



The Annual Audit Letter for Devon & Cornwall Police and Crime Commissioner and Chief Constable

Year ended 31 March 2020

15 February 2021



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Executive Summary

Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Police and Crime Commissioner for Devon and Cornwall (the PCC) and the Chief Constable for Devon and Cornwall (the Chief Constable) for the year ended 31 March 2020.

This Letter is intended to provide a commentary on the results of our work to the PCC, Chief Constable, and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the PCC and Chief Constable as those charged with governance in our Audit Findings Report on 27 January 2021.

Our work

Respective responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the PCC and Chief Constable's financial statements (section two)
- assess the PCC and Chief Constable's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the PCC and Chief Constable's financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

Materiality	We determined materiality for the audit of the PCC's and Chief Constable's financial statements to be £5,379k, which is 1.45% of the Chief Constable's gross cost of services.
Financial Statements opinion	We gave an unqualified opinion on the PCC and Chief Constable's financial statements on 27 January 2021. We included Emphasis of Matter paragraphs, highlighting the material uncertainty of the valuation of land and buildings for the PCC and of the PCC and Chief Constable's shares of Devon Pension Fund's pooled property investments. This does not affect our opinion that the statements give a true and fair view of the PCC's and Chief Constable's financial position and their income and expenditure for the year.
Whole of Government Accounts (WGA)	We completed work on the group's consolidation return following guidance issued by the NAO.
Use of statutory powers	We did not identify any matters which required us to exercise our additional statutory powers.

Executive Summary

Value for Money arrangements	We were satisfied that the PCC and Chief Constable put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We reflected this in our audit report to the PCC and Chief Constable on 27 January 2021.
Certificate	We certified that we have completed the audit of the financial statements of the PCC and Chief Constable in accordance with the requirements of the Code of Audit Practice on 27 January 2021.

Working with Devon and Cornwall Police

It has been a challenging year due to the impact of Covid-19.

Restrictions for non-essential travel has meant both the Finance team and the audit team have had to adapt to ensure we gained sufficient audit evidence for the entries within the financial statements. This has meant a greater reliance on video calling for many aspects of the audit, particularly in terms of the use of sharing of screens to watch transaction listings being run. Where information is normally provided in a spreadsheet format, we have undertaken additional levels of testing to ensure that the information provided reflects the true position prior to being sent to the audit team.

We are pleased to report that this process has worked well with both teams collaborating to identify solutions to hurdles presented by remote working. Our 'Info' document sharing system has facilitated this but inevitably the remote working has impacted on delivery with additional resources being necessary to complete the work in accordance with the new extended reporting timetable.

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the PCC and Chief Constable's staff.

Grant Thornton UK LLP
February 2021

Audit of the Financial Statements

Our audit approach

Materiality

In our audit of the PCC and Chief Constable's financial statements, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for the audit of the PCC and Chief Constable's financial statements to be £5,379k, which is 1.45% of the Chief Constable's gross cost of services. We used this benchmark as, in our view, users of the PCC and Chief Constable's financial statements are most interested in where they have spent its revenue in the year.

We also set a lower level of specific materiality of £38k for senior officer remuneration due to the public interest in these figures. (£38k being 1.45% of senior officer remuneration in the PCC financial statements.)

We set a lower threshold of £269k; above which we reported errors to the PCC and Chief Constable (as Those Charged with Governance) in our Audit Findings Report.

The scope of our audit

Our audit involves obtaining sufficient evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error. This includes assessing whether:

- the accounting policies are appropriate, have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the remainder of the Statement of Accounts to check it is consistent with our understanding of the entities and with the financial statements included in the Statement of Accounts on which we gave our opinion.

We carry out our audit in accordance with ISAs (UK) and the NAO Code of Audit Practice. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach was based on a thorough understanding of the PCC and Chief Constable's business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

Audit of the Financial Statements

Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Covid-19</p> <p>The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expect current circumstances will have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to;</p> <ul style="list-style-type: none"> - Remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation - Volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we can obtain to corroborate management estimates - Financial uncertainty will require management to reconsider financial forecasts supporting their going concern assessment and whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and - Disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties. <p>We therefore identified the global outbreak of the Covid-19 virus as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We:</p> <ul style="list-style-type: none"> • worked with management to understand the implications the response to the Covid-19 pandemic had on the organisations' ability to prepare the financial statements and update financial forecasts and assessed the implications for our materiality calculations. No changes were made to materiality levels previously reported. The draft financial statements were provided on 29 May 2020; • liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross-sector responses to issues as and when they arose. Examples include the material uncertainty disclosed by the PCC's property valuation expert; • evaluated the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic; • evaluated whether sufficient audit evidence could be obtained through remote technology; • evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as assets and pension fund net liability valuations ; • evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment; and • discussed with management the implications for our audit report where we have been unable to obtain sufficient audit evidence. 	<p>Management produced the draft financial statements and working papers in advance of the original timetable. This was a significant achievement with all staff working remotely. We completed our audit remotely and, while it took longer than normal as a result, we were able to utilise technology to corroborate information produced by the PCC and Chief Constable. The finance team were extremely responsive to audit queries throughout the audit and we would like to express our appreciation for this.</p> <p>We did not identify any implications for our audit report resulting from Covid-19, however our report includes standard reference to the macroeconomic conditions arising from Brexit and Covid-19.</p>

Audit of the Financial Statements

Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>The revenue cycle includes fraudulent transactions (rebutted)</p> <p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>The assessment in our audit plan to rebut the presumed risk of improper revenue recognition remained appropriate. We rebutted the presumed risk for the PCC and the Chief Constable because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of public sector bodies, including the PCC and the Chief Constable for Devon and Cornwall, mean that all forms of fraud are seen as unacceptable. 	<p>Therefore we did not consider this to be a significant risk for the Group, PCC and Chief Constable.</p>

Audit of the Financial Statements

Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Management override of controls</p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The PCC and Chief Constable face external scrutiny of their spending and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>As part of our audit work, we:</p> <ul style="list-style-type: none"> evaluated the design effectiveness of management controls over journals; analysed the journals listing and determine the criteria for selecting high risk unusual journals ; tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration; gained an understanding of the accounting estimates and critical judgements applied by management and consider their reasonableness with regard to corroborative evidence; and evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. 	<p>Our audit work did not identify any issues in respect of management override of controls.</p> <p>As identified in 2018/19, there was a control weakness whereby staff can authorise and post their own journals. This continued to be the case until March 2020 when a new workflow control was introduced adding proactive approval for journals over a certain level. We walked through the new system during our interim audit and identified that it was not operating as intended and users could still authorise their own journals. This weakness was rectified by management after we brought it to their attention, and we are satisfied that this is now operating correctly.</p>

Audit of the Financial Statements

Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of land and buildings</p> <p>The PCC (and Group) revalues its land and buildings on a three-yearly basis. In the intervening years, such as 2019/20, to ensure the carrying value in the financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date, the group requests a desktop valuation from its valuation expert to ensure that there is no material difference. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions.</p> <p>We therefore identified valuation of land and buildings as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>As part of our audit work, we:</p> <ul style="list-style-type: none"> evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work; evaluated the competence, capabilities and objectivity of the valuation expert; discussed with the valuer the basis on which the valuations were carried out; engaged our own valuer to assess the instructions to the group/PCC's valuer, the group/PCC's valuer's report and the assumptions that underpin the valuation; and tested, on a sample basis, revaluations made during the year to ensure they have been input correctly into the asset register. 	<p>Our audit work did not identify any issues in respect of valuation of land and buildings.</p> <p>We included an emphasis of matter paragraph in our audit opinion in respect of the material uncertainty highlighted in the external valuer's report due to the macroeconomic conditions at the time as a result of Covid-19.</p>

Audit of the Financial Statements

Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of pension fund net liability The group's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.</p> <p>The pension fund net liability is considered a significant estimate due to the size of the numbers involved and the sensitivity of the estimate to changes in key assumptions.</p> <p>We therefore identified valuation of the group's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>As part of our audit work, we:</p> <ul style="list-style-type: none"> 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 evaluate the design of the associated controls; evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; assessed the competence, capabilities and objectivity of the actuary who carried out the Group's pension fund valuation; assessed the accuracy and completeness of the information provided by the Group to the actuary to estimate the liability; tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; and undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report 	<p>Our work identified that the actuary's IAS19 report did not take into account the public service pensions scheme's consultation issued by the Government in July 2020 proposed restitution for the McCloud judgement on the Police Officer's pension fund liability. Management requested that the actuary produced an updated report for the Police Officer's pension fund to address this. The impact of the proposed McCloud restitution is now reflected in the amended financial statements, which reduced the liability by £6,495k.</p> <p>Our audit of the LGPS pension liability for the PCC for Dorset identified that there was an ongoing bulk transfer of staff between the Dorset and Devon Pension Funds. There had been an adjustment made by the actuary to reflect the impact of this in the liabilities but no corresponding adjustment had been made to the assets. It was determined that the most appropriate way to account for the adjustments would be via a settlement. The opposite entries to those agreed for Dorset needed to be reflected in the Devon & Cornwall's figures and a revised LGPS IAS19 report was issued for Devon and Cornwall. This resulted in a settlement gain of £5,495k.</p> <p>We were unable to obtain corroborating evidence to gain assurance over whether the weighted average duration of liabilities for the Police Officer scheme of 18 years is reasonable. This would include consideration of the current average age of officers, as this membership data in the IAS19 report is from 31 March 2017.</p> <p>The Pension Fund auditor reported in their Assurance Letter that a material uncertainty has been included in Devon Pension Fund's valuation reports for pooled property investments. An additional disclosure was therefore added to both sets of financial statements for this issue. We included an emphasis of matter paragraph in our audit opinions in respect of the material uncertainty identified.</p>

Audit of the Financial Statements

Audit opinion

We gave an unqualified opinion on the PCC and Chief Constable's financial statements on 27 January 2021.

Preparation of the financial statements

The PCC and Chief Constable presented us with draft financial statements in May 2020 in accordance with the agreed timescale, and provided a good set of working papers to support them. The finance team responded promptly and efficiently to our queries during the course of the audit.

Issues arising from the audit of the financial statements

We reported the key issues from our audit to the PCC and Chief Constable as Those Charged with Governance on 26 January 2021.

Annual Governance Statement and Narrative Report

We are also required to review the PCC and Chief Constable's Annual Governance Statements and Narrative Reports.

Both documents were prepared in line with the CIPFA Code and relevant supporting guidance. We confirmed that both documents were consistent with the financial statements prepared by the PCC and Chief Constable and with our knowledge of the entities.

Whole of Government Accounts (WGA)

We carried out work in line with instructions provided by the NAO. We issued an assurance statement which confirmed the PCC and Chief Constable were below the audit threshold.

Certificate of closure of the audit

We certified that we have completed the audits of the financial statements of Devon and Cornwall PCC and Devon and Cornwall Chief Constable in accordance with the requirements of the Code of Audit Practice on 27 January 2021.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in April 2020 which specified the criterion for auditors to evaluate:

In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the risks where we concentrated our work.

The risks we identified and the work we performed are set out overleaf.

As part of our Audit Findings report agreed with the PCC and Chief Constable in January 2021, we agreed recommendations to address our findings.

Overall Value for Money conclusion

We are satisfied that in all significant respects the PCC and Chief Constable put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2020.

Value for Money conclusion

Value for Money Risks

Risks identified in our audit plan	Findings	Conclusion
<p>Financial sustainability</p> <p>The 2020/21 budget includes savings to be achieved of £2.75m. £1.49m of these are planned from the PCSO reduction plan with a further £1.26m from service challenge and other staff savings. Based on the assumptions set out in the Medium Term Financial Strategy, further savings in the region of £8.5m will be required in order to balance the budget over the 2021/22 to 2023/24 period.</p>	<p>We reviewed the latest MTFS and budget, including the assumptions and the savings plans reflected within them. We also reviewed the 2019/20 savings achieved against those planned.</p> <p>The Group (that is, the PCC and the Chief Constable) delivered a surplus in 2019/20. It was not possible to establish from management reporting the level of savings achieved of the £2m planned as this was not reported. Savings are built into the budget for the year but were not then separately monitored. It was not possible to confirm if the year end position had been achieved partly as a result of the identified savings being achieved, or whether other budget savings had offset any under achievement.</p> <p>A balanced 2020/21 budget has been set, with a more challenging savings target of £2.75m.</p> <p>The MTFS shows that cumulative savings of £8.5m are required to be achieved over the 2021/22 to 2023/24 period,. These savings have been identified and incorporated into the MTFS, with 53% of this expected to come from PCSO costs.</p> <p>We have reviewed the assumptions built into the MTFS and these appear reasonable.</p>	<p>The plans in place to achieve the £8.5m cumulative savings over the next three years are essential to achieving the MTFS. The Group should monitor whether the identified savings are being achieved, or whether the year end position is achieved by other budget underspend compensating for under delivery of savings. This will help to inform future financial planning on the accuracy and deliverability of savings plans.</p> <p>On that basis we concluded that while the level of savings planned is significant, the risk was sufficiently mitigated and Devon and Cornwall Police has proper arrangements in place for planning finances effectively to support the sustainable delivery of strategic priorities and using appropriate cost and performance information to support informed decision making.</p>

A. Reports issued and fees

We confirm below our final reports issued and fees charged for the audit and confirm there were no fees for the provision of non-audit services.

Reports issued

Report	Date issued
Audit Plan	March 2020
Audit Findings Report	January 2021
Annual Audit Letter	February 2021

Fees

	Planned £	Actual fees £
Statutory audit – PCC	27,992	38,542
Statutory audit – Chief Constable	14,438	21,538
Total fees	42,430	60,080

Audit fee variation

As outlined in our audit plan, the 2019/20 scale fee published by PSAA of £42,430 assumes that the scope of the audit does not significantly change. There are a number of areas where the scope of the audit has changed, which has led to additional work. These are set out overleaf.

Fee variations are subject to PSAA approval.

Audit area	PCC	Chief Constable	Rationale for fee variation
Scale fee	£27,992	£14,438	
Raising the bar	1,650	850	The Financial Reporting Authority (FRC) has highlighted that the quality of work by all audit firms needs to improve across local audit. This will require additional supervision and leadership, as well as additional challenge and scepticism in areas such as journals, estimates, financial resilience and information provided by the entity.
Pensions – valuation (IAS) 19		1,750	We have increased the granularity, depth and scope of coverage, with increased levels of sampling, additional levels of challenge and explanation sought, and heightened levels of documentation and reporting.
PPE Valuation – work of experts	2,500		We have increased the volume and scope of our audit work to ensure an adequate level of audit scrutiny and challenge over the assumptions that underpin PPE valuations.
Developments and local issues	1,500	3,000	You are required to respond effectively to new accounting standards and we must ensure our audit work in these new areas is robust. At the planning stage we expected to have to complete a full WGA exercise.
Revised fee per Plan	£33,642	£20,038	
WGA		-3,000	Devon and Cornwall were below the WGA threshold so no detailed work was required.
Other changes		1,500	Additional work required on pensions due to change in figures due to McCloud and also the bulk transfer issue (see page 10)
Covid-19	4,900	3,000	Over the past six months the current Covid-19 pandemic has had a significant impact on all of our lives, both at work and at home. The impact of Covid-19 on the audit of the financial statements for 2019/20 has been multifaceted. This includes: <ul style="list-style-type: none"> Revisiting planning - we have needed to revisit our planning and refresh risk assessments, materiality and testing levels. This has resulted in the identification of a significant risk at the financial statements level in respect of Covid-19 necessitating the issuing of an addendum to our original audit plan as well as additional work on areas such as going concern and disclosures in accordance with IAS1 particularly in respect to material uncertainties. Management's assumptions and estimates - there is increased uncertainty over many estimates including pension and other investment valuations. Many of these valuations are impacted by the reduction in economic activity and we are required to understand and challenge the assumptions applied by management. Financial resilience assessment – we have been required to consider the financial resilience of audited bodies. Our experience to date indicates that Covid-19 has impacted on the financial resilience of all local government bodies. This has increased the amount of work that we need to undertake on the sustainable resource deployment element of the VFM criteria necessitating enhanced and more detailed reporting in our ISA260. Remote working – the most significant impact in terms of delivery is the move to remote working. We, as other auditors, have experienced delays and inefficiencies as a result of remote working, including the delays in receiving accounts, quality of working papers, and delays in responses. These are understandable and arise from the availability of the relevant information and/or the availability of key staff (due to shielding or other additional Covid-19 related demands). In many instances the delays are caused by our inability to sit with an officer to discuss a query or working paper. Gaining an understanding via Teams or phone is more time-consuming.
Total proposed final audit fees	£38,542	£21,538	



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