Grant Thornton

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

Year ended 31 March 2023

January 2024

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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 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.

1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of Northumbria Police and Crime Commissioner ('the PCC') and Northumbria Chief Constable and the preparation of the PCC's and Chief Constable's financial statements for the year ended 31 March 2023 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 and 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 has taken place remotely during October-November 2023, and concluded in December and January. Our findings are summarised on pages 6 to 19.

The financial statements and supporting working papers were provided in mid-October 2023, following the certification of the 2021/22 accounts in mid-September. 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 financial statements of the Chief Constable and the PCC that result in adjustment to Comprehensive Income and Expenditure Statement of both entities and the group. Audit adjustments are detailed in Appendix C.

We have identified one recommendation for management as a result of our current year's audit work in Appendix B.

Our work is complete and there are no matters that 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, or 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 financial statements audit report opinions will be unmodified. Our work on the PCC's and Chief Constable's value for money (VFM) arrangements is not yet complete. The outcome of our VFM work will be reported in our commentary on the PCC's and Chief Constable's arrangements in our Auditor's Annual Report (AAR). We are satisfied this work does not have a material effect on our opinions on the financial statements for the year ended 31 March 2023.

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 their 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. Audit letters explaining the reasons for the delay were sent to both the PCC and Chief Constable in September 2023. We expect to issue our Auditor's Annual Report by March 2024. 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 and Chief Constable's arrangements for securing economy, efficiency and effectiveness in its use of resources. We did not identify any such risks.

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.

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 by March 2024.

Significant matters

We did not encounter any significant difficulties or identify any significant matters during our audit, outside of matters normally identified by auditors at similar entities, such as pension related issues.

1. Headlines

National context – audit backlog

Nationally there have been significant delays in the completion of audit work and the issuing of audit opinions across the local government sector. Only 12% of local government bodies had received audit opinions in time to publish their 2021/22 accounts by the extended deadline of 30 November. There has not been a significant improvement over this last year, and the situation remains challenging. We at Grant Thornton have a strong desire and a firm commitment to complete as many audits as soon as possible and to address the backlog of unsigned opinions.

Over the course of the last year, Grant Thornton has been working constructively with DLUHC, the FRC and the other audit firms to identify ways of rectifying the challenges which have been faced by our sector, and we recognise the difficulties these backlogs have caused authorities across the country. We have also published a report setting out our consideration of the issues behind the delays and our thoughts on how these could be mitigated. Please see About time? (grantthornton.co.uk)

We would like to thank everyone at the PCC and Chief Constable for their support in working with us to complete the financial statement audits and VFM procedures during our tenure as appointed auditor from late 2021 until this point.

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 have been discussed with management and will be shared with the PCC and Chief Constable as those charged with governance, following the Joint Independent Audit Committee.

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 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 their 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 we are 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 communicated at JIAC in September 2023.

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

	Group (£)	PCC (£)	Chief Constable (£)	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 £5,200k), which equates to just under 1.5% of the PCC's gross expenditure for the prior 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 over-ride 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, which was one of the most significant assessed risks of material misstatement.	PCC, Chief Constable, and Group	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; • 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. At the time of writing this report, we have completed our analysis of the journals posted during the financial year and after the draft accounts were prepared, but our testing of the journals identified as being unusual is still in progress. We have not yet identified any issues or concerns. Conclusion Our testing is complete and 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 this 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 to date that would change our assessment reported in the audit plan. Conclusion Our work is complete and we have not identified any issues in respect of revenue recognition, or any reason that this risk should not be rebutted.

2. Financial Statements: Significant risks

Risks identified in our Audit Plan	Relates to	Commentary
Valuation of land and buildings The PCC revalues 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 (£84m as at 31 March 2023) and the sensitivity of this estimate to changes in key assumptions. Additionally, where a rolling programme is used, 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. 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: • Assessed the design and implementation of key controls inherent to the valuation process, including an assessment of risks arising from the use of IT (under revised auditing standard ISA 315); • 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 the net defined benefit pension liabilities/assets The Chief Constable’s net pension liabilities/assets, as reflected in its balance sheet as the net defined benefit liability/asset, represent significant estimates in the financial statements due to the size of the numbers involved (a net liability of £4,575 million in the Chief Constable’s 2021/22 balance sheet) and the sensitivity of the estimate to changes in key assumptions. We therefore identified the valuation of the Chief Constable’s pension fund net liabilities/assets as a significant risk, which was one of the most significant assessed risks of material misstatement. The group and Chief Constable's pension fund liability (PPS) and net surplus (LGPS), as reflected in its balance sheet, represent significant estimates in the financial statements. The pension fund liability and net surplus are considered significant estimates due to the size of the numbers involved (£3,190m and £17.9m respectively in the Group’s and Chief Constable's balance sheet) and the sensitivity of the estimate to changes in key assumptions. The actuarial assumptions used are the responsibility of the entities 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 0.5% change in these two assumptions would have approximately 1.5% 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 Group's and Chief Constable's pension fund liability and net surplus as a significant risk. 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). For the Police Pension Scheme, 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. However, with respect to the LGPS scheme, for the first time since IFRS has been adopted, the Group and Chief Constable has had to consider the potential impact of IFRIC 14 - IAS 19 -the limit on a defined benefit asset. Because of this we have assessed the recognition and valuation of the pension asset as a significant risk. 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.	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 and implementation of the associated controls (including enhanced requirements under ISA315 (revised)): • 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. Comments specific to LGPS: We 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. Regarding the net LGPS pension asset, the Group and Chief Constable had, via its scheme actuary, considered the potential impact of IFRIC 14 before audit challenge. In our review we did not identify any limit to the amount recognised that would require adjustment. (continued)

2. Financial Statements: Significant risks

Risks identified in our Audit Plan	Relates to	Commentary
Valuation of the net defined benefit pension liabilities/assets (continued from previous page)	Chief Constable and Group	Comments specific to PPS: Our consulting actuary identified that GAD, the Chief Constable's actuary for PPS, had not allowed for full-year inflation in calculating the liability as at 31 March 2023, instead the basis of their calculations used the inflation rate as at September 2022. Grant Thornton have held discussions with GAD to try and understand why they have taken this approach and whether there are appropriate reasons and support for the approach taken. Unfortunately, we do not believe that GAD are able to provide sufficient explanation to support the use of this approach, which is expected to have a highly material impact on the calculation of the pension liability. On that basis we requested that management obtain an updated IAS 19 report, adjusting for updated inflation figures, so that we can assess the actual difference that this creates. GAD were requested to produce a new IAS 19 report with updated inflation figures. This was provided in early December 2023, and management provided us with updated accounts in January 2024. These were found to be reasonably stated post amendment. Our audit work is now complete and we are satisfied that the pensions figures are materially stated.

2. Financial Statements: key judgements and estimates

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

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Land and Building valuations Draft: £84.0m Final: £84.0m	Land and buildings comprises £84m 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 2023 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 86% of assets were revalued in the 2022/23 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 Montague Evans report on property market trends, and reasonableness of the increase in the estimate; and • Adequacy of disclosure of estimate in the financial statements. All sampled 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 non-trivial issues in relation to the valuation of land and buildings.	We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Assessment

- ● [Dark Purple] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- ● [Blue] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- ● [Grey] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- ● [Light Purple] 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

LGPS Net pension surplus

Draft: £17.9m

Final: £14.7m

IFRIC 14 addresses the extent to which an IAS 19 surplus can be recognised on the balance sheet and whether any additional liabilities are required in respect of onerous funding commitments.

IFRIC 14 limits the measurement of the defined benefit asset to the 'present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

Summary of management's approach

The PCC and Chief Constable's Local Government Pension Scheme net pension surplus at 31 March 2023 is £14.7m (PY £139.8m deficit) comprising the Tyne and Wear Local Government Pension Scheme obligations and unfunded defined benefit pension scheme obligations.

The PCC and Chief Constable uses Aon Solutions Ltd to provide actuarial valuations of the PCC's and Chief Constable's assets and liabilities derived from this scheme. A full actuarial valuation is required every three years.

The latest full actuarial valuation was completed in 2022. Given the significant value of the net pension fund surplus, small changes in assumptions can result in significant valuation movements. There has been a £175.3m net actuarial gain during 2022/23.

Audit Comments

- We have obtained an understanding of the processes and controls put in place by management to ensure the group's pension fund net surplus 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;
- 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 net asset;
- 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 actuary's assumptions.
- We have requested and obtained assurances from the auditor of Tyne and Wear Pension Fund in relation to the completeness and accuracy of the underlying member data, as assessed for the 2022 triennial valuation
- We are satisfied with the reasonableness of the increase in the estimate and the recognition of the net asset in accordance with IFRIC 14
- We are satisfied with the adequacy of disclosures relating to the estimate in the financial statements

LGPS Assumptions Assumption	Actuary Value	PwC range	Assessment
Discount rate	4.70%	4.50-4.80%	●
Pension increase rate	2.70%	2.60-2.70%	●
Salary growth	4.20%	3.70-4.20%	●
Life expectancy – Males currently aged 45/65	Age 65: 21.6 Age 45: 22.9	Age 65: 21.6-23.3 Age 45: 22.9-23.8	●
Life expectancy – Females currently aged 45/65	Age 65: 24.6 Age 45: 26.1	Age 65: 24.2-25.7 Age 45: 25.5-26.7	●

Assessment

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

Police Pension Scheme liability

Draft: £3,190m

Final: £3,253m

Summary of management's approach

The Chief Constable's Police Pension Scheme liability at 31 March 2023 is £3,253m (PY £4,436m). The Chief Constable operates three pension schemes for police officers, these are the 1987, 2006 and 2015 Police Pension Schemes.

The Chief Constable uses the Government Actuary's Department (GAD) to provide actuarial valuations of their Police Pension Scheme liabilities. A full actuarial valuation is required every four years.

Given the significant value of the pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £1,330m net actuarial gain during 2022/23.

Audit Comments

- We have assessed the competence, capabilities and objectivity of the actuary who carried out the pension fund valuation for the PPS;
- We used PwC as auditor's expert to assess actuary and assumptions made by actuary – see table for our comparison of Actuary assumptions
- We are satisfied of the completeness and accuracy of the underlying information used to determine the estimate
- We are satisfied of the reasonableness of the substantial increase in the estimate
- We are satisfied of the adequacy of disclosures relating to the estimate in the financial statements

Police Pension Scheme Assumptions	Actuary Value	PwC range	Assessment
Discount rate	4.65%	4.65%	●
CPI Inflation*	2.60%	2.60%	●
Salary growth	3.85%	3.85%	●
Life expectancy – Males currently aged 45/65	Age 65: 21.9 Age 45: 23.5	Age 65: 21.2-21.9 Age 45: 22.9-23.5	●
Life expectancy – Females currently aged 45/65	Age 65: 23.5 Age 45: 25.0	Age 65: 21.8-23.5 Age 45: 22.9-25.0	●

- We note that while the opening CPI assumption of 2.60% was considered acceptable at the start of the year, GAD differed with other PPS actuaries and did not allow for actual inflation experienced in the second half of 2022/23. Since we consider this to represent a material misstatement of the liability, GAD has been requested to produce a new IAS 19 report with updated inflation figures. This was provided in early December 2023, and management provided us with updated accounts in January 2024.

Conclusion:

Our work is complete and, following amendments to the accounts, we are satisfied that reasonable presentation has been achieved in relation to the valuation of the group's pension assets and liabilities.

Assessment

We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements: Information Technology

This section provides an overview of results from our assessment of Information Technology (IT) environment and controls which included identifying risks from the use of IT related to business process controls relevant to the financial audit. This includes an overall IT General Control (ITGC) rating per IT system and details of the ratings assigned to individual control areas.

Our assessment identified a non-significant deficiency in relation to management's control over privileged access accounts within Unit 4. Refer to the Action Plan at Appendix B for further details.

We note that adverse findings identified and reported during our 2020/21 and 2021/22 audits had been addressed prior to the 2022/23 financial year.

			ITGC control area rating			
IT application	Level of assessment performed	Overall ITGC rating	Security management	Technology acquisition, development and maintenance	Technology infrastructure	Related significant risks/other risks
Unit 4	ITGC assessment (design and implementation effectiveness only)	🟢	🟡	🟢	🟢	No significant risks identified relating to the use of IT.

Assessment

- 🔴 Significant deficiencies identified in IT controls relevant to the audit of financial statements
- 🟡 Non-significant deficiencies identified in IT controls relevant to the audit of financial statements/significant deficiencies identified but with sufficient mitigation of relevant risk
- 🟢 IT controls relevant to the audit of financial statements judged to be effective at the level of testing in scope
- ⚫ Not in scope for testing

2. Financial Statements: other communication requirements

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 significant 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	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 have been requested for both the PCC and the Chief Constable. No non-standard representations were required.
Confirmation requests from third parties	We requested permission from management to send confirmation requests to banking, loan and investment counterparties. This permission was granted, and the requests were sent. These requests were all 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 planning 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 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. 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's and Chief Constable'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 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: • 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. 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 for either the PCC or the 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	We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statements and Narrative Reports), are materially inconsistent with the financial statements or our knowledge obtained in the audits or otherwise appear to be materially misstated. No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect to both the PCC and Chief Constable.
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. As at the point of publishing this report, 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 2022-23 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 2022/23 audit of **the** PCC, Chief Constable and Group following the completion of our audit opinion work, 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 (VFM)

Approach to Value for Money work for 2022/23

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 in progress. To date, 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 and consider that an objective reasonable and informed third party would take the same view. We have complied with the Financial Reporting Council'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 Council'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 in Appendix D.

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 Grant Thornton International Transparency report 2023.

Audit and non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the group, PCC and Chief Constable. No non-audit services were identified which were charged from the beginning of the financial year to the time of issuing this report.

Appendices

A. Communication of audit matters to those charged with governance

B. Action plan – Audit of Financial Statements

C. Audit Adjustments

D. Audit Fees

E. Auditing developments

A. Communication of audit matters to those charged with governance

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	●	
Overview of the planned scope and timing of the audit, form, timing and expected general content of communications including significant risks	●	
Confirmation of independence and objectivity	●	●
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	●	●
Significant findings from the audit		●
Significant matters and issue arising during the audit and written representations that have been sought		●
Significant difficulties encountered during the audit		●
Significant deficiencies in internal control identified during the audit		●
Significant matters arising in connection with related parties		●
Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements		●
Non-compliance with laws and regulations		●
Unadjusted misstatements and material disclosure omissions		●
Expected modifications to the auditor's report, or emphasis of matter		●

ISA (UK) 260, as well as other ISAs (UK), prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table here.

This document, the Audit Findings, outlines those key issues, findings and other matters arising from the audit, which we consider should be communicated in writing rather than orally, together with an explanation as to how these have been resolved.

Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK), 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.

Distribution of this Audit Findings report

Whilst we seek to ensure our audit findings are distributed to those individuals charged with governance, we are also required to distribute our findings to those members of senior management with significant operational and strategic responsibilities. We are grateful for your specific consideration and onward distribution of our report to all those charged with governance.

B. Action Plan– Audit of Financial Statements

We identified one control deficiency and recommendation for the Chief Constable, PCC and group as a result of issues identified during the course of our audit. We did not identify any control deficiencies or recommendations in our previous audit.

Assessment	Issue and risk	Recommendations
Low	Privileged access accounts within Unit 4: During our audit we identified gaps in management’s monitoring of these super-user accounts. There is a risk that these accounts could be used to make unauthorized changes to the finance system and result in unreliable information within the financial statements.	Management should improve its control over these accounts and ensure access is only granted to the appropriate users when specific needs arise. **Management response** Management feel that the current process to grant access appropriately is robust in that only those who require super-user accounts in-line with business needs are granted access. Management have agreed to immediately address the findings raised and will review processes to ensure timely closure of those accounts once work is complete..

Controls

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

C. Audit Adjustments

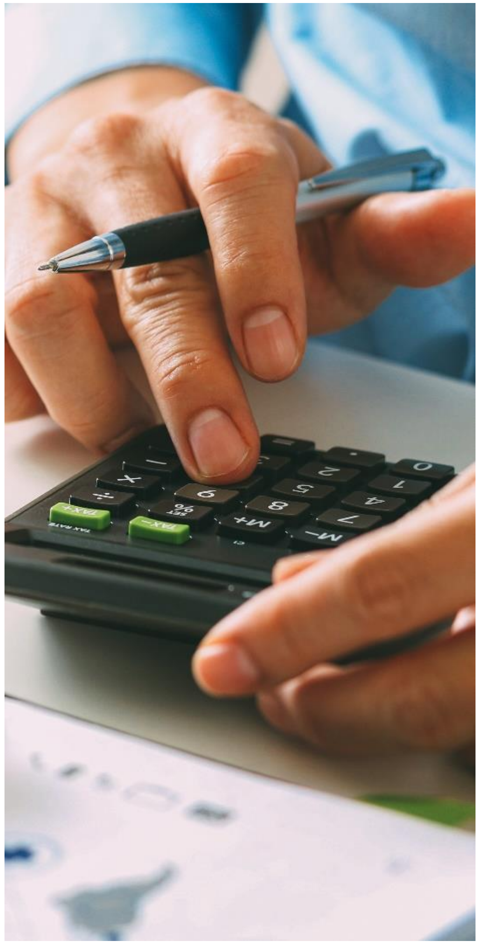
We are required to report all non-trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

All adjusted misstatements identified to date 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 2023.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Impact on general fund £'000
Transposition error between investment properties and intangible assets on the PCC and group balance sheet	-	Dr Intangible Assets 2,217 Cr Investment Properties (2,217)	-	-
Overall impact (PCC accounts)	-	-	-	-
Management requested a revised IAS 19 report from the PPS actuary in order to properly account for inflation experience up to the financial year end.	Dr Remeasurement of the net pension liability/asset 63,200	Cr Pension liability (63,200)	63,200	No impact
Management requested a revised IAS 19 report from the LGPS actuary in order to account for the most up-to-date pension asset returns at the financial year end.	Dr Remeasurement of the net pension liability/asset 3,110	Cr Pension asset (3,110)	3,110	No impact
Overall impact (Chief Constable and Group)	**66,310**	**(66,310)**	**66,310**	-

C. Audit Adjustments

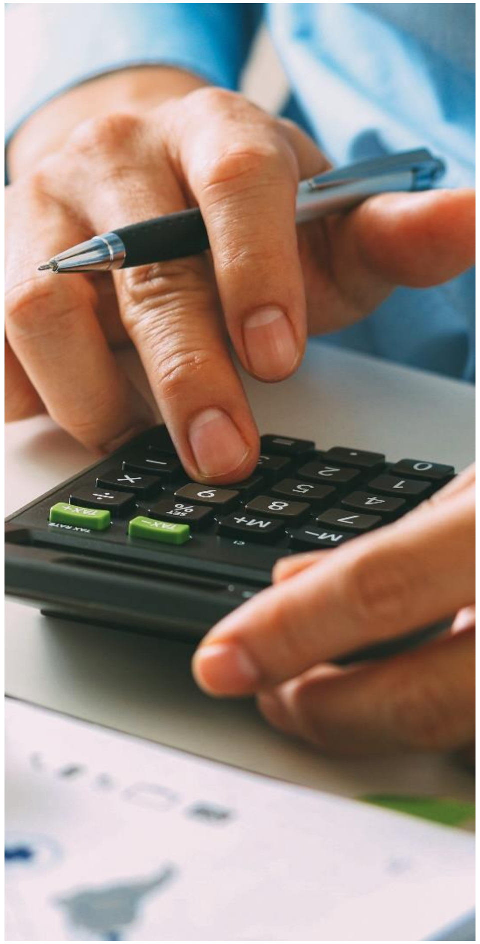


Impact of unadjusted misstatements

The table below provides details of adjustments identified during the prior year audit which had not been made within the final set of 2022/23 financial statements. We are satisfied that this does not have a material impact on the 2022/23 financial statements.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £'000	Reason for not adjusting
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 of £1.28m. This understatement has no impact on the general fund.	Cr Other comprehensive income (1,276)	Dr net pension asset 1,276	Management response: The unadjusted error in the Pension Fund accounts was identified by the Pension Fund auditor in January 2024. The £1.276m reflects an estimated share of that error which would be attributable to the Chief Constable and Group. The value is not material and has no impact on the General Fund as it relates to the Balance Sheet non-current asset in respect of the LGPS pension scheme, which is adjusted through the unusable pensions reserve. Adjustment for this item will be reflected in the 2023/24 financial statements.
Overall impact (Chief Constable accounts)	(1,276)	1,276	
Supplier accruals Our sample testing of creditor and accrual balances identified accruals for £881k relating to a supplier that would no longer be providing the invoiced services. We determined this to be an isolated instance of an overstatement of accruals.	Cr service expenditure (881)	Dr creditors 881	Management response: The outcome in respect of this liability was not confirmed until after the date of issue of the draft financial statements. The value is not material and will be adjusted within the financial outturn position for the 2023/24 financial year.
Overall impact (PCC accounts)	(881)	881	
Overall impact (group accounts)	(2,157)	2,157	

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 2021/22 financial statements. We are satisfied that this does not have a material impact on the 2022/23 financial statements.

Detail	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 of £1.22m. This understatement has no impact on the general fund.	Cr Other comprehensive income (1,220)	Dr net pension liability 1,220
Overall impact (Chief Constable accounts)	(1,220)	1,220
Overall impact (group accounts)	(1,220)	1,220

C. Audit Adjustments- Disclosures

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

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

Disclosure/issue/omission	Relates to	Auditor recommendations	Adjusted?
The critical judgement notes do not meet the requirements of IAS 1 as they do not refer to the specific judgements made by management, nor is there mention of alternative judgements discarded.	PCC, group and Chief Constable	Review the sufficiency of these disclosures against the requirements of the CIPFA Code and IAS 1. **Management response** Management will review the narrative within the critical judgements note to the accounts in 2023/24, to ensure we meet the full requirements of the standard.	X
Incorrect signage was noted on the PPS £120m pension interest cost within the pension disclosure note.	Chief Constable only	Amend accordingly. **Management response** Agreed to amend.	✓
We identified a few instances where the prior year comparator figures were not updated for the 2022/23 draft financial statements.	PCC and group accounts	Ensure this check is done for all disclosure notes prior to draft publication. **Management response** Management will ensure that the robust checking of prior year comparator figures is highlighted as an area of increased focus for the accounts team.	✓
We identified banding corrections that needed to be made to the Senior Officers Remuneration notes	PCC, group and Chief Constable	Amend accordingly. **Management response** Agreed to amend.	✓
We identified material disclosure amendments that were needed to ensure the Financial Instruments notes were not misstated	PCC and group accounts	Amend accordingly. **Management response** Agreed to amend.	✓
We identified an undisclosed non-material contingent asset that arose subsequent to the publication of the draft accounts	PCC and group accounts	Consider disclosure in the final 22/23 accounts. **Management response** The existence and value of the contingent asset was not confirmed until after the date of issue of the draft financial statements. The value is not material and will be reflected in the financial outturn position for the 2023/24 financial year.	X

D. Audit fees

	Actual Fee 2020/21	Actual Fee 2021/22	Proposed fee* 2022/23	Final fee ** 2022/23
PCC Audit	£46,529	£51,529	£56,279	£55,279
Chief Constable Audit	£20,938	£28,938	£25,688	£31,938
Total audit fees (excluding VAT)	**£67,457**	**£80,457**	**£81,967**	**£87,217**

*As reported in our Audit Plan to the Joint Independent Audit Committee in September 2023

Assumptions

In setting the above fees, we have assumed that the PCC and Chief Constable will:

- prepare a good quality set of accounts, supported by comprehensive and well-presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements.

Relevant professional standards

In preparing our fee estimate, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's Ethical Standard (revised 2019) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.

D. Audit fees – detailed analysis

	Chief Constable £	PCC/Group £
PSAA published scale fee 2022/23	16,938	32,529
Materiality reduction	1,500	3,500
Valuation specialist	-	5,000
Additional VFM cost	2,000	7,000
Impact of ISA 540	2,000	4,000
Journals testing	1,000	2,000
Enhanced audit procedures for Payroll – Change of circumstances	500	-
Increased audit requirements of revised ISAs 315/ 240	1,250	1,250
One-off testing of revised PPS accounting schedule	5,000	-
One-off testing of LGPS pension asset accounting (IFRIC 14)	1,750	-
Total proposed audit fees 2022/23 (excluding VAT)	**31,938**	**55,279**

All variations to the scale fee will need to be approved by PSAA

E. Auditing developments

Revised ISAs

There are changes to the following ISA (UK):

ISA (UK) 315 (Revised July 2020) 'Identifying and Assessing the Risks of Material Misstatement'
This impacts audits of financial statement for periods commencing on or after 15 December 2021.
ISA (UK) 220 (Revised July 2021) 'Quality Management for an Audit of Financial Statements'
ISA (UK) 240 (Revised May 2021) 'The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements

A summary of the impact of the key changes on various aspects of the audit is included below:

These changes will impact audit for audits of financial statement for periods commencing on or after 15 December 2022.

Area of change	Impact of changes
Risk assessment	The nature, timing and extent of audit procedures performed in support of the audit opinion may change due to clarification of: • the risk assessment process, which provides the basis for the assessment of the risks of material misstatement and the design of audit procedures • the identification and extent of work effort needed for indirect and direct controls in the system of internal control • the controls for which design and implementation needs to be assess and how that impacts sampling • the considerations for using automated tools and techniques.
Direction, supervision and review of the engagement	Greater responsibilities, audit procedures and actions are assigned directly to the engagement partner, resulting in increased involvement in the performance and review of audit procedures.
Professional scepticism	The design, nature, timing and extent of audit procedures performed in support of the audit opinion may change due to: • increased emphasis on the exercise of professional judgement and professional scepticism • an equal focus on both corroborative and contradictory information obtained and used in generating audit evidence • increased guidance on management and auditor bias • additional focus on the authenticity of information used as audit evidence • a focus on response to inquiries that appear implausible
Definition of engagement team	The definition of engagement team when applied in a group audit, will include both the group auditors and the component auditors. The implications of this will become clearer when the auditing standard governing special considerations for group audits is finalised. In the interim, the expectation is that this will extend a number of requirements in the standard directed at the 'engagement team' to component auditors in addition to the group auditor. • Consideration is also being given to the potential impacts on confidentiality and independence.
Fraud	The design, nature timing and extent of audit procedures performed in support of the audit opinion may change due to: • clarification of the requirements relating to understanding fraud risk factors • additional communications with management or those charged with governance
Documentation	The amendments to these auditing standards will also result in additional documentation requirements to demonstrate how these requirements have been addressed.

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