment
Discount rate	2.70%	2.70% - 2.80%	●
Pension increase rate	2.90%	2.80% - 3.10%	●
Salary growth	4.40%	1.0% to 1.5% p.a. above CPI	●
Life expectancy at 65 Males currently 45 / 65	Current - 21.5 years Future – 22.8 years	Current - 20.7 - 22.8 years Future - 22.5 - 24.7 years	●
Life expectancy at 65 Females currently 45 / 65	Current – 24.5 years Future - 26.0 years	Current - 23.6 - 25.4 years Future - 25.0 - 27.1 years	●

2. Financial Statements – key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Net pension liability – £4,576m (Chief Constable and Group)	See previous page.	See table and conclusion below	We consider management's process is appropriate and key assumptions are neither optimistic or cautious

PPS Assumption	Actuary Value	PwC range	Assessment
Discount rate	2.65%	2.65%	●
Pension increase rate	3.00%	3.00%	●
Salary growth	4.75%	4.75%	●
Life expectancy at 65 Males currently 45 / 65	Current - 22.1 years Future - 23.8 years	Current - 21.5 - 22.1 years Future - 23.2 - 23.8 years	●
Life expectancy Females currently 45 / 65	Current - 23.8 years Future - 25.4 years	Current - 21.5 - 23.8 years Future - 23.2 - 25.4 years	●

Conclusion

Following the receipt of the assurance letters from the auditor of Tyne and Wear Pension Fund, we have been able to satisfactorily conclude our audit testing procedures.

We are satisfied with the appropriateness of the material adjustments made to the group's pension liabilities and assets, as notified by the Tyne and Wear Pension Fund.

No other matters have been identified.

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 the Joint Independent Audit Committee. We have not been made aware of any other incidents in the period and no other 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	We identified in the draft AGS the disclosure of a data breach during the financial year, which led to correspondence with the ICO over a breach of Data Protection regulations. From inquiries and inspection of relevant documents were are assured that this was an isolated incidence of non-compliance with relevant laws and regulations. The ICO's closure letter confirmed there would be no further implications for Northumbria Police, and the organisation dealt appropriately with the matter.
Written representations	Letters of representation will be requested from both the PCC and Chief Constable. The format of the letters are attached as appendices to this report.
Confirmation requests from third parties	We requested from management permission to send confirmation requests to banking, loan and investment counterparties. This permission was granted and the requests were sent. These requests were returned with positive confirmation.
Accounting practices	We have evaluated the appropriateness of the Chief Constable's and the PCC's and group's accounting policies, accounting estimates and financial statement disclosures. Our review found no material omissions in the financial statements.
Audit evidence and explanations/ significant difficulties	Aside from responses to our formal inquiries of management and those charged with governance, all information and explanations requested from management were provided in a timely manner.

2. Financial Statements - other communication requirements

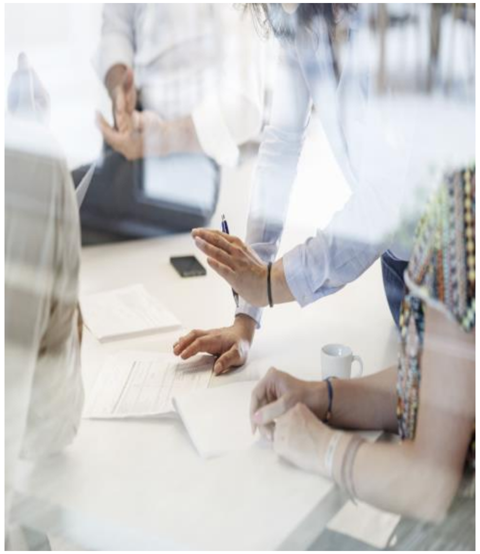
Our responsibility

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	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 PCC, the Chief Constable and the group 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. Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities: • 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, the Chief Constable and the group's financial sustainability is addressed by our value for money work, which is covered elsewhere in this report. 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, the Chief Constable and the group meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated: • the nature of the PCC, the Chief Constable and the group and the environment in which it operates • the PCC, the Chief Constable and the group's financial reporting framework • the PCC, the Chief Constable and the group's system of internal control for identifying events or conditions relevant to going concern • management's going concern assessment. On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that: • a material uncertainty related to going concern has not been identified • management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Other information	We are required to give an opinion on whether the other information published together with the 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. No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect. The draft wording for our opinions are included as appendices of this report.
Matters on which we report by exception	We are required to report on a number of matters by exception in a number of areas: • if the Annual Governance Statement does not comply with disclosure requirements set out in CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit, • 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/es. We have nothing to report on these matters.
Specified procedures for Whole of Government Accounts	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. The NAO has confirmed the extent of work required for the WGA 2021-22 exercise, and we can confirm that no detailed work will be required for the group.
Certification of the closure of the audit	We intend to certify the closure of the 2021/22 audit of **the** PCC, Chief Constable and Group following the completion of our audit opinion, our work on the group's value for money arrangements, and communication procedures required on the WGA by the NAO.



3. Value for Money arrangements

Approach to Value for Money work for 2021/22

The National Audit Office issued its guidance for auditors in April 2020. 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.

On work in this area is complete. We have not identified any risks of significant weakness, nor anything which would impact on the financial statements and our opinion thereon.

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

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)]

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 2021 – 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

We have not to date identified any control deficiencies or recommendations for the Chief Constable, PCC and group as a result of issues identified during the course of our audit. In appendix B we have documented our assessment of how recommendations raised in the previous year's audit have been addressed.

B. Follow up of prior year recommendations

Assessment
✓ Action completed
X Not yet addressed

We identified the following issues in the audits of the Chief Constable, PCC and group 2020/21 financial statements, which resulted in 5 recommendations being reported in our 2020/21 Audit Findings report.

We have followed up on the implementation of our recommendations and the results are described below.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	**IT general controls – Inappropriate user access (high risk, relates to the Group):** 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. Recommendation: 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. 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.	**Reported position at JIAC July 2022:** Management accept the auditors recommendation and will implement this change to this user's access. **Audit update February 2023:** We are pleased to confirm that management have satisfactorily addressed this recommendation. We note however that this was addressed after the year of audit and we have therefore designed our audit procedures for 2021/22 with these risks in mind.
✓	**IT general controls- (low risk, relates to the Group):** 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.	**Reported position at JIAC July 2022:** These were discussed with management and management accepted the best practice recommendations and agreed to implement during current finance year 22/23. **Audit update February 2023:** We are pleased to confirm that management have satisfactorily addressed this recommendation. We note however that has been addressed after the year of audit and we have therefore designed our audit procedures for 2021/22 with these risks in mind.

B. Follow up of prior year recommendations (cont.)

Assessment
✓ Action completed
X Not yet addressed

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	Pensions lump-sum payments being reported in the wrong period (medium risk, relates to the CC): Our work on pension fund lump-sums in 2020/21 found instances of lump-sum payments in 2021/22 being reported in 2020/21. 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.	Reported position at JIAC July 2022: Management agreed to implement our recommendation. Audit update at March 2023: We are pleased to confirm that management have satisfactorily addressed this recommendation.
✓	Existence of fully depreciated assets (medium risk, applies to PCC): As part of our 20/21 audit work we identified several assets that were fully depreciated but had been previously disposed of or were no longer in use. For such assets still in use, there is a risk that gross cost and accumulated depreciation is overstated. We gained assurance through the completion of follow up work that there was not a risk of material misstatement arising from the issue. Recommendation: We therefore recommended that 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.	Reported position at JIAC July 2022: Management agreed to implement our recommendation. Audit update February 2023: We are pleased to confirm that management have satisfactorily addressed this recommendation.

B. Follow up of prior year recommendations (cont.)

Assessment
✓ Action completed
X Not yet addressed

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	Incorrect recognition of assets additions (medium risk, applies to PCC) As part of our 20/21 audit work we identified a vehicle purchase that had been accounted for in 2020/21 but should have been recognised in 2021/22. The item was trivial at £55K. We performed additional sample testing of vehicles additions and did not find any similar errors. We extrapolated the error and reported this within the adjustments schedule of our Audit Findings Report. We therefore recommended that management consider the process in place for accruing year end purchases and whether improvements can be made to avoid similar issues arising in future years.	Update July 2022: Management agreed to implement our recommendation. Audit update February 2023: We are satisfied that management have taken sufficient action to mitigate this risk. Management performed a full review of vehicles acquisitions accrued at year end, involving liaison with fleet staff. In the course of our testing in 2021-22 one vehicle (value £17k) was identified as not having been delivered by 31 March 2022. We are satisfied that this was an isolated instance and therefore there is no extrapolated error to report in Appendix C, nor does this undermine the clearance of this recommendation.

C. 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 - Chief Constable single entity accounts

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 2022.

Detail	Identified by	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £'000
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.	Management	Cr Other comprehensive income (8,230)	Dr net pension liability 8,230
Management adjusted the net defined benefit pension liability to account for the Tyne and Wear Pension Fund's triennial valuation report. This report was published in March 2023 but provided more accurate information about the pension liabilities attributable to the Chief Constable as at the valuation date of 31 March 2022.	Management	Cr Other comprehensive income (16,610)	Dr net pension liability 16,610
Management adjusted the Chief Constable's debtor and creditor balances upon review of the allocation between the PCC and the CC in the draft accounts.	Management		Dr debtors 5,486 Cr creditors (5,486)
Overall impact (CC accounts)		(24,840)	24,840

C. 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 - PCC single entity accounts

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 2022.

Detail	Identified by	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £'000
Following an audit query, management corrected the PCC's debtor and creditor balances in respect of Council Tax balances between the PCC and Newcastle City Council. The debtor reduction of £184k was trivial however the creditor reduction of £364k was above our trivial reporting threshold. The movement also followed through to the CIES, MiRS and various disclosure notes. A further £91k reallocation between PCC and Chief Constable balances resulted in a net-nil adjustment between debtors and creditors in the PCC accounts.	Audit team	Cr Taxation and non-specific grants (180)	Cr debtors (275) Dr creditors 455
Overall impact (PCC accounts)		**(180)**	**180**

Impact of adjusted misstatements - group accounts

We did not identify any non-trivial adjusted misstatements in the group accounts, other than those summarised below which feed through to the group from the PCC and CC accounts.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £'000
Overall impact of adjustments (CC accounts)	Cr Other comprehensive income (24,840)	Dr net pension liability 24,840
Overall impact of adjustments (PCC accounts)	Cr (180)	Cr debtors (275) Dr creditors 455
Overall impact of adjustments (group accounts)	**(25,020)**	**25,020**

C. 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.

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.

Disclosure	Relates to	Findings and Auditor recommendations	Adjustment agreed?
Cash flow statement	All	The prior year comparator figures on the cash flow statement were identified as relating to the 2019/20 figures, instead of the 2020/21 figures. Management agreed to amend the financial statements.	✓
Accounting Policies – PPE revaluations	PCC	Our initial accounts review identified that the policy referred to an annual revaluation date of 1 April, which is incorrect since the PCC moved its revaluation date to 31 March for 2021/22. Management agreed to amend the disclosure.	✓
Accounting Policies – Accrual of revenue	PCC	The revenue recognition policy should be reviewed in conjunction with the CIPFA Code section 2.7. We are satisfied that this does not give rise to a risk of material misstatement in the financial statements.	X
Note 2 – Expenditure and income analysed by nature Note 10 – Grant income	PCC/Group	Management identified a classification error in Note 2. £1,021k had been included in Other Operating Income in respect of funds received in relation to the National Driver Offender Retraining Scheme (NDORS). This has been reclassified under revenue grants and contributions. We consider this to be an appropriate reclassification.	✓
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 relevance of this disclosure note going forward from 2022/23.	X
Note 7 – estimation uncertainty - pension liabilities	PCC	Our initial review of the accounts identified that the material uncertainty relating to pension liability figures does not apply to the PCC accounts since the liability is not material for the OPCC as an entity. Management agreed to remove this disclosure for the PCC.	✓

C. Audit Adjustments

Misclassification and disclosure changes (cont.)

Disclosure	Relates to	Findings and Auditor recommendations	Adjustment agreed?
Note 8 – Police and Social Reform Act	All	In our view the information included in this note should be incorporated into the accounting policies. Additionally we considered that the tables on page 38 contain information that should be visible in the CIES and the disclosures relating to debtors and creditors, and is therefore unnecessarily duplicated. Management agreed to the above recommendations and have amended for these in the updated financial statements.	✓
Note 9a – Adjustments between accounting and funding bases	All	We consider that note 9a is repetition of information already presented in the face of the CIES and MIRS. It is therefore not necessary to repeat it in a disclosure note. Management agreed to remove this table in the updated financial statements.	✓
Note 9c – Analysis of transfers to/from reserves	All	Our review identified that the transfers to/from reserves table should also show detailed movements in the prior period. This also applies to the unusable reserve disclosure tables.	✓
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 11 – Tax and non-specific grant income note	PCC	Our initial accounts review identified that this disclosure note did not agree to the CIES. Management checked this and confirmed that two figures were not disclosed correctly and would be amended: 1) The year end precept adjustment 2) Capital grants	✓
Note 13 – Employees earning over £50k	PCC/Group	Upon our query of the increase in the number of staff disclosed in this table for the OPCC, management checked and confirmed that the draft accounts table had incorrectly included NI and pensions contributions in assessing bandings. This had resulted in seven additional employees being incorrectly included in the table. Management have corrected the disclosure.	✓
Note 14 – Related Parties and Joint Arrangements	All	We recommended that the Joint Arrangements note be presented in a separate note to Related Parties, since the disclosure is governed by different accounting standards and is not to be confused as an aspect of Related Parties. Management agreed and have added new disclosure notes for Joint Arrangements: • Note 13 in the CC accounts • Note 15 in the PCC accounts	✓

C. Audit Adjustments

Misclassification and disclosure changes (cont.)

Disclosure	Relates to	Findings and Auditor recommendations	Adjustment agreed?
Note 15 – Capital Expenditure and Contributions	PCC/Group	The comparative closing capital financing requirement (CFR) at 31 March 2021 was inaccurately disclosed in the draft 2021/22 accounts as the same value as the opening CFR. This meant the opening and closing CFR was also misstated for 2021/22. Management agreed to amend the disclosure by £2.679m to the correct figure.	✓
Note 21 – Financial Instruments	PCC/Group	Our initial accounts review identified that the analysis of assets on p76 is inconsistent with the balance sheet. Management checked this and confirmed that the disclosed figure for Gross Value of Deposits had not pulled through correctly and would be amended.	✓
Pension Fund Account	Chief Constable	A Net Asset Statement should be prepared due to the existence of pension fund debtors and creditors at the year end date. Since figures are not material management have decided not to amend but to consider including this for 2022/23.	X
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. 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 - Chief Constable single entity accounts

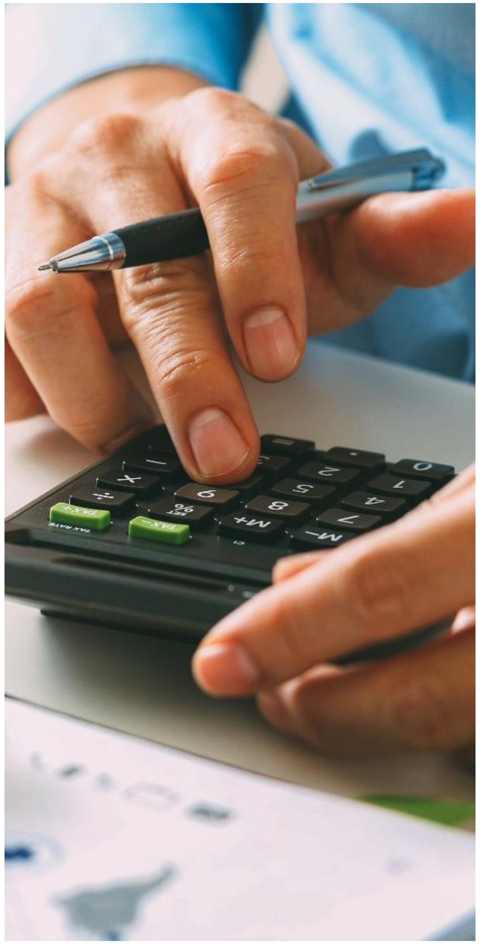
All unadjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2022.

Detail	Identified by	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £'000
Pension Assets As part of our work on testing the share of pension fund assets relating to the Chief Constable, we noted that the Pension Fund auditor has identified an unadjusted error in the value of pension fund assets. This corresponds to an understatement in the value of pension assets attributable to the Chief Constable. This understatement has no impact on the general fund.	Audit team	Cr Other comprehensive income (1,220)	Dr net pension liability 1,220
Overall impact (CC accounts)		(1,220)	1,220
Overall impact (group accounts)		(1,220)	1,220

Impact of unadjusted misstatements - PCC single entity accounts

We did not identify any unadjusted misstatements in the financial statements for the year ending 31 March 2022.

C. Audit Adjustments



Impact of prior year unadjusted misstatements

The table below provides details of adjustments identified during the prior year audit which had not been made within the final set of 2020/21 financial statements. These were previously reported to JIAC in July 2022, however we are required to evaluate the impact that prior year unadjusted misstatements might have on the current year's opening balances, in light of the current year's audit materiality (reduced to £5.2m).

As the below issues are well below our revised materiality level, we are satisfied that no further action is required in respect of these.

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**

D. Fees

We confirm below our proposed fees charged for the 2021/22 are as communicated in our audit plan in September 2022. PSAA have since given final approval to the below final fees for the 2020/21 audit year. The fees below reconcile to the financial statements for each entity.

Audit fees	Scale fee (both years)	Final approved fee 2020/21	Proposed fee 2021/22	Final fee 2021/22
PCC Audit	£28,529	£46,529	£51,529	£51,529
Chief Constable Audit	£14,438	£20,938	£22,938	£28,938
Total audit fees (excluding VAT)	**£42,967**	**£67,457**	**£74,457**	**£80,457**

Non-audit fees

Grant Thornton UK LLP provided a Tax and VAT Helpline service to the PCC during the 2020/21 and 2021/22 financial years. The fee was fixed at £1,200 per year. 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 have had no involvement in the external audit process.

D. Audit fees – detailed analysis

The below analysis was also reported within our audit plan to JIAC in September 2022. PSAA have since approved the final 20/21 fees, and these have been subsequently settled.	CC £	PCC £
Scale fee published by PSAA	14,438	28,529
Ongoing increases to scale fee identified in 2020/21		
Raising the bar/regulatory factors	750	1,500
Enhanced audit procedures for Property, Plant and Equipment	-	2,500
Enhanced audit procedures for Pensions	1,750	-
Additional work on Value for Money	2,000	7,000
Revised ISAs - additional audit requirements	2,000	4,000
Prior period adjustment (2020/21 only)	-	*3,000*
Final 2020/21 fee	20,938	46,529
Increases identified in 2021/22		
Materiality reduction	1,500	3,500
Valuation specialist	-	3,500
FRC response – Hot Review / Engagement Quality Control Reviewer	500	1,000
Triennial pension valuation 2022 - additional work required	6,000	-
Total 2021/22 audit fees (excluding VAT)	28,938	51,529

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