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Independent Audit Committee

Meeting: Thursday, 29th April, 2021 at 9.30 am
Venue: Microsoft Teams

AGENDA

- 1. Election of a Chair**
To elect a Chair for the year 2021/22
To be conducted by Karen James
- 2. Election of a Vice Chair**
To elect a Vice Chair for the year 2021/22
To be conducted by the Chair
- 3. Apologies for absence**
To record apologies for absence received from members.
- 4. Declarations of Interest, Equality and Health and Safety Obligations**
To receive declarations by members of (a) personal interest [including their nature] and (b) prejudicial interests and to remind members of their responsibility to consider equality and health and safety in all of their decisions.

OPEN AGENDA ITEMS

- 5. Open Minute Items [FOIA - Open] (Pages 1 - 8)**
To confirm the minutes of the open items from the previous Independent Audit Committee.
To be presented by the Chair.
- 6. Open Items of Chair's Business [FOIA – Open]**
To be presented by the Chair.
- 7. Internal Audit Quarterly Update and Highlights [FOIA - Open] (Pages 9 - 16)**
To provide an update on the progress of the Internal Audit Plan over the last quarter.
To be presented by David Hill.
- 8. Internal Audit Plan and Charter [FOIA - Open] (Pages 17 - 30)**
To present the Internal Audit Plan and Charter.
To be presented by David Hill.
- 9. Joint Annual Audit Letters [FOIA - Open]**

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- a) Devon and Cornwall (Pages 31 - 46)
- b) Dorset (Pages 47 - 62)
To be presented by Mark Bartlett/Alex Walling.
- 10. External Audit Quarterly Report [FOIA - Open]** (Pages 63 - 72)
To present an update of work of external audit over the last quarter.
To be presented by Alex Walling/Mark Bartlett.
- 11. External Audit Plan and Timetable Update [FOIA - Open]**
To present the external audit plan and timetable update for 2021/22.
To be presented by Alex Walling. **Deferred Paper – verbal update.**
- 12. Fraud and Corruption [FOIA - Open]**
To present the updated Fraud and Corruption Policy and Procedure and to provide an update on the number of Fraud and Corruption investigations that have taken place since the last committee.
To be presented by Karen James.
 - a) Fraud and Corruption Policy and Procedure (Pages 73 - 90)
 - b) Fraud and Corruption Investigations (Pages 91 - 96)
- 13. PSAA - Updates [FOIA - Open]** (Pages 97 - 100)
To provide an update on the annual quality assessment exercise by the PSAA and also the update Audit Fees for 2021/22.
To be presented by Karen James
 - a) Annual Quality Assessment (Pages 101 - 122)
 - b) Audit Fee Scales 2021/22 (Pages 123 - 134)
- 14. HMICFRS Value for Money Profiles [FOIA - Open]**
To be presented by Neal Butterworth – **Deferred.**

CLOSED AGENDA ITEMS

- 15. Closed Minutes Items [FOIA - Closed (various)]** (Pages 135 - 140)
To confirm the minutes of the closed items from the previous Independent Audit Committee meeting.
- 16. Action Log [FOIA - Closed (various)]** (Pages 141 - 158)
To review the action log and receive updates for ongoing actions.
 - a) Action log number 56 - Policy - Gifts and Gratuities (Pages 159 - 164)
 - b) Action log number 56 - Procedure - Gifts and Gratuities (Pages 165 - 174)
- 17. Closed Items of Chair's Business [FOIA - Closed (various)]**
To be presented by the Chair.
 - a) Agenda 7 Appendix B - Summary of Limited Opinions (Pages 175 - 178)
To be presented by David Hill.

18. Reduction in Audit Days 2022/23 [FOIA Closed s. 22] (Pages 179 - 180)

To be presented by Karen James.

19. Audit Action Update [FOIA - Closed s. 22] (Pages 181 - 192)

To present the Audit Action update.

To be presented by Karen James.

20. Draft Code of Corporate Governance Dorset [FOIA Closed (various)]

a) Part 1 - Summary of Code of Governance (Pages 193 - 196)

b) Part 2 - Statement of Corporate Governance (Pages 197 - 206)

c) Part 3 - Scheme of Corporate Governance (Pages 207 - 212)

d) Part 3A - Schedule of Roles and Responsibilities - Deferred

e) Part 3B - Scheme of Delegation and Consent - Deferred

f) Part 3C - Financial Regulations (Pages 213 - 258)

g) Part 3D - Contract Standing Orders (Pages 259 - 276)

h) Part 3E - Committee Governance - Deferred

To be presented by Julie Strange

21. Draft Annual Governance Statement [FOIA - Closed s.22]

a) Devon and Cornwall (Joint) (Pages 277 - 294)

b) OPCC Dorset (Pages 295 - 312)

c) Dorset Police Force (Pages 313 - 330)

To present the Draft Annual Governance Statements.

To be presented by Karen James.

22. Resourcing Major Operations Update [FOIA -Closed s.22]

To provide a verbal update on resourcing matters.

To be presented by Sandy Goscomb and Steve MacKenzie.

23. Regional Governance [FOIA - Closed s.23] (Pages 331 - 336)

To be presented by Sandy Goscomb

24. Staff Wellbeing and Sustainability [FOIA - Closed s.22] (Pages 337 - 366)

To be presented by Sgt David Green.

25. Verbal Update by Chief Constable (Open Invitation) - Devon & Cornwall [FOIA - Closed s.23]

Verbal update on the financial arrangements and risks from G7.

To be presented by Sandy Goscomb on behalf of the Chief Constable.

26. Summary update to the Chief Constables and PCCs [FOIA - Closed s.22]

To record from the Chair the update to be provided to the Chief Constables and PCCs

Attendance

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Helen Donnellan (Chair)
Tom Grainger (Vice-Chair)

Chair
Vice Chair

Jo Norton
Gordon Mattocks
Sandy Goscomb

Steven Mackenzie

Committee Member
Committee Member
Director of Finance and Resources (Devon and Cornwall Police Force)
Interim Assistant Chief Officer (Dorset Police)

Nicola Allen

Neal Butterworth

Treasurer (Office of the Police and Crime Commissioner, Devon and Cornwall)
Head of Finance (Devon and Cornwall and Dorset Police Force)

Julie Strange

Treasurer (Office of the Police and Crime Commissioner, Dorset)

Lucinda Hines
Karen James

Head of Technical Accounting (Alliance)
Head of Alliance Audit, Insurance and Strategic Risk Management

Jo George
Alex Walling
Mark Bartlett
Laura Wicks

Senior Audit Manager
Associate Director (Grant Thornton)
Grant Thornton
Principal Auditor (South West Audit Partnership)

Simon Bullock

Chief Executive Officer (Office of the Police and Crime Commissioner, Dorset)

Frances Hughes
David Green

OPCC Chief Executive
Alliance and Wellbeing Team

Apologies

David Bowles
Alison Hernandez

Committee Member
Police and Crime Commissioner Devon and Cornwall

Martyn Underhill
James Vaughan
Shaun Sawyer

Police and Crime Commissioner Dorset
Chief Constable Dorset Police
Chief Constable Devon and Cornwall Police

Rupert Bamberger

South West Audit Partnership

The Public Sector Equality Duty (PSED) as set out in **section 149 of the Equality Act 2010** requires public bodies to have **due regard** to the need to:

1. Eliminate unlawful discrimination, harassment, victimisation and any other prohibited conduct prohibited by the Act; and
2. Advance equality of opportunity between people who share a protected characteristic and people who do not share it; and
3. Foster good relations between people who share a protected characteristic and people who do not share it.

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Independent Audit Committee

Tuesday 26th January 2021 at 09:30

Via Microsoft Teams

Attendance

| | |
|------------------|--|
| Helen Donnellan | Chair and Committee Member |
| Martyn Underhill | Police and Crime Commissioner (Dorset) |
| James Vaughan | Chief Constable (Dorset Police) |
| Tom Grainger | Committee Member |
| Gordon Mattocks | Committee Member |
| David Bowles | Committee Member |
| Nicola Allen | Treasurer (Office of the Police and Crime Commissioner, Devon and Cornwall) |
| Sandy Goscomb | Director of Finance and Resources (Devon and Cornwall Police Force) |
| Steve Mackenzie | Interim Assistant Chief Officer (Dorset Police Force) |
| Julie Strange | Chief Financial Officer (Office of the Police and Crime Commissioner, Dorset) |
| Neal Butterworth | Head of Technical Accounting (Alliance) |
| Karen James | Head of Alliance Audit, Insurance and Strategic Risk |
| Jo George | Senior Audit Manager |
| Lucinda Hines | Head of Technical Accounting |
| Helen Morgan | Executive Support Officer (Office of the Police and Crime Commissioner for Devon and Cornwall) |
| Rupert Bamberger | South West Audit Partnership |
| Alex Walling | Grant Thornton |
| Jo Norton | Member of Public (for the Open Section only) |

04/21/01 Apologies for Absence

| | |
|------------------|--|
| Fran Hughes | Chief Executive OPCC Devon and Cornwall |
| Laura Wicks | South West Audit Partnership |
| Alison Hernandez | Police and Crime Commissioner (Devon & Cornwall) |
| Mark Bartlett | Grant Thornton |

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Shaun Sawyer
Steve Lyne
Simon Bullock

Chief Constable (Devon and Cornwall Police)
Chief Superintendent Dorset Police
Chief Executive OPCC Dorset

**04/21/02 Declarations of Interest, Equality and Health and Safety
Obligations**

TG pointed out that his previous conflict of interest with a charity in Dorset has ceased, as the charity has been wound up. No Equality and Health and Safety Obligations were raised.

04/21/03 Open Minute Items [FOIA – Open]

The draft open minutes from the meeting of the Independent Audit Committee (IAC) held on 29 October 2020 were agreed as a true and accurate record.

04/21/04 Open Items of Chair's Business [FOIA – Open]

HD welcomed the change to allow co-opting and SG/SM confirmed that co-opting has been fully agreed by all the 151s and Corporation Soles. Jo Norton has been identified as potentially having the skills and knowledge to fill the role and wishes to proceed with the recruitment/appointment process as a co-opted member onto IAC. It is hoped JN will be able to join the April meeting, and in the meantime, JN will be joining as a member of the public to observe the open section of this meeting.

HD highlighted the efficiencies introduced by IAC over the last year. This included virtual meetings, the use of technology, no printing and postage of papers, a revised report template with focus highlighted, shorter meetings with questions sent to officers in advance and thorough preparation by members so reports do not have to be read aloud at meetings by their author. The Lenovo laptops are all functioning with some parts of Mod.Gov, however, there are currently no automatic alert messages for emails. It has not yet been possible to receive any training in the use of Mod.Gov and this would be welcomed.

IAC appraisals have been completed and a training plan is being developed. IAC wishes to establish two half days for training annually, including remote and regional meetings such as Value for Money audit changes. The informal IAC members meetings have proved to be very positive and productive, serving as an update to members (being open and transparent) and supporting the production of the annual report from the Committee. HD reported one positive response of contact with other IACs in the South West.

HD asked for clarification of the regional governance of collaborations. SG stated she is a member of the Regional Collaboration Strategic Board as the financial representative. The Board meets quarterly and has sight of reports for scrutiny and transparency before they are progressed. Projects are owned by the Avon and Somerset project team and there is a Section 22a for each one, for example Regional Organised Crime Units (ROCU). HD asked if it would be possible for IAC to be

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provided with a succinct report. SG stated that most of the activity is operational and therefore not publicly accessible however, it would be possible to provide information on Governance.

ACTION: SG to provide a succinct governance document on the regional arrangements to the IAC.

04/22/05 Devon & Cornwall Financial Strategies [FOIA – Open]

04/21/06 Dorset Financial Strategies [FOIA – Open]

As previously agreed with the PCC Treasurers, the Chair changed the format of the agenda to present coinciding reports for each Force in sequence and focus on the differences between them.

Treasury Management

NA presented IAC with an update from the Treasury Management (TM) report for Devon and Cornwall Police with a view to providing assurance. NA highlighted key areas such as negative interest rates, earning interest, Money Market Sector Limits, Markets in Financial Instruments Directive II (MiFID II), International Financial Reporting Standards (IFRS) and 16 Leases. NA outlined the changes in this year's policy which includes the possibility of negative interest rates and the implications of the current low base rate which will result in a significant drop in the amount of interest earned. NA explained the PCC is responsible for the Treasury Management function, which is delegated to NA. The TM strategy provides guidelines which are followed by LH and the finance team. NA is kept up to date by LH and the finance team and decisions go back to NA for approval. IAC asked whether the organisations are prepared for negative interest rates. DB asked about the pressure on resources for the future and NA stated an allowance has been made within funding from central government and council tax building in inflation. The cost of borrowing is reducing and the income from investment is also reducing so it is anticipated that these areas will balance out. It is not possible to endorse this until the negative interest is known however this will be reported back to IAC when it is confirmed.

JS stated that the responsibility for Treasury Management in Dorset is similar to Devon and Cornwall. Dorset is trying to achieve rates in line with inflation and long-term investments.

Capital Strategy

NA presented the Capital Strategy for Devon and Cornwall. IAC queried whether business cases are revisited when there is a time lag between the proposal and inclusion in capital schemes. NA advised the 2020/21 strategy has been reviewed and a Capital Strategy group has been set up. The Group meets every quarter to scrutinise and filter business cases coming in and whether they should be included in the Capital Programme and Budget Process. All business cases go to Resources Board for approval on a quarterly basis, as this is the governing board for the Capital Strategy programme. On occasions there is an allocation rather than approved scheme, subject to a business case. For example, Barnstaple Police Station will need a longer-term

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project and therefore an allocation has been put in for year four in the MTFs, as it is acknowledged the organisation will have to address this in the future. The Capital Programme is used to ensure funds are not allocated elsewhere. However, they will not be spent until the business case comes through and is approved through normal governance at Executive level. GM asked for assurance from NA that if a capital scheme is delayed whether this goes back to assumptions and review. NA stated there are milestones in place so even when a project is approved a report would be expected to come back to Resources Board with any changing costs and tenders to provide reassurance.

JS informed that business cases for Dorset go through the Operational Board to review and support before coming to the Capital Strategy Group. This provides additional information for decision making. Business cases also go to the Joint Leadership Board. JS highlighted a specific aspiration for Capital Strategy this year is that Dorset should work towards only using borrowing as a method to fund assets with a life of more than 15 years.

Draft Reserves Strategy

IAC asked if reserves have previously been lower than risk value and if this contravenes rules or regulations. NA stated that three years ago reserves dipped very slightly at year-end creating an overall risk. NA confirmed this does not contravene any rule or regulation but does contravene strategy (best practice). The Reserves Strategy also goes through a dynamic risk assessment every year.

IAC asked for clarification on the purpose of the Budget Management Fund in Dorset. JS stated it is proposed to use a general fund reserve however, the Police and Crime Panel recommended this was shown separately for transparency. JS stated Dorset were predicting to be overspent in budget monitoring earlier this year, which would have taken reserves below the minimum level. However, action was taken to resolve this by the year end. Contribution to the uplift table will be finalised alongside the budget. The report will depend on what is approved at the precept approval meeting.

04/21/07 Internal Audit Quarterly Update and Highlights [FOIA – Open]

Appendix B has been moved to item 18 on the agenda.

RB presented an update on progress of the Internal Audit Plan over the last quarter. RB advised he and David Hill will cover for sick leave that has occurred. IAC asked if there should be a replacement for the omitted Regional Audit on Environmental Action. RB advised that SG discussed this at the Regional Directors' Finance Group. The matter is being progressed and it is anticipated a response will be received within the next few weeks. SG is writing to propose that the Strategic Board direct large regional projects rather than Regional Directors.

IAC asked that the reasons for additional audits and any audits omitted are shown in the Internal Auditor's report to increase understanding and transparency.

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ACTION: RB to add reasons for additional audits as well as omissions in future quarterly Internal Audit update reports.

04/21/08 External Audit Quarterly Report [FOIA – Open]

AW presented an update on external audit work over the last quarter and looking forward to the next quarter. AW highlighted the changed Value for Money (VfM) arrangements for 2021/22. These changes cover a wider remit than just finance, which could potentially lead to additional fees being incurred. AW said an update report on the accounts should be ready by the end of today and completed for circulation over the next few days. It is hoped to issue the final accounts audit by the end of January for both Forces. However, there are still some queries outstanding. HD raised concerns about the length of time taken to complete the accounts, which causes considerable pressures on the finance department. SG has raised an additional risk with Grant Thornton, the external auditors, due to the guidance awaited on police pensions. The accounts need to be finalised as soon as possible to avoid the risk of having to re-calculate the pension figures. TG asked about the outstanding queries for the Dorset pension fund and was informed that these had been resolved.

AW stated that delays in audit nationally have added to the workload around COVID, remote working and training and this will have impact on audit resources in 2021. NA expressed concerns about audit resources and the interim audit for 2020/21. This is due to be carried out in February/March 2021. Regular meetings take place between S151 officers, the finance team and GT to discuss audit resources and timescales for audit activity and completion. SG echoed these concerns and stressed Devon and Cornwall have added investment for the Finance Team to bolster their resources in 2021/22. SG stressed that if there is an increase in GT's fees as external auditors, she would expect greater capacity in their audit team and improvement in performance. SM confirmed that Dorset have also invested in the Finance Team, as an Alliance team. It was noted LH and the Finance Team have spent time dealing with auditors' queries raised recently, which could have been resolved some time ago. This has limited their attention to 2021 accounts, was avoidable and puts huge pressure on LH and the Finance Team. They are working to finalise accounts for 2020/21 at the same time as dealing with queries on the 2019/20 accounts. Having two sets of accounts open simultaneously is not sustainable and compromises staff welfare.

TG proposed and it was agreed that significant these concerns are reinforced to CCs and PCCs, along with lessons to be learned. AW agreed GT would like to progress closing accounts as soon as possible and hopes to complete some work this week.

ACTION: S151s to reinforce concerns about the impact of the Grant Thornton external audit on resources and staff welfare to CC's and PCC's including lessons to be learned.

~~04/21/09 Joint Annual Audit Letters [FOIA – Open]~~

~~To be presented by Mark Bartlett.~~

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This item has been deferred to a future meeting.

04/21/10 PSAA Consultation on 2021/22 Audit Fee Scale [FOIA – Open]

KJ presented an update on the PSAA consultation. IAC asked if the response from the four corporations soles raised the possibility of provision for reduced fees where there are shared or common services, for example, the Strategic Alliance. KJ stated that the S151s are sending individual repos and she will submit a response before the 19 February deadline. TG welcomed that the PSAA appeared to be responding to the issue. SG reiterated the need to recognise that more resources are needed in order to overcome some of the problems and pressures on staff to produce modern accounts. SM supported the need for an increase in auditor fees due to additional work, however IAC agreed they would like to see more auditors deployed to justify any increase in fees.

ACTION: S151s to each submit a response to PSAA.

04/21/11 Update on Fraud and Corruption Investigations [FOIA – Open]

KJ provided an update on the number of Fraud and Corruption investigations that have taken place since the IAC meeting on 29 October 2020. IAC pointed out that the position of one table in the report lacked clarity and asked that text and titles are changed for clarity.

ACTION: KJ to ensure changes are made to the Fraud and Corruption table for clarity at future meetings.

HD raised that the policy for 2020 does not appear to have been reviewed. KJ advised that reviews take place annually and it was last updated on 19 January 2020. The review for the current year is under way, by the Senior Audit Manager (JG) and will be finished shortly. It was pointed out that the Sharepoint entry for the 2020 review is not up-to-date.

At 11 am the open section of the meeting concluded

The Committee reconvened at 11:05 am

04/21/12 Closed Minute Items [FOIA – Closed (various)]

04/21/13 Action Log [FOIA – Closed s. 22]

04/21/14 Items of Chair's Business [FOIA – Closed (various)]

**03/20/15 Code of Corporate Governance Devon and Cornwall
[FOIA – Closed (various)]**

- a. Part 1 – Summary of Code of Governance
- b. Part 2 – Statement of Corporate Governance
- c. Part 3 – Scheme of Corporate Governance
 - Part 3A – Schedule of Roles and Responsibilities
 - Part 3B – Scheme of Delegation and Consent
 - Part 3C – Financial Regulations
 - Part 3D – Contract Standing Orders (plus Appendix D)
 - Part 3E - Committee Governance

**04/21/16 Code of Corporate Governance Dorset [FOIA – Closed
(various)]**

04/21/17 Audit Action Update [FOIA – Closed s.22]

**04/21/18 Internal Audit - Summary of Limited Opinions [FOIA –
Closed s.22]**

**04/21/19 Update on the Budget Survey Process in Devon and
Cornwall [FOIA – Closed (various)]**

**04/21/20 Verbal Update on Wider Challenges for Policing and
Assurance against Strategic Risks [FOIA – Closed
(various)]**

**04/21/21 Summary update to the Chief Constables and PCC's
[FOIA – Closed s.22]**

There being no other business the meeting closed at 12:40

**The next full IAC meeting is scheduled for 29 April 2021 at 09:30 via
Microsoft Teams.**

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Devon & Cornwall Police and The Office of the Police & Crime Commissioner (OPCC)

Dorset Police and The Office of the Police & Crime Commissioner (OPCC)

Report of Internal Audit Activity - April 2021

Internal Audit ■ Risk ■ Special Investigations ■ Consultancy

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Unrestricted

Executive Summary

The Assistant Director is required to provide an annual opinion to support the Annual Governance Statement.

As part of our plan progress reports, we will provide an ongoing opinion to support the end of year annual opinion.

We will also provide details of any significant risks that we have identified in our work, along with a supporting Appendix detailing 'Limited' assurance opinion reviews.



Audit Opinion and Summary of Significant Risks

Audit Opinion:

We have issued eight advisory reviews where no formal assurance opinion has been required. We have also issued five 'limited', ten 'reasonable' and one 'substantial' assurance opinion reviews. At the time of writing, we would expect to provide an overall 'reasonable' opinion, however, this will be reviewed upon completion of the remaining assurance engagements.

Internal Audit Plan

Good progress is being made with the 2020/21 audit plan, as outlined in **Appendix A** and in the performance table below. At the time of compiling this report, there are a number of audits still in the fieldwork stage, however they are very much nearing completion and as such, a verbal update will be given at the Committee.

Overall Performance Year to Date:

| Performance Measure | Performance |
|--------------------------------------|-------------|
| <u>Delivery of Annual Audit Plan</u> | |
| Completed | 74% |
| Work at Draft Report Stage | 9% |
| Fieldwork in Progress | 17% |
| Not Yet Started | 0% |

Further detail on the status of each audit is provided in **Appendix A**.

Significant Risks

No significant risks have been identified since the previous report to this Committee.

Where audit reviews have resulted in a limited assurance rating since the meeting of the IAC in October 2020, a summary of the key findings from these reviews have been summarised at **Appendix B**. **We have updated the Appendix to reflect the style of our one-page report, now that this has become embedded. We welcome any feedback on this style for the Appendix.** Since our last progress report to Committee, there have been two reviews finalised that received a limited assurance opinion:

- DPDCP Accounts Payable
- DP – Fire Safety Management

Executive Summary

We have also completed an Interim Assessment for work completed on Information Sharing Agreements (ISAs) This received a limited assurance opinion and is summarised in Appendix B. No recommendations were raised within this report due to the interim nature of the work completed.

Outstanding Recommendations

Outstanding recommendations are now presented by the Alliance Audit Team. SWAP will continue to review a sample of priority one and two recommendations each year to verify implementation. Any concerns around these will be flagged to the Committee.

Regional Audit Work

As reported previously, we had not received a replacement audit for the originally agreed piece of work regarding Environmental Action. However, the work around Regional Vetting was delayed due to staff sickness in the Team but is now progressing well and a verbal update will be provided on this at the meeting.

Internal Audit Plan Progress 2020/21

We keep our audit plans under regular review to ensure that we are auditing the right things at the right time.



Approved Changes to the Audit Plan

The Strategic Alliance Audit Plan for 2020/21 is reported under **Appendix A** and is subject to change to meet the requirements and emerging risks of the Strategic Alliance.

We experienced some client delays in advancing audits during quarter four, particularly for the Right to Work Checks and Firearms Licensing audits.

Since the last IAC meeting, we have not added any additional audits to the 2020/21 Plan. We note the action from the January 2021 meeting to include commentary here in future reports regarding the addition of new audits.

A change of scope direction was agreed for one audit:


- The Review of the New Fleet System audit was replaced by any audit of Fleet Telematics, due to the infancy of the new system implementation and potential risks around telematics.

The audit of Data Sharing Arrangements was renamed Information Sharing Agreements and completed on an interim basis following liaison with the Service.

Two audits have been agreed to be deferred from the 2020/21 Plan into the 2021/22 Plan:

- ICT Strategy (this scope may change – TBC); and
- Making Tax Digital.

These will be delivered in addition to the audits outlined within the Proposed 2021/22 Plan presented separately.

| Audit Type | Audit Area | Audit Partner | Cost | Period | Status | Opinion | No of Recs | 1 = Major |  | 3 = Minor |
|-------------------------------|---|----------------|-------|--------|-----------|------------|------------|----------------|---|-----------|
| | | | | | | | | Recommendation | | |
| | | | | | | | | 1 | 2 | 3 |
| Reporting Stage | | | | | | | | | | |
| Finance | Continuous Auditing - Data Analytics | DP & DCP | 1,520 | Q1 | Competed | Advisory | N/A | - | - | - |
| Governance, Fraud & Risk Mgt. | Review of 2019/20 AGS Documents - Prior to publication | DP & DCP | 608 | Q1 | Completed | Advisory | N/A | - | - | - |
| Finance | Safety Camera Partnership | D & C OPCC | 2,128 | Q1 | Completed | Limited | 4 | - | 4 | - |
| Governance, Fraud & Risk Mgt. | IAC Governance regarding Operational Policing | DP & DCP | 1,520 | Q1 | Completed | Advisory | N/A | - | - | - |
| Finance | Payments to the National Police Air Service (NPAS) | DP & DCP | 3,040 | Q1 | Completed | Advisory | N/A | - | - | - |
| Finance | Chief Officer and OPCC Expenses | DP & DCP | 4,560 | Q1 | Completed | Reasonable | 3 | - | 2 | 1 |
| Collaborations | Transforming Forensics | Dorset Police | 6,080 | Q2 | Completed | Reasonable | 7 | - | 2 | 5 |
| Finance | Police Officer Overtime Follow Up – Part 1 | DP & DCP | 1,520 | Q2 | Completed | Follow Up | N/A | - | - | - |
| Finance | Superintendent & Heads of Service Expenses | DP & DCP | 3,040 | Q1 | Completed | Reasonable | 3 | 0 | 2 | 1 |
| OPCC | Ministry of Justice Victims Services Grant | DP & DCP OPCCs | 4,560 | Q1 | Completed | Reasonable | 1 | 0 | 0 | 1 |
| Force Functions | Estates – Statutory Obligations Management – Gas, Electrical compliance, Legionella & asbestos. | DCP OPCC | 4,560 | Q2 | Completed | Reasonable | 9 | 0 | 1 | 8 |
| Force Functions | Fleet Vehicle Safety Checks | DP & DCP | 4,560 | Q3 | Completed | Limited | 2 | 0 | 1 | 1 |
| Finance | Cashflow Spreadsheet Review | DP & DCP | 1,824 | Q3 | Completed | Advisory | N/A | - | - | - |

Internal Audit Plan Progress 2020/21

Appendix A

| | | | | | | | | | | |
|-----------------------------|--|-------------------------|-------|----|--------------|-------------|--------------|---|---|---|
| Force Wellbeing | Support to officers and staff investigating crimes with vulnerable victims | Dorset Police | 3,040 | Q2 | Completed | Reasonable | 4 | - | 1 | 3 |
| Collaborations | Contract Monitoring | DP & DCP | 4,560 | Q2 | Completed | Reasonable | 1 | - | - | 1 |
| IT & Information Management | Cyber Security | DP & DCP | 6,080 | Q2 | Completed | Advisory | N/A | - | - | - |
| Finance | Key Financial Control Reviews - to include : | DP & DCP | | Q3 | Completed | | | | | |
| | Accounts Receivable | | 3,040 | | | Reasonable | 4 | - | - | 4 |
| | Accounts Payable | | 5,472 | | | Limited | 4 | - | 4 | - |
| | Payroll | | 4,560 | | | Substantial | 1 | - | - | 1 |
| | Main Accounting | | 3,040 | | | Reasonable | 5 | - | 1 | 4 |
| | Budget Monitoring | | 3,648 | | | Reasonable | 1 (DCP only) | - | - | 1 |
| Force Functions | OPCC Budget Consultation Review | D&C OPCC | 1,216 | Q4 | Completed | Advisory | N/A | - | - | - |
| Force Functions | Estates / HR (H&S) - Fire Safety Management | Dorset Police | 3,040 | Q4 | Completed | Limited | 7 | 2 | 4 | 1 |
| IT & Information Management | Information Sharing Agreements | DP & DCP | 3,952 | Q4 | Completed | Limited | 0 | - | - | - |
| Force Functions | Fleet Telematics | DP & DCP | 4,560 | Q4 | Completed | Advisory | N/A | - | - | - |
| In Progress | | | | | | | | | | |
| Force Functions | Right to Work in UK Checks | DP & DCP | 1,824 | Q3 | Draft Report | TBC | - | - | - | - |
| Force Functions | Custody Meals – Data Analysis | Devon & Cornwall Police | 1,520 | Q3 | Draft Report | TBC | - | - | - | - |
| Force Functions | Contracting with Training Providers (PEQF) | DP & DCP | 3,040 | Q4 | Draft Report | TBC | - | - | - | - |
| Prevention and Deterrence | Firearms Licensing | DP & DCP | 4,560 | Q4 | Fieldwork | - | - | - | - | - |
| Finance | Police Officer Overtime Follow Up – Part 2 | DP & DCP | 1,520 | Q4 | Fieldwork | Follow Up | N/A | - | - | - |
| IT & Information | Telephony | D&C | 4,560 | Q4 | Fieldwork | - | - | - | - | - |

| | | | | | | | | | | |
|-------------------------------|--|-------------|-------|------|-----------|---|---|---|---|---|
| Protecting Vulnerable People | Victim Support Contract Re-Commissioning | Dorset OPCC | 3,040 | Q4 | Fieldwork | - | - | - | - | - |
| Governance, Fraud & Risk Mgt. | Regional Audit Allocation | DP & DCP | 3,040 | Q1-4 | Fieldwork | - | - | - | - | - |
| Responding to the Public | Complaints Handling | DP & DCP | 6,080 | Q4 | Fieldwork | - | - | - | - | - |
| Deferrals | | | | | | | | | | |
| IT & Information Management | Allocation for ICT Audit – Scope to be determined (was ICT Strategy) | DP & DCP | 4,560 | | | | | | | |
| Finance | VAT – Making Tax Digital | DP & DCP | 3,952 | | | | | | | |

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Dorset Police and the Office of the Police and Crime Commissioner (OPCC) Devon & Cornwall Police and the Office of the Police and Crime Commissioner (OPCC)

Proposed 2021-22 Internal Audit Plan
and Internal Audit Charter

The Internal Audit Plan: Summary

The internal audit plan represents a summary of the proposed audit coverage that the internal audit team will deliver throughout the 2021/22 financial year.

Delivery of an internal audit programme of work that provides sufficient and appropriate coverage, will enable us to provide a well-informed and comprehensive year-end annual internal audit opinion.



Introduction and Objective of the Internal Audit Plan

Internal audit provides an independent and objective opinion on the risk management, governance, and control environment of Dorset Police and OPCC and Devon & Cornwall Police and OPCC by evaluating its effectiveness.

Prior to the start of each financial year, SWAP, in conjunction with senior management, put together a proposed plan of audit work. The objective of our planning process and subsequent plan is to put us in a position to provide a well-informed and comprehensive annual audit opinion, based on sufficient and appropriate coverage of key business objectives, associated risks, and risk management processes.

The outcomes of each of the audits in our planned programme of work, will provide senior management and the Independent Audit Committee (IAC) Members with assurance that the current risks faced by the Forces and OPCCs in these areas are adequately controlled and managed.

It should be noted that internal audit is only one source of assurance, and the outcomes of internal audit reviews should be considered alongside other sources, as part of the 'three lines of defence' assurance model. Key findings from our internal audit work should also be considered in conjunction with completion of the Annual Governance Statement for the Forces and OPCCs.

It is the responsibility of the respective leadership teams for both Forces and OPCCs and the Independent Audit Committee (IAC), to determine that the audit coverage contained within the proposed audit plan is sufficient and appropriate in providing independent assurance against the key risks faced by the organisation.

When reviewing the proposed internal audit plan (as set out in Appendix 1), key questions to consider include:

- Are the areas selected for coverage this coming year appropriate?
- Does the internal audit plan cover the organisation's key risks as they are recognised by the senior leadership teams of the Forces and OPCCs and the IAC?
- Is sufficient assurance being received within our annual plan to monitor the organisation's risk profile effectively?

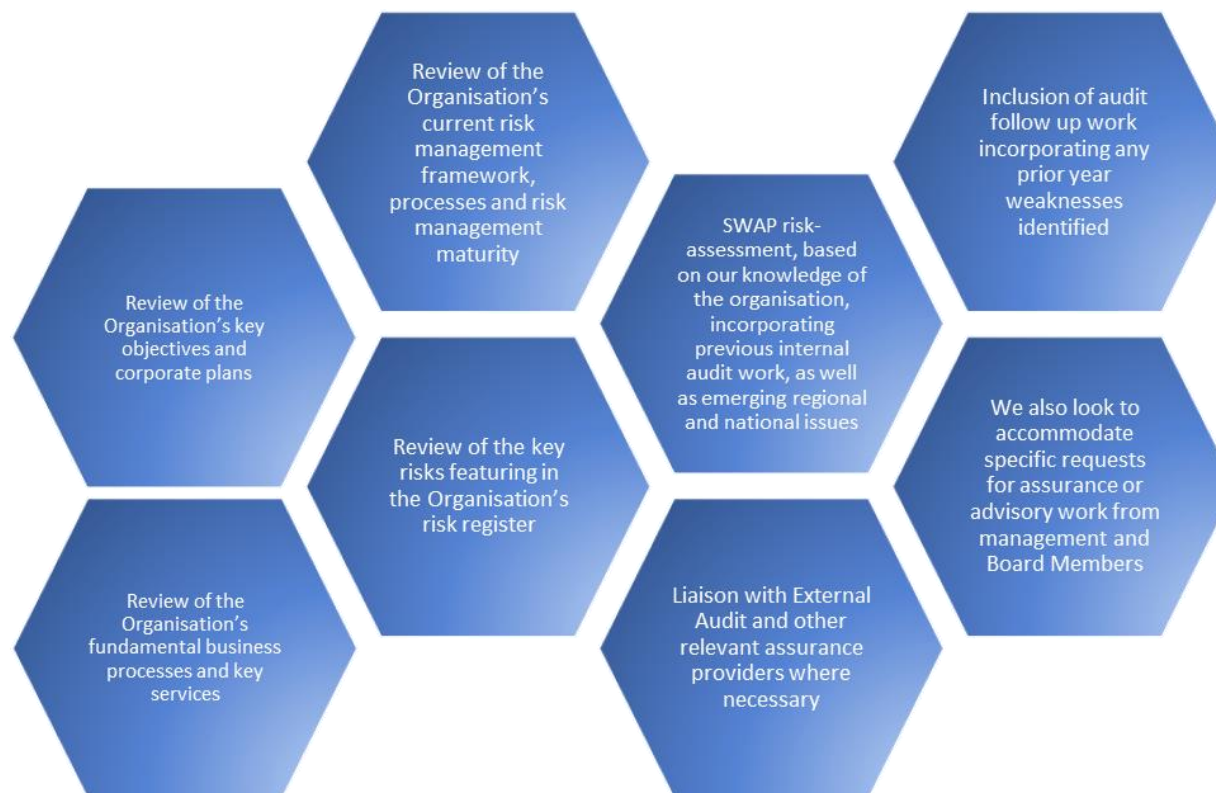
The Internal Audit Plan: Approach

To develop an appropriate risk-based audit plan, SWAP have consulted with senior management, as well as reviewing key documentation, in order to obtain an understanding of the organisation's strategies, key business objectives, associated risks, and risk management processes.



Approach to Internal Audit Planning 2021/22

The factors considered in putting together the 2021/22 internal audit plan have been set out below:



We will regularly re-visit and adjust our programme of audit work to ensure that it matches the changing risk profile of the organisation's operations, systems and controls. Whilst there is currently no formal Contingency allocation proposed, the 2021/22 audit plan can remain flexible to respond to new and emerging risks as and when they are identified. This can be through the replacement of lower-risk audits or through other agreement.

The Internal Audit Plan: Risk Assessment

A documented risk assessment prior to developing an internal audit plan, ensures that sufficient and appropriate areas are identified for consideration.

As above, it is the responsibility of the leadership teams for the Forces and OPCCs and the IAC to ensure that, following our risk assessment, the proposed plan contains sufficient and appropriate coverage.



Internal Audit Annual Risk Assessment

Our 2021/22 internal audit programme of work is based on a risk assessment, which SWAP will re-visit regularly, but at least annually. The input of senior management as well as review of the risk registers for the Forces and OPCCs will be considered in this process.

Below we have set out a summary of the outcomes of the risk assessment for Dorset Police and OPCC and Devon & Cornwall Police and OPCC:



The Internal Audit Plan: Coverage

We have set out how the proposed 21/22 plan presented in Appendix 1 provides coverage of the key components set out in the Force Management Statement (FMS), against which we have aligned our audit universe.

Internal audit is only one source of assurance; therefore, where we are not covering particular areas, assurance should be sought from other sources where possible, such as HMICFRS, in order to ensure sufficient and appropriate assurances are received.

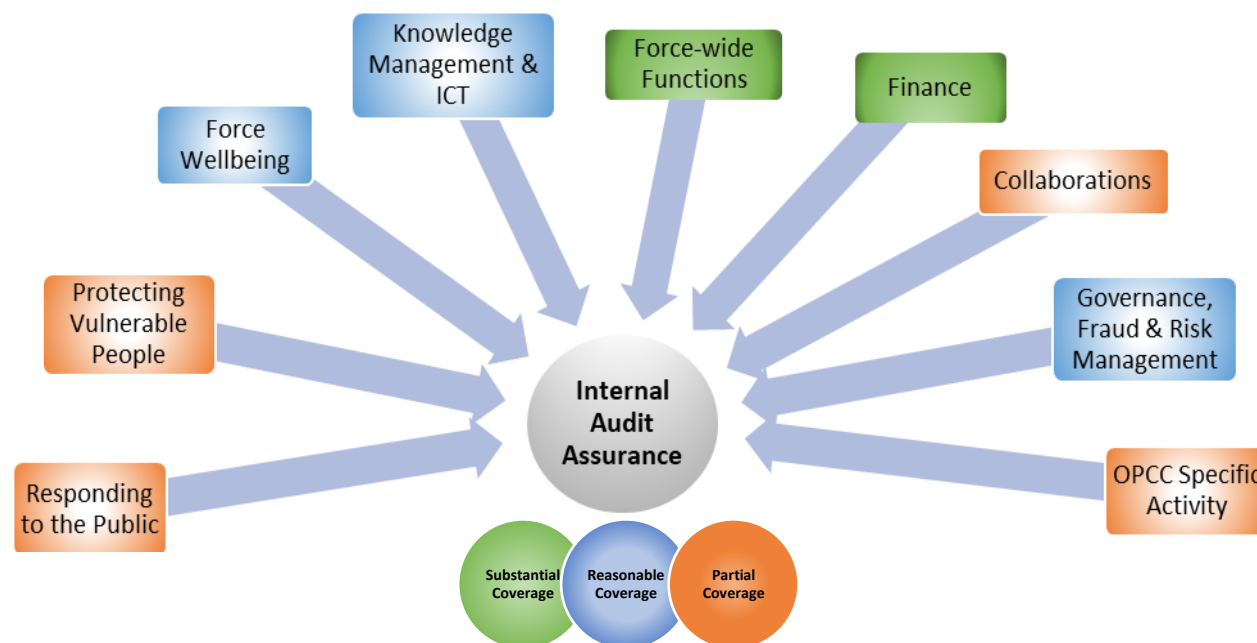
We have set out the coverage against the FMS areas where audits in the 21/22 Plan have been proposed as a proportion of total time available. For 2021/22, the internal audit plan does not afford coverage to the following areas and alternative assurance sources should be sought, as a minimum:

- Prevention & Deterrence
- Investigations
- Managing Offenders
- Managing Serious and Organised Crime
- Major Events



Internal Audit Coverage in 2021/22

Following our SWAP risk assessment, we have set out below the extent to which the proposed plan presented in Appendix 1 provides coverage of the key corporate objectives and risks for the Forces and OPCCs, as well as our core areas of recommended audit coverage:



Internal audit coverage can never be absolute and responsibility for risk management, governance and internal control arrangements will always remain fully with management. As such, internal audit cannot provide complete assurance over any area, and equally cannot provide any guarantee against material errors, loss or fraud.

It is important to note that the plan should remain flexible and respond to the changing risk landscape, therefore, we should also maintain a Reserve List of audit areas, over and above the audit budget as outlined in Appendix 1. This will allow us to amend the plan as and when it is correct to do so to address high risk emerging areas.

The Internal Audit Plan: SWAP

SWAP Internal Audit Services is a public sector, not-for-profit partnership, owned by the public sector partners that it serves. The SWAP Partnership now includes 24 public sector partners, crossing eight Counties, but also providing services throughout the UK.

As a company, SWAP has adopted the following values, which we ask our clients to assess us against following every piece of work that we do:

- Candid
- Relevant
- Inclusive
- Innovative
- Dedicated



Your Internal Audit Service

Audit Resources

The 2021/22 internal audit programme of work will be equivalent to 443 days. The current internal audit resources available represent a sufficient and appropriate mix of seniority and skill to be effectively deployed to deliver the planned work. The key contacts in respect of your internal audit service for Dorset Police and OPCC and Devon & Cornwall Police and OPCC are:

Laura Wicks, Assistant Director – laura.wicks@swapaudit.co.uk, 020 8142 5030

Ed Nichols, Principal Auditor – edward.nichols@swapaudit.co.uk, 020 8142 5030

Tracey Kirkpatrick, Senior Auditor – tracey.kirkpatrick@swapaudit.co.uk, 020 8142 5030

External Quality Assurance

SWAP work is completed to comply with the International Professional Practices Framework of the Institute of Internal Auditors (IPPF).

Every three years, SWAP is subject to an External Quality Assessment of Internal Audit Activity. The last of these was carried out in February 2020 which confirmed general conformance with the IPPF.

Conflicts of Interest

We are not aware of any conflicts of interest within Dorset Police and OPCC and Devon & Cornwall Police and OPCC that would present an impairment to our independence or objectivity. Furthermore, we are satisfied that we will conform with our IIA Code of Ethics in relation to Integrity, Objectivity, Confidentiality, & Competency.

Consultancy Engagements

As part of our internal audit service, we may accept proposed consultancy engagements, based on the engagement's potential to improve management of risk, add value and improve the organisation's operations. Consultancy work that is accepted, will contribute to our annual opinion and will be included in our plan of work.

Approach to Fraud

Internal audit may assess the adequacy of the arrangements to prevent and detect irregularities, fraud and corruption. We have dedicated counter fraud resource available to undertake specific investigations if required. However, the primary responsibility for preventing and detecting corruption, fraud and irregularities rests with management who should institute adequate systems of internal control, including clear objectives, segregation of duties and proper authorisation procedures.

The Internal Audit Plan: SWAP

Over and above our internal audit service delivery, SWAP will look to add value throughout the year wherever possible. This will include:

- Pieces of regional audit work with coverage directed by the Regional Directors of Finance
- Regional Police Bulletins twice per year detailing areas of risk identified within audit work
- Benchmarking and sharing of best-practice between our public-sector Partners
- Regular newsletters and bulletins containing emerging issues and significant risks identified across the SWAP partnership
- Communication of fraud alerts received both regionally and nationally
- Annual Member training sessions

Our Reporting

A summary of internal audit activity will be reported quarterly to senior management and the Independent Audit Committee (IAC). This reporting will include any significant risk and control issues (including fraud risks), governance issues and other matters that require the attention of senior management and/or the Audit Committee. We will also report any response from management to a risk we have highlighted that, in our view, may be unacceptable to the organisation.

Internal Audit Performance:

As part of our regular reporting to senior management and the IAC, we will report on internal audit performance. The following performance targets will be used to measure the performance of our audit activity:

| Performance Measure | Performance Target |
|---|--------------------|
| <u>Delivery of Annual Internal Audit Plan</u> Completed at year end | >90% |
| <u>Quality of Audit Work</u> Overall Client Satisfaction <i>(did our audit work meet or exceed expectations, when looking at our Communication, Auditor Professionalism and Competence, and Value to the Organisation)</i> | >95% |
| <u>Outcomes from Audit Work</u> Value to the Organisation <i>(client view of whether our audit work met or exceeded expectations, in terms of value to their area)</i> | >95% |

It should be noted that the audit titles and high-level scopes included below are only indicative at this stage for planning our resources. At the start of each audit, an initial discussion will be held to agree the specific terms of reference for the piece of work, which includes the objective and scope for the review.

| Link to FMS Section | Areas of Coverage and Brief Scope | Force/ OPCC | Proposed Days | Proposed Quarter |
|--|--|----------------|------------------|---------------------|
| IT & Knowledge Management | Implementation of NICHE - A review of the risk management processes of the integrity of data across both Forces. | Alliance | 15 | Q1 |
| Protecting Vulnerable People | Clinical Governance - A review into the management framework for acquisition, storage and issue of prescription drugs, in particular Naloxone & Pentorex. | Alliance | 20 | Q1 |
| Collaborations | Partnership Governance - Review of records maintained to ensure effective governance mechanisms exist with partnership organisations. | Alliance | 15 | Q1 |
| Force Wellbeing | Health & Safety of Front-Line Officers and Staff - Review to ensure the Trauma Risk Management (TRiM) working protocols are in place and being followed. | Alliance | 15 | Q1 |
| Force Functions | Seized Property Brought Back into Force Use - A review of the process and controls regarding seized property brought back into use by the Forces. | Alliance | 15 | Q1 |
| Force Wellbeing | Approach to Overpayments - A review of the overpayments policy in both Forces and reassurance around the process where an individual has been overpaid. | Alliance | 10 | Q1 |
| Responding to the Public | Operational Contact Management - A review of the contact mechanisms the public are using to contact the Force. | Dorset Police | 13 | Q1 |
| Force Wellbeing | Operational Overtime Review - To provide some independent assurance of the analysis work done already on cultural and role specific overtime areas. | D&C Police | 15 | Q2 |
| OPCC Specific Activity Finance | Ministry of Justice Victims Services Grant Incorporating the annual sign off of this grant at year end. To also include a review of the general grant processes in place. | OPCCs | 15 | Q2 |
| Protecting Vulnerable People OPCC Specific Activity | Victim Support Re-Commissioning - A review of the commissioning intentions for new contracts for victim support services, to include consideration of how value for money will be achieved. | D&C OPCC | 10 | Q2 |
| Force Functions | Learning & Development - Mandatory Training. A review of compliance with mandatory training regulations and the classification of mandatory training used in the Alliance for officers. | Alliance | 15 | Q2 |

| | | | | |
|--|--|----------------------|----|----|
| Governance, Fraud & Risk Management | Risk Management – A root and branch review on the new risk management arrangements. Alliance risk registers and their integration into the Corporate Risk Register in both forces. | Alliance | 15 | Q2 |
| Force Functions IT & Knowledge Management | Social Media use – Review of the use of social media apps, particularly use of WhatsApp on Force devices following NPCC Circular. | Alliance | 10 | Q2 |
| Finance | Accelerated Increments - There is a clear policy position in both Forces which allows management discretion and so assurance to be given around the process. | Alliance | 10 | Q2 |
| Finance | Key Financial Control Reviews To include aspects of: <ul style="list-style-type: none"> Accounts Receivable Accounts Payable Payroll Main Accounting Budget Monitoring Treasury Management/Use of Reserves | Alliance | 63 | Q3 |
| Force Functions | Fire Safety Equipment Testing - A review assessing how the risk in relation to fire safety equipment is effectively managed in D&C properties e.g., fire alarms, extinguishers, fire suppressants, emergency lighting, dry risers and hydrants. | D&C OPCC | 10 | Q3 |
| Finance | POCA Follow Up Audit - Review of Accounting mechanisms for both Forces and to provide assurance over the processes to enable the Force to use the appropriate proportion of the POCA funds to supplement Force budgets. | Alliance | 12 | Q3 |
| Force Functions Finance | Abnormal load management - A review into controls regarding this and to review the charging mechanism to ensure it covers all costs incurred. | Alliance | 15 | Q3 |
| Force Functions | Ammunition and Armoury Management – Review of the management and controls within this high-risk area. | Alliance D&C OPCC | 15 | Q4 |
| Force Functions | D&C Fire Safety Management - D&C element only - A review assessing how the Force/OPCC effectively manages the risk in relation to fire safety in its properties. | D&C OPCC | 10 | Q4 |
| Force Functions | Follow Up Audit on Vehicle Safety Checks - Undertake a review of the improved controls for vehicle safety checks - e.g. MOTs and services on the new system once live. | Alliance | 10 | Q4 |

| | | | | |
|-------------------------------------|--|----------------------|------------|------|
| Finance | Follow Up Audit of Accounts Payable in Estates and Fleet – <i>Undertake a review of controls in place regarding separation of duties in these two departments and the use of Purchase Orders.</i> | Alliance | 5 | Q4 |
| Governance, Fraud & Risk Management | Financial Governance <i>A review of the embeddedness of the new financial governance mechanisms following approval in late 2020/21.</i> | Alliance | 20 | Q4 |
| Force Functions | Annual Leave Central Record – <i>Dorset Only - Review of the Annual Leave controls following a move from Force wide system to Agresso for recording/requesting leave.</i> | Dorset Police & OPCC | 13 | TBC |
| IT & Knowledge Management | IT AUDIT – Further IT audit areas to be risk assessed during the 2021/22 year. | Alliance | 22 | TBC |
| Governance, Fraud & Risk Management | Quarterly Follow Up of Priority 1 & 2 Recommendations | Alliance/OPCCs | 10 | Q1-4 |
| Governance, Fraud & Risk Management | Planning, Reporting & Ad Hoc Advice | Alliance/OPCCs | 35 | Q1-4 |
| Governance, Fraud & Risk Management | Regional Audit Budget Contribution <i>A contribution to audit work completed on a regional basis.</i> | Alliance | 10 | Q1-4 |
| Governance, Fraud & Risk Management | Contingency for Emerging Risks/ Audits | Alliance/OPCCs | 0 | Q1-4 |
| | | Total | 443 | |

Areas for potential inclusion for future Internal Audit coverage informed by our discussions with the Alliance Audit, Insurance and Strategic Risk Team and our risk assessment on Page 3.

Reserve List / Potential Areas for Inclusion as part of Future Internal Audit Plans

Pension Administration
 Detective Numbers and Workforce Planning
 Serious Violence Response
 Crime Recording
 Fraud and Corruption Resources/ Risk Assessment
 Whistleblowing
 Evidence underpinning the Annual Governance Statement
 Performance Management
 Data Quality
 Business Continuity
 Lessons Learned – COVID 19/Agile workforce
 Fixed Penalty Notices – foreign drivers
 Fines and Charges for Interpreters
 Management of the Disciplinary Process

The Internal Audit Charter

Purpose

The purpose of this Charter is to set out the nature, role, responsibility, status and authority of internal auditing within Dorset Police and Office of the Police and Crime Commissioner (OPCC) and Devon & Cornwall Police and OPCC, and to outline the scope of internal audit work.

Approval

This Charter is presented for approval by the Independent Audit Committee (IAC) on 29 April 2020 and is reviewed each year to confirm it remains accurate and up to date. It was last reviewed by the IAC on 7 April 2020.

Provision of Internal Audit Services

The internal audit service is provided by the SWAP Internal Audit Services (SWAP). This charter should be read in conjunction with the Service Agreement, which forms part of the legal agreement between the SWAP partners.

The budget for the provision of the internal audit service is determined by Dorset Police and OPCC and Devon & Cornwall Police and OPCC, in conjunction with the Owners Meeting. The general financial provisions are laid down in the legal agreement, including the level of financial contribution by the organisation, and may only be amended by unanimous agreement of the Owners Meeting. The budget is based on an audit needs assessment that was carried out when determining the organisation's level of contribution to SWAP. This is reviewed each year by the S151 Officers at each Force and the Treasurers of the OPCCs in consultation with the Chief Executive of SWAP.

Role of Internal Audit

The Accounts and Audit (England) Regulations 2015, state that: *"A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account the public sector internal auditing standards or guidance."*

Internal audit is an independent, objective assurance and consulting activity designed to add value and improve the Organisation's operations. It helps Dorset Police and OPCC and Devon & Cornwall Police and OPCC, accomplish their objectives by bringing a systematic disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

Responsibilities of Management, Independent Audit Committee (IAC) and Internal Audit

Management¹

Management is responsible for ensuring SWAP has:

- the support of management and the organisations;
- direct access and freedom to report to senior management, the Section 151 Officers, the Chief Executives of the OPCCs and the IAC; and
- Notification of suspected or detected fraud, corruption or impropriety.

Management is responsible for maintaining internal controls, including proper accounting records and other management information suitable for running the Organisation. Management is also responsible for the appropriate and effective management of risk.

INDEPENDENT AUDIT COMMITTEE (IAC)²

The IAC is responsible for approving the scope of internal audit work, receiving communications from the SWAP Assistant Director on the progress of work undertaken, reviewing the independence, objectivity, performance, professionalism and effectiveness of the Internal Audit function, and obtaining reassurance from the SWAP Assistant Director as to whether there are any limitations on scope or resources.

¹ In this instance Management refers to the Senior Management Team and Statutory Officers.

² In this instance Independent Audit Committee (IAC) relates to "The Board" referred to in the PSIAS.

Internal Audit

The SWAP Assistant Director, as Head of Internal Audit, is responsible for determining the scope, except where specified by statute, of internal audit work and for recommending the action to be taken on the outcome of, or findings from, their work.

Internal audit is responsible for operating under the policies established by management in line with best practice.

Internal audit is responsible for conducting its work in accordance with the mandatory elements of the Code of Ethics and Standards for the Professional Practice of Internal Auditing as set by the Institute of Internal Auditors and further guided by interpretation provided by the Public Sector Internal Audit Standards (PSIAS) and the CIPFA Local Government Application Note. SWAP has been independently assessed and found to be in Conformance with the Standards.

Internal audit is not responsible for any of the activities which it audits. SWAP staff will not assume responsibility for the design, installation, operation or control of any procedures. SWAP staff who have previously worked for the organisations will not be asked to review any aspects of their previous department's work until one year has passed since they left that area.

Relationship with the External Auditors/Other Regulatory Bodies

Internal Audit will co-ordinate its work with others wherever this is beneficial to the organisations.

Status of Internal Audit in the Organisation

The Chief Executive of SWAP is responsible to the SWAP Board of Directors and the Members Meeting. Appointment or removal of the Chief Executive of SWAP is the sole responsibility of the Members Meeting.

The Chief Executive for SWAP and Assistant Director also report to the Section 151 Officers, and reports to the Audit Committee as set out below.

The Assistant Director will be the first and primary point of contact for the organisation for all matters relating to the IAC, including the provision of periodic reports, as per company policy. The Assistant Director is also responsible for the design, development and delivery of audit plans, subject to the agreement of Dorset Police and OPCC and Devon & Cornwall Police and OPCC.

Scope and authority of Internal Audit work

There are no restrictions placed upon the scope of internal audit's work. SWAP staff engaged on internal audit work are entitled to receive and have access to whatever information or explanations they consider necessary to fulfil their responsibilities to senior management. In this regard, internal audit may have access to any records, personnel or physical property of the organisations.

Internal audit work will normally include, but is not restricted to:

- reviewing the reliability and integrity of financial and operating information used for operational and strategic decision making, and the means used to identify, measure, classify and report such information;
- evaluating and appraising the risks associated with areas under review and make proposals for improving the management and communication of risks;
- appraise the effectiveness and reliability of the enterprise risk management framework and recommend improvements where necessary;
- assist management and IAC Members to identify risks and controls with regard to the objectives of the organisation and its services;
- reviewing the systems established by management to ensure compliance with those policies, plans, procedures, laws and regulations which could have a significant impact on operations and reports, and determining whether the organisation is in compliance;
- reviewing the means of safeguarding assets and, as appropriate, verifying the existence of assets;
- appraising the economy, efficiency and effectiveness with which resources are employed;

- reviewing operations or programmes to ascertain whether results are consistent with established objectives and goals and whether the operations or programmes are being carried out as planned, with performance and accountabilities established.
- reviewing the operations of the organisations in support of their anti-fraud and corruption policy, ethical expectations and corporate values, investigating where necessary.
- at the specific request of management, internal audit may provide consultancy services (including fraud investigation services) provided:
 - the internal auditor's independence is not compromised
 - the internal audit service has the necessary skills to carry out the assignment, or can obtain such skills without undue cost or delay
 - the scope of the consultancy assignment is clearly defined and management have made proper provision for resources the work.
 - management understand that the work being undertaken is not internal audit work.

Planning and Reporting

SWAP will submit to the IAC for consideration, an annual internal audit plan, setting out the recommended scope of their work in the period.

The annual plan will be developed with reference to the risks the organisations will be facing in the forthcoming year, whilst providing a balance of current and on-going risks, reviewed on a cyclical basis. The plan will be reviewed on a quarterly basis to ensure it remains adequately resourced, current and addresses new and emerging risks.

SWAP will carry out the work as agreed, report the outcome and findings, and will make recommendations on the action to be taken as a result to the appropriate manager, Force Chief Finance Officers and OPCC Treasurers. SWAP will report at least two times a year to the IAC or as agreed. SWAP will also report a summary of their findings, including any persistent and outstanding issues, to the IAC on a regular basis.

Internal audit reports will normally be by means of a brief presentation to the relevant manager accompanied by a detailed report in writing. The detailed report will be copied to the relevant line management, who will already have been made fully aware of the detail and whose co-operation in preparing the summary report will have been sought. The detailed report will also be copied to the Force Chief Finance Officers and OPCC Treasurers and to other relevant line management.

The Assistant Director will submit an annual report to the IAC providing an overall opinion of the status of risk and internal control within Dorset Police and OPCC and Devon & Cornwall Police and OPCC, based on the internal audit work conducted during the previous year.

In addition to the reporting lines outlined above, the Chief Executive of SWAP and Assistant Directors have the unreserved right to report directly to the Chair of the Audit Committee, the OPCCs' Chief Executive Officers or the External Audit Manager.

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

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Year ended 31 March 2020
15 February 2021



Agenda Item 9a

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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

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.

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.

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 made 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</p> <p>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 change 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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The Annual Audit Letter for Dorset Police and Crime Commissioner and Chief Constable

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Year ended 31 March 2020
24 February 2021



Agenda Item 9b

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Section

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2. Audit of the Financial Statements
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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 Dorset (the PCC) and the Chief Constable for Dorset (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, the 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 4 February 2021.

Our work

Materiality

We determined materiality for the audit of the PCC and Chief Constable's financial statements to be £3,379k, which is 1.9% of the Chief Constable's gross expenditure on policing services.

Financial Statements opinion

We gave an unqualified opinion on the PCC and Chief Constable's financial statements on 8 February 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 Dorset Pension Fund's pooled property investments. This did 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 PCC'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.

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.

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 reports to them on 4 February 2021. |
| Certificate | We certified that we have completed the audit of the financial statements of PCC and Chief Constable for Dorset in accordance with the requirements of the Code of Audit Practice on 8 February 2021. |

Working with Dorset 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 hasn't been manipulated 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 group financial statements to be £3,379k, which is 1.9% of the Chief Constable's group's gross expenditure on policing services. We used this benchmark as, in our view, users of PCC and Chief Constable's financial statements are most interested in where the entities have spent their revenue in the year.

We also set a lower level of specific materiality of £33k for senior officer remuneration.

We set a lower threshold of £169k; above which we reported errors to the PCC and Chief Constable 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 police 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 9 June 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; • 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 on 9 June 2020. This is 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 have been 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 remains appropriate. We have 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 Dorset, mean that all forms of fraud are seen as unacceptable. | <p>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 Accountant 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 made by management and consider their reasonableness with regard to corroborative evidence evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. | <p>Our audit work did not identify any issues in respect of management override of controls.</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 revalues its 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 and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the group/PCC 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.</p> <p>We therefore identified valuation of land and buildings, particularly revaluations and impairments, 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 challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding reviewed the group/PCC's valuer's report and the assumptions that underpin the valuation. tested revaluations made during the year to ensure they have been input correctly into the asset register. Evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that they are not materially different to current value at year end | <p>A new external valuer, NPS (SW) Ltd, was appointed for 2019/20. However we identified that the Head of Estates had also revalued two assets as an Internal Valuer. This was not disclosed in the draft financial statements and no instructions or terms of reference were issued to set out the scope of the work.</p> <p>The scope of the work of the internal valuer should be set out in formal instructions and terms of reference on the same basis as an external valuer. The valuer is a management expert for the financial statements whether this service is provided internally or externally.</p> <p>Our testing of a sample of assets revalued identified that for two assets, the floor area data upon which the external valuer based their valuation did not agree with the information held for the assets by the PCC's Estates Department:</p> <ul style="list-style-type: none"> the Gross Internal Area (GIA) used in the revaluation of Bournemouth Custody and Enquiries was incorrect for two floors of the building. This led to the valuation of the asset being understated by £2,040k; and the Net Internal Area (NIA) applied for the second floor in the revaluation of Poole Police Station (DESPI PFI) was incorrect. This led to the valuation of the asset being understated by £794k. <p>The financial statements were amended for these issues.</p> <p>The PCC included in Note 6.1 reference to the fact that the PPE valuation has been reported on the basis of "material valuation uncertainty" as it has been prepared under extraordinary circumstances. As a result we included an emphasis of matter paragraph in our audit opinion in respect of the material uncertainty in the external valuer's report.</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</p> <p>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 • 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 • Obtained assurances from the auditor of Dorset Pension Fund as to the controls surrounding the validity and accuracy of membership data, contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements | <p>Our work identified that the actuary's IAS19 report did not take into account proposed restitution for the McCloud judgement on the Police Officer's pension fund liability. Management requested that the actuary produce 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 £5,642k.</p> <p>We challenged the PCC's actuary over the experience item that was included in the LGPS IAS19 report. Further enquiries identified that this related to an ongoing bulk transfer of staff between the Dorset and Devon Pension Funds. The specialist nature of this issue led us to seek the advice of the firm's internal actuaries to get a clear understanding of the issue and how it should be accounted for. The PCC's actuary had made an adjustment in the experience item to reflect the impact of the transfer 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. This resulted in a settlement loss for Dorset of £5,518k.</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 19 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 2016.</p> <p>The Pension Fund auditor reported in their Assurance Letter that a material uncertainty had been included in Dorset Pension Fund's valuation reports for pooled property investments. An additional disclosure was 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 8 February 2021.

Preparation of the financial statements

The PCC and Chief Constable presented us with draft financial statements in June 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 4 February 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 for the PCC and the Chief Constable were prepared in line with the CIPFA Code and relevant supporting guidance. We confirmed that the documents were consistent with the financial statements prepared by the PCC and Chief Constable and with our knowledge of the two 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 Dorset PCC and Dorset Chief Constable in accordance with the requirements of the Code of Audit Practice on 8 February 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 February 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 their use of resources for the year ending 31 March 2020.

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Value for Money conclusion

Value for Money Risks

| Risks identified in our audit plan | Findings | Conclusions |
|---|--|---|
| <p>Financial sustainability</p> <p>The 2020/21 budget includes savings to be achieved of £500k. Based on the assumptions set out in the Medium Term Financial Strategy, further savings in the region of £7m 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 £650k planned as this was not reported. Savings are built into the budget for the year but are 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 savings target of £500k.</p> <p>The MTFS shows that cumulative savings of £6.8m are required to be achieved over the 2021/22 to 2023/24 period.</p> <p>We have reviewed the assumptions built into the MTFS and these appear reasonable.</p> | <p>The plans in place to achieve the £6.7m 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 Dorset 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 | February 2021 |
| Annual Audit Letter | February 2021 |

Fees

| | Planned £ | Actual fees £ |
|-----------------------------------|---------------|------------------|
| Statutory audit – PCC | 22,554 | 31,993 |
| Statutory audit – Chief Constable | 11,550 | 27,797 |
| Total fees | 34,104 | 59,790 |

Audit fee variation

As outlined in our audit plan, the 2019/20 scale fee published by PSAA of £34,104 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.

Final proposed audit fees

The table below shows the proposed variations to the original scale fee for 2019/20 subject to PSAA approval.

| Audit area | PCC | Chief Constable | Rationale for fee variation |
|--|----------------|-----------------|--|
| Scale fee | £22,554 | £11,550 | |
| Raising the bar | 1,190 | 610 | 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 | 1,750 | | 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 | | You are required to respond effectively to new accounting standards and we must ensure our audit work in these new areas is robust. |
| Revised fee per Plan | £26,994 | £13,910 | |
| Other changes | 950 | 11,800 | Additional audit work required on pensions on the Chief Constable's accounts due to change in figures as a result of McCloud and also the bulk transfer issue (see page 10 for detail) and also on the PCC accounts review of internal valuer (see page 9) |
| Covid-19 | 4,049 | 2,087 | <p>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:</p> <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 as a result of remote working. These are understandable given the pandemic. In many instances the delays are caused by our inability to sit with an officer or call them direct to discuss a query or working paper. We have found gaining an understanding via Teams or email more time-consuming. |
| Total proposed final audit fees | £31,993 | £27,797 | |



Audit Progress Report and Sector Update

Devon and Cornwall Police and Crime Commissioner and Chief Constable
Dorset Police and Crime Commissioner and Chief Constable

Year ending 31 March 2021

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April 2021



Contents and Introduction



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This paper provides the Independent Audit Committee with a report on progress in delivering our responsibilities as your external auditor.

The paper also includes a summary of emerging national issues and developments that may be relevant to you.

Members of the Independent Audit Committee can find further useful material on our website where we have a section dedicated to our work in the public sector. Here you can download copies of our publications. Click on the following link to be directed to the website <https://www.grantthornton.co.uk/>.

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Engagement Manager.

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Progress at April 2021

2019/20

We issued an unqualified audit opinion on the Devon and Cornwall PCC/Group and Chief Constable's financial statements on 27 January 2021.

We issued an unqualified audit opinion on the Dorset PCC/Group and Chief Constable's financial statements on 8 February 2021.

2020/21

We undertook our initial planning for the 2020/21 audit in March 2021, and the interim audit is in progress currently. Our interim fieldwork includes:

- Updated review of the control environment
- Updated understanding of financial systems
- Review of Internal Audit reports on core financial systems
- Understanding how the bodies make material estimates for the financial statements
- Early work on emerging accounting issues

There are no issues to bring to your attention at this time.

Later this month we intend to issue our detailed audit plans, setting out our proposed approach to the audits of the 2020/21 financial statements.

We are currently discussing the proposed timescales for the final accounts audits with officers.

Value for Money

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

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

- A new set of key criteria, covering financial sustainability, governance and improvements in economy, efficiency and effectiveness
- More extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria, rather than the current 'reporting by exception' approach
- The replacement of the binary (qualified / unqualified) approach to VFM conclusions, with far more sophisticated judgements on performance, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

Further detail on the NAO's revised approach to VFM work can be found here: <https://www.nao.org.uk/code-audit-practice/wp-content/uploads/sites/29/2019/12/AGN-03-Auditors-Work-on-Value-for-Money-Arrangements.pdf>

Due to the change in approach, a fee variation will be needed for 2020/21 and we will be discussing this with the Chief Finance Officers as part of agreeing the Audit Plans.

The new Code of Audit Practice issued by the NAO can be found here: https://www.nao.org.uk/code-audit-practice/wp-content/uploads/sites/29/2020/01/Code_of_audit_practice_2020.pdf

Other areas

Meetings

We met with Finance Officers in April as part of audit planning for 2020/21. We continue to be in discussions with finance staff regarding emerging developments and to ensure the audit process is smooth and effective.

Events

Our annual chief accountants workshops took place in early 2021 and were a chance for your finance officers to speak to peers and gain an understanding of the key changes impacting this year's accounts. Officers from your finance team attended the workshop.

Sector Update

Policing services are rapidly changing. Increased demand from the public and more complex crimes require a continuing drive to achieve greater efficiency in the delivery of police services. Public expectations of the service continue to rise in the wake of recent high-profile incidents, and there is an increased drive for greater collaboration between Forces and wider blue-light services.

Our sector update provides you with an up to date summary of emerging national issues and developments to support you. We cover areas which may have an impact on your organisation, the wider Police service and the public sector as a whole. Links are provided to the detailed report/briefing to allow you to delve further and find out more.

Our public sector team at Grant Thornton also undertake research on service and technical issues. We will bring you the latest research publications in this update. We also include areas of potential interest to start conversations within the organisation and with audit committee members, as well as any accounting and regulatory updates.

- **Grant Thornton Publications**
- **Insights from sector specialists**
- **Accounting and regulatory updates**

More information can be found on our dedicated public sector and police sections on the Grant Thornton website by clicking on the logos below:

A teal rectangular button with the text "Public Sector" in white, sans-serif font, centered within the button.A dark purple rectangular button with the text "Police" in white, sans-serif font, centered within the button.

Home Office

Police to receive more than £15 billion to fight crime and recruit more officers

Policing will receive up to £15.8 billion to support safer communities and cut crime.

The 2021 to 2022 funding package will include over £400 million to recruit 20,000 extra officers by 2023, building on the success of the first year of the recruitment campaign – which has already delivered almost 6,000 additional police officers.

Alongside getting more officers out on the street, the funding settlement will enable policing to tackle serious violence and increase the number of specialist officers tackling terrorism and serious organised crime, including child sexual abuse and drug trafficking.

The 2021 to 2022 funding package means an increase of up to £636 million on last year, should police and crime commissioners (PCCs) take full advantage of police precept flexibility.

The government also recognises that, during the coronavirus pandemic, huge demands have been made of the police.

That is why it has provided additional support throughout, including £30 million of surge funding to help forces step up COVID-19 enforcement activities in 2020 to 2021, and why it reimbursed all additional personal protective equipment (PPE) purchased between March and July.

The full article can be accessed [here](#).



Revised auditing standard: Auditing Accounting Estimates and Related Disclosures

In the period December 2018 to January 2020 the Financial Reporting Council issued a number of updated International Auditing Standards (ISAs (UK)) which are effective for audits of financial statements for periods beginning on or after 15 December 2019. ISA (UK) 540 (revised): *Auditing Accounting Estimates and Related Disclosures* includes significant enhancements in respect of the audit risk assessment process for accounting estimates.

Introduction

Under ISA (UK) 540 (Revised December 2018) auditors are required to understand and assess an entity's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the entity's risk management process identifies and addresses risks relating to accounting estimates;
- The entity's information system as it relates to accounting estimates;
- The entity's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do those charged with governance:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?

Additional information that will be required for our March 2021 audits

To ensure our compliance with this revised auditing standard, we will be requesting further information from management and those charged with governance during our audit for the year ended 31 March 2021 in all areas summarised above for all material accounting estimates that are included in the financial statements.

Based on our knowledge of the entity we have identified the following material accounting estimates for which this is likely to apply:

- Valuations of land and buildings, council dwellings and investment properties
- Depreciation
- Year end provisions and accruals,
- Valuation of defined benefit net pension fund liabilities
- PFI liability (Dorset only)

Estimation uncertainty

Under ISA (UK) 540 (Revised December 2018) we are required to consider the following:

- How management understands the degree of estimation uncertainty related to each accounting estimate; and
- How management address this estimation uncertainty when selecting their point estimate.

For example, how management identified and considered alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the point estimate used.

Good practice in annual reporting – National Audit Office

The National Audit Office (NAO) state that the guide, launched in February, “Sets out our good practice principles for good annual reporting and provides illustrative examples taken from public sector organisations who are leading the way in this area.”

The guide draws on examples of good practice from within each of the six sections of an Annual Report:

- Strategy
- Risk
- Operations
- Governance
- Measures of success
- Financial performance

The NAO also state that the guide “provides further examples where bodies have made their context more understandable to the reader through use of graphics and clear language and signposting.”

However, The NAO observe “Done well, reporting in the public sector enables the public and Parliament to understand – with ease and confidence – an organisation’s strategy and the risks it faces, how much taxpayers’ money has been spent and on what, and what has been achieved as a result.”

Further, the NAO note “The significant impacts of the pandemic emerged in the UK in mid-March 2020. This means that, for many organisations, the reporting impact will be greater in 2020-21 than in the prior year. Transparent annual reporting will help stakeholders understand the impact of COVID-19 on an organisation’s strategy, plans and operational and financial performance.”



The full report can be obtained from the NAO website:

<https://www.nao.org.uk/report/good-practice-in-annual-reports-february-2021/>

2019/20 audited accounts – Public Sector Audit Appointments

In December 2020 Public Sector Audit Appointments (PSAA) published figures relating to the audit of 2019/20 local authority financial statements.

PSAA report “Audit arrangements in local councils, police, fire and other local government bodies are continuing to exhibit signs of stress and difficulty. In the latest audit round, focusing on 2019/20 financial statements and value for money arrangements, fewer than 50% of bodies’ audits were completed by the revised target of 30 November.

Figures compiled by PSAA, the organisation responsible for appointing auditors to 478 local bodies, reveal that 55% (265) of audit opinions were not issued by 30 November. This is a further deterioration on 2018/19 audits when 43% of opinions (210 out of 486) were delayed beyond the then target timetable of 31 July.

This year’s timetable has been deliberately eased by Ministers in recognition of the underlying pressures on the audit process and the significant added complications arising from the Covid-19 pandemic. The pandemic has posed practical challenges for bodies in producing accounts and working papers, and for auditors to carry out their testing. Both sets of staff have had to work remotely throughout the period, and the second national lockdown came at a critical point in the cycle.

Questions and concerns about the potential implications of the pandemic for some bodies have meant that both finance staff and auditors have needed to pay particular attention to the financial position of each entity. Additionally, following a series of increasingly challenging regulatory reviews, auditors have arguably been more focused than ever on their professional duty to give their opinion only when they are satisfied that they have sufficient assurance.”



The news article can be found here:

[News release: 2019/20 audited accounts – PSAA](#)

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 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 your business or any 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.



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Policy



| Counter Fraud and Corruption | | | |
|---|------------|------------------|---|
| J-P-026 | | | |
| Version | 1.0 | Host Force | Dorset Police |
| Effective Date | 26/10/2018 | Host Policy Unit | Dorset Police |
| Version Date | 31/03/2021 | Policy Owner | Head of Audit, Insurance and Strategic Risk |
| Review Date | 31/03/2023 | Policy Author | Head of Audit, Insurance and Strategic Risk |
| Associated Procedures | J-Pr-032 | | |
| | | | |
| Policy Summary | | | |
| <p>The aim of this policy is to set out how Devon & Cornwall Police and Dorset Police (the forces), and the Office of the Police & Crime Commissioner for Devon & Cornwall and Dorset (OPCC's) will protect their financial resources from fraud, theft and corruption. It will provide guidance to staff and others on the action required to prevent or report any malpractice or suspected malpractice. It also seeks to highlight and increase awareness of the importance of good governance and control mechanisms.</p> <p>It is acknowledged that fraud, theft and corruption may be perpetrated by those inside the forces and OPCC's as well as those external to the organisation. The prevention of fraud and corruption is an essential element in maintaining the reputation of the forces and the OPCCs. Fraud and corruption are serious matters which will be robustly investigated and dealt with. Those found guilty of committing fraud and corruption can expect to face potential criminal prosecution and / or dismissal.</p> | | | |

A person does not have to benefit from the fraud to be guilty of the offence – as soon as they have made a dishonest/false representation, they have committed fraud. Dishonesty is the central element of fraud – where someone has made a genuine mistake, there is no fraud.

This policy specifically focuses on financial practices and applies to all Police Officers and Staff, Special Constables and Volunteers of the forces and all staff and volunteers of the OPCCs, as well as contractors, the general public and those external to the forces and OPCCs who seek financial gain through fraudulent and corrupt activity.

This policy should be read in conjunction with the appropriate forces' and OPCCs' policies (see section 5) as well as the Police Officer Conduct Policy, the PCC's Corporate Governance Framework, the Public Interest Disclosure Act 1998 and the Employment Rights Act 1996.

We welcome any comments or suggestions you wish to share about the content or implementation of this policy. If you would like to make contact to discuss further, please email: Policies@dorset.pnn.police.uk or ForcePolicyandProcedures@devonandcornwall.pnn.police.uk

1. Purpose, Standards and Legal Basis

Both Forces are obliged to abide by all relevant UK and European Union legislation. The Forces shall comply with the following legislation and other legislation as appropriate:

- The Data Protection Act (2018) and General Data Protection Regulations (GDPR)
- The Health and Safety at Work Act (1974)
- Human Rights Act (1998)
- Freedom of Information Act (2000)
- Equality Act (2010)
- Authorised Professional Practice
- National Decision Model
- Visions, missions, values
- Equality and diversity issues including the Public Sector Equality Duty, Code of Ethics and Standards of Professional Behaviour

The Accounts and Audit Regulations 2015 state that the four Corporations Sole must each ensure that their respective forces and OPCCs have sound systems of internal control which (inter alia) include effective arrangements for the

management of (fraud) risk. The four Chief Finance Officers¹ (CFOs) must determine, on behalf of the corporations sole, financial control systems which must include measures to “...enable the prevention and the detection of inaccuracies and fraud...”, and to ensure that (fraud) risk is appropriately managed².

Local Government Finance Act 1988 (s114) requires that the CFOs ensure that the financial affairs of the Force’s and OPCCs are properly administered and to report any unlawful or potentially unlawful expenditure of a person holding ‘any office of employment’.

The Home Office Financial Management Code of Practice for the Police service in England and Wales sets out (inter alia) the responsibilities of the role of the Chief Finance Officer of the PCC.

The External Auditor has powers to investigate any identified fraud and corruption independently of the OPCCs and forces.

2. Roles and Responsibilities

The four Chief Finance Officers³ (CFOs) must determine, on behalf of the corporations sole, financial control systems which must include measures to “...enable the prevention and the detection of inaccuracies and fraud...”, and to ensure that (fraud) risk is appropriately managed⁴.

The CFOs must ensure that the financial affairs of the Force’s and OPCCs are properly administered and to report any unlawful or potentially unlawful expenditure of a person holding ‘any office of employment’.

The responsibilities of the role of the Chief Finance Officer of the PCC. They are:

- Reporting to the PCC, the Police and Crime Panel and to the external auditor any unlawful, or potentially unlawful, expenditure by the PCC or officer of the PCC; and,
- Advising, in consultation with the Chief Executive, on the safeguarding of assets, including risk management and insurance.

The External Auditor has powers to investigate any identified fraud and corruption independently of the OPCCs and forces.

3. Policy Information

3.1 Origins and Background

The Counter Fraud & Corruption Policy forms part of the overall governance arrangements for the Forces and OPCCs, and provides a framework for:

¹ The two Treasurers of the OPCCs; the Director of Finance & Resources for Devon & Cornwall; and, the Chief Finance Officer for Dorset Police

² Part 2 Internal control: Responsibility for internal control

- acknowledging and understanding fraud risks,
- preventing and detecting fraud; and,
- establishing a robust approach to punish fraudulent behaviour and recover associated losses.

Both forces must uphold each of the nine principles as set out in the College of Policing: Code of Ethics (CoE). Of particular relevance to this policy are the principles of: ‘accountability’, ‘honesty’, ‘integrity’, and ‘selflessness’. These principles originate from the ‘Principles of Public Life’ (‘Nolan Principles’)³ which both PCCs have sworn to uphold through their Oath of Office and must also be upheld by both OPCCs.

The CoE also contains ten standards of professional behaviour. These standards reflect the expectations that the professional body and the public have of the behaviour of those working in policing⁴. Of particular relevance are the standards of: ‘honesty and integrity’, ‘conduct’, and ‘challenging and reporting improper behaviour’.

The CoE promotes the use of the National Decision Model (NDM) to help embed ethical reasoning in accordance with policing principles and expected standards of behaviour. The CoE is expected to underpin every policy, procedure, decision and action in policing today.

In addition, all employees must uphold any Codes of Conduct or Ethics required by virtue of their personal professional membership or qualifications.

3.2 Defining Fraud and Corruption

Fraud and corruption can take many forms. In relation to this particular policy, which is focussing on financial practices, the following definitions are being used:

- The term ‘Financial Irregularity’ is used to describe circumstances where systems, procedures or controls have been breached or ignored in a way that has or could have provided an opportunity for fraud, corruption or loss to occur. This includes actual or suspected fraud, corruption or any significant loss of assets or funds of the forces or OPCCs.
- The term ‘fraud’ can be used to describe such acts as criminal deception, forgery, blackmail, corruption, conspiracy and concealment of material facts and collusion. For practical purposes fraud can be defined as the use of deception with the intention of obtaining an advantage, avoiding an obligation or causing loss to another party.
- Corruption is an act done with intent to give some advantage which is inconsistent with official duty and the rights of others. This includes bribery but also covers bias (e.g. in selection or award). The wider interpretation of Force corruption is dealt with under Police Regulations, Staff Codes of Conduct and criminal law.

³ As published by the Committee on Standards in Public Life in 1995

⁴ These originate from the Police (Conduct) Regulations 2012 (for police officers) and the Police Staff Council Joint Circular 54 (for police staff)

- Corrupt or other improper exercise of police powers and privileges are defined in the Criminal Justice and Courts Act 2015, section 26.
- Theft is typically defined as the taking of almost anything of value without the consent of the owner, with the intent to permanently deprive him or her of the property taken.

The UK Fraud Act 2006 states that a person is guilty of fraud if they:

- Dishonestly make a false representation, and intend, by making the representation to make a gain for themselves or another, or to cause loss to another or to expose another to a risk of loss.
- Dishonestly fail to disclose to another person information which they are under a legal duty to disclose, and intend, by failing to disclose the information to make a gain for themselves or another, or to cause loss to another or to expose another to a risk of loss.
- Occupy a position in which they are expected to safeguard, or not to act against, the financial interests of another person, dishonestly abuse that position, and intend, by means of the abuse of the position to make a gain for themselves or another, or to cause loss to another or to expose another to risk or loss.

The UK Bribery Act 2010 defines two types of bribery:

- Offences of bribing another person – where a person offers, promises or gives a financial or other advantage to another person and, intends the advantage to induce a person to perform improperly a relevant function or activity, or to reward a person for the improper performance of such a function or activity. Or where a person offers, promises or gives a financial or other advantage to another person, and knows or believes that the acceptance of the advantage would itself constitute the improper performance of a relevant function or activity.
- Offences relating to being bribed – where a person requests, agrees to receive or accepts a financial or other advantage intending that, in consequences, a relevant function or activity should be performed improperly. Or where a person requests, agrees to receive or accepts a financial or other advantage, and the request, agreement or acceptance itself constitutes the improper performance by a person of a relevant function or activity.

4. Monitoring and Review

This policy will be monitored jointly by the Professional Standards Department and the forces' Resources Board (D&C) and Resource Control Board (Dorset) and its ongoing effectiveness will be considered by the forces and the OPCCs as part of the Annual Governance Statement.

- Review and amendments will be coordinated by the Policy Unit.

- The policy owner has overall responsibility for ensuring the content of the policy is appropriate and up to date.
- This policy will be monitored jointly by the Professional Standards Department and the Resources Board (D&C) and Resource Control Board (Dorset) and its ongoing effectiveness will be considered by the forces and the OPCCs as part of the Annual Governance Statement
- This policy will be reviewed every 2 years subject to legislation/process changes.
- Feedback relating to this policy can be made in writing or by e-mail to:
Head of Alliance Audit, Insurance and Strategic Risk Department
Address: OPCC for Dorset,
C/O Force HQ,
Winfrith
Dorset
DT2 8DZ
E-mail: countercorruptionunit@dorset.pnn.police.uk
Telephone: 01202 223429

5. Associated Documents

- [Misson & Values](#) (D&C pages)
- [Values](#) (Dorset pages)
- [Human Rights Legislation](#)
- [Records Management](#) (D&C page)
- [Records Management](#) (Dorset)
- [FOIA](#)
- [GSC](#)
- [GDPR/DPA 2018](#)
- [National Decision Model](#)
- [Code of Ethics](#) (D&C page)
- [Code of Ethics](#) (Dorset Page)
- [Police Staff Council Standards of Professional Behaviour](#)
- [Standards of Professional Behaviour](#)
- [Authorised Professional Practice \(APP\)](#)
- [D223 Reporting of Suspected Irregularities to the Treasurer \(D&C\)](#)
- [SA032 Alliance Vetting Policy](#)
- **D021** Public Complaints against Police Officers, Police Staff and members of the Special Constabulary (D&C)
- [J-P-002 Gifts and Gratuities Policy](#)
- [J-Pr-010 Gifts and Gratuities Procedure](#)
- [D178 Business Interests Policy \(D&C\)](#)
- [P02:2006 Business Interest and Secondary Employment Procedure](#)
- **D211** Associations Policy (D&C)
- [J-P-016 Protected Disclosure \(Whistleblowing\) and Support to People Reporting/Witnessing Suspected Wrongdoing](#)
- [J-Pr-008 Protected Disclosure \(Whistleblowing\) and Support to People Reporting/Witnessing Suspected Wrongdoing Procedure](#)
- [SA015 Lawful Business Monitoring Policy](#)

- **D343** Intelligence Led Integrity Testing
- [P022 Strategic Risk Management Strategy](#)
- [SA035 Strategic Risk Management Policy & Procedure](#)

| 6. Document History | |
|---|---------------------------------------|
| Present portfolio holder | Julie Strange (Dorset OPCC Treasurer) |
| Present document owner | Karen James (Head of AIR) |
| Present owning department | Alliance Audit Insurance & Risk (AIR) |
| Below details required for version 1.0 and major amendments only | |
| Name of board | |
| Date approved | |
| Chief Officer approving | |

| 7. Version History | | | |
|---------------------------|-------------|--|----------------------------------|
| Version | Date | Reason for Amendments | Amended by |
| 1.0 | 12/01/2021 | Initial document. Content transferred to new template. Document renumbered. Replaces SA031 | Legitimacy Team (7101) |
| 1.0 | 29/01/2021 | Annual Review Reference to the Risk and Assurance Board has been removed and replaced with Resources Board and Resource Control Board. | Jo George (Senior Audit Manager) |
| | | | |

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Procedure



| Counter Fraud and Corruption | | | |
|---|------------|------------------|---|
| J-Pr-032 | | | |
| Version | 1.0 | Host Force | Dorset Police |
| Effective Date | 26/10/2018 | Host Policy Unit | Dorset Police |
| Version Date | 31/03/2021 | Policy Owner | Head of Audit, Insurance and Strategic Risk |
| Review Date | 31/03/2023 | Policy Author | Head of Audit, Insurance and Strategic Risk |
| Associated Policies | J-P-026 | | |
| | | | |
| Procedure Summary | | | |
| <p>The Counter Fraud & Corruption procedure forms part of the overall governance arrangements for the Forces and OPCCs, and provides a framework for:</p> <ul style="list-style-type: none">• acknowledging and understanding fraud risks,• preventing and detecting fraud; and,• establishing a robust approach to punish fraudulent behaviour and recover associated losses. <p>It will provide guidance to all officers and staff on the action required to prevent or report any malpractice or suspected malpractice. It also seeks to highlight and increase awareness of the importance of good governance and control mechanisms.</p> | | | |
| | | | |
| <p>We welcome any comments or suggestions you wish to share about the content or implementation of this procedure. If you would like to make contact to discuss further, please email:</p> | | | |

.Policies@dorset.PNN.police.uk or
Forcepolicyandprocedures@devonandcornwall.pnn.police.uk

1. Contents List

| | | |
|-------|---|---|
| 2.1 | Acknowledging and Understanding Fraud Risks | 2 |
| 2.2 | Preventing and Detecting Fraud | 3 |
| 2.2.1 | Vetting | 3 |
| 2.2.2 | Reporting concerns | 3 |
| 2.2.3 | Monitoring and Collaboration | 4 |
| 2.2.4 | Responsibilities | 5 |
| 2.2.5 | Investigation | 6 |
| 2.2.6 | Strategy | 7 |
| 2.2.7 | Training and awareness | 7 |
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2. Procedure

2.1 Acknowledging and Understanding Fraud Risks

2.1.1 There are certain known fraud risks which remain significant such as:

- Procurement – tendering issues, split contracts, double invoicing;
- Payroll – false employees, overtime claims, expenses;
- Grants – work not carried out, funds diverted, ineligibility not declared;
- Internal Fraud – diverting monies to a personal account, accepting bribes, stealing cash, working elsewhere while claiming to be off sick, false overtime claims;
- Identify Fraud – false identity/fictitious persons applying for services/payments.

2.1.2 In addition to the above there are emerging/increasing fraud risks in the following areas:

- Insurance Fraud – false claims including slips and trips;
- Commissioning of Services – including joint commissioning, third sector partnerships, conflicts of interest, collusion;
- Cyber Dependent Crime and Cyber Enabled Fraud – enables a range of fraud types resulting in diversion of funds, creation of false applications for services and payments.

2.1.3 Fraud risk is a component of risk management within the Forces and OPCCs, and will be considered and evaluated with appropriate controls and other management processes being put in place to reduce the likelihood of fraud occurring. This will include consideration of the following:

- Three key fraud risk factors (opportunity, motive and rationalisation);
- Likelihood, significance and pervasiveness of fraud risks;
- The risk of management override of controls;
- Mitigating programmes and controls to each identified fraud risk.

2.1.4 Principle F of the Good Governance Framework¹ (managing risks and performance through robust internal control and strong public financial management) requires “effective counter fraud and anti-corruption arrangements [to be] in place”.

2.2 Preventing and Detecting Fraud

2.2.1 Vetting

2.2.1.1 The OPCCs and forces recognise that a key preventative measure in the fight against fraud and corruption is to take effective steps at the recruitment stage. In this regard temporary and contract staff should be treated in the same manner as permanent staff. Vetting and security clearance are therefore a prerequisite to any appointment.

2.2.2 Reporting concerns

2.2.2.1 All employees will report, challenge or take action against the conduct of colleagues which has fallen below the standards of professional behaviour².

2.2.2.2 The forces and OPCCs will maintain a facility that enables employees, the general public and contractors to make allegations of fraud, misuse and corruption in confidence and without recrimination. Procedures shall ensure:

- that allegations are investigated robustly as to their validity;
- that they are not malicious; and,
- that appropriate action is taken to address any concerns identified.

2.2.2.3 Suspected fraud and corruption can be reported via line management. Once reported all financial irregularities will be notified to the Professional

¹ Delivering Good Governance: Guidance Notes for Policing Bodies in England and Wales 2016 Edition

² Section 10 of the Code of Ethics (Challenging and reporting improper conduct)

Standards Department (PSD), Internal Audit and the Chief Financial Officers.

2.2.2.4 Where line managers are believed to be implicated, concerns can be raised directly to any of the following:

- Reporting to the D&C Counter Corruption Unit is by phone, email, [Bad Apple](#), or in person. Alternatively, the report can be made via the Confidential Helpline on 01752 701527
- Reporting to the Dorset Counter Corruption Unit can be done via the [confidential reporting system](#) 'which links directly to the unit, by email or by telephone.
- Force Staff: Deputy Chief Constable; Director of Financial Resources (D&C), Chief Finance Officer (Dorset); Head of Professional Standards.
- PCC Staff: Chief Executive & Monitoring Officer, Treasurer, Head of Internal Audit.
- Chair of the Independent Audit Committee (contact details are available via each respective OPCC website)
- External audit (contact details are available in the 'audit opinion' section of the published Statement of Accounts available on the respective OPCC websites).

2.2.2.5 Where the public have concerns over potential fraud and corruption of officers and staff or the Chief Constables or PCCs, they are able to make a complaint. Details of how to do this are available on the respective organisation's websites.

2.2.2.6 Alternatively concerns can be raised [Crimestoppers](#).

2.2.2.7 PSD will refer allegations of serious corruption to the Independent Office for Police Conduct as a matter of course. A definition of serious corruption is provided in their statutory guidance publication POL/06.

2.2.2.8 Appropriate legislation, including Public Interest Disclosure Act 1998, shall be adhered to.

2.2.3 Monitoring and Collaboration

2.2.3.1 The Alliance Professional Standards Department (PSD) contains dedicated counter - corruption units based in each force area. PSD have a responsibility to all members of staff within their forces and investigate any reports of serious malpractice, misconduct or unethical behaviour committed by any member of staff.

- 2.2.3.2 A Memorandum of Understanding between PSD and Internal Audit will set out joint working arrangements to identify and report any financial irregularity.
- 2.2.3.3 Monitoring of key financial data and performance across both forces and OPCCs takes place to help identify potential weaknesses in controls. This will include the use of local data matching and exception reports. This will cover areas such as procurement, contract management, purchases, and pay.
- 2.2.3.4 The OPCCs and forces are committed to working and co-operating with other organisations to prevent organised fraud and corruption. Wherever possible, the OPCCs and forces will be prepared to help and exchange information with other OPCCs, forces and organisations to deal with fraud.
- 2.2.3.5 The OPCCs and forces will make use of the independent services of the External Auditor to investigate fraud and corruption in appropriate cases.
- 2.2.3.6 The OPCCs and the forces are committed to taking part in the biennial National Fraud Initiative (NFI) as administered by the Cabinet Office to help identify potential fraud. In addition action will be taken in response to relevant alerts received from Action Fraud Alert (provided by the National Fraud Intelligence Bureau - NFIB), which is run by the City of London Police as a national service.
- 2.2.3.7 All police officers and staff (of both the Forces and OPCCs) must seek permission and register any form of business interest or secondary employment per Force policy. . The PCC, Treasurer and Chief Executive of the OPCCs will publish registers of interest, gifts and hospitality.
- 2.2.3.8 All police officers and staff must declare any relevant personal, business or pecuniary interests at meetings under the agenda item “Declarations of Interest”.

2.2.4 Responsibilities

- 2.2.4.1 All staff (including managers) are responsible for acting with propriety in the use of the Forces or OPCCs’ resources and in the handling and use of public funds whether they are involved with cash, payment, receipts, other finance systems or dealing with contractors, suppliers or customers.
- 2.2.4.2 The day to day responsibility for the prevention and detection of fraud rests with management who are responsible for:
- Identifying any fraud risks in the systems, operations and procedures for which they are accountable
 - Developing and maintaining effective controls to prevent and detect fraud; and
 - Ensuring that these controls are being complied with.

Staff from the Audit, Insurance and Strategic Risk Department are available to offer advice and guidance on control and risk issues. Managers are encouraged to make use of this service.

2.2.4.3 Reporting unlawful, or potentially unlawful, expenditure:

Within each OPCC:

- the Chief Executive (as Monitoring Officer³) must report to their Treasurer
- the Treasurers must report to their respective PCC, to the Police and Crime Panel, and to the External Auditor

Within each Force:

- the Chief Constable must report to their respective Chief Finance Officer (CFO)
- the CFO must inform the respective Treasurer, and report to the PCC and to the External Auditor

2.2.4.4 The role of Internal Audit (IA) in financial irregularities is set out in Alliance Financial Regulations and in the MoU with PSD.

2.2.4.5 Every investigation by Internal Audit into financial irregularities will result in a formal audit report. This will be published to the Chief Finance Officers, as well as to the Head of Professional Standards. Managers must ensure that the actions agreed in these reports are acted upon within the agreed timescales. All significant matters raised by the report will be shared with the Independent Audit Committee and followed up by Internal Audit to independently report on progress to mitigate the risks identified.

2.2.4.6 Any officer or member of the Force or OPCC must, if required to do so for the purposes of internal audit, make available such documents and records (including electronic), and supply such information and explanations as are considered necessary by those conducting internal audit.

2.2.4.7 The arrangements set out in this policy will be kept under review by the Independent Audit Committee.

2.2.5 Investigation

2.2.5.1 PSD is responsible for the investigation of allegations of fraud and corruption against employees of the Police. The Monitoring Officer of the OPCC is responsible for the investigation of allegations of fraud and corruption against employees of the OPCC. Each allegation will be considered on its individual merits and a decision made on the most appropriate way to proceed with any investigation, this may include:

- Criminal or civil investigation by PSD or where appropriate local CID.

³ Police Reform and Social Responsibility Act 2011

- Internal investigation as part of an HR Investigating Officer and / or Internal Audit review.
- Management investigation overseen by HR / Internal Audit.

2.2.5.2 The arrangements set out in this policy will be kept under review by People Portfolio, PSD and Internal Audit.

2.2.6 Strategy

2.2.6.1 The Alliance will actively seek to deter potential fraudsters from committing or attempting to commit fraudulent or corrupt acts. It will do so through:

- Publicising that the Alliance will not tolerate fraud and corruption, demonstrated by this Counter-Fraud & Corruption Strategy policy and the Alliance's Corruption Control Strategy (as maintained by PSD).
- Encouraging a strong anti-fraud culture amongst its employees, volunteers, and partners and providing easy and effective means to report suspicions of fraud or corruption.
- Taking robust action when fraud and / or corruption are identified, in the form of conducting complete and thorough investigations, and taking decisive action if allegations are proven, such as prosecution, dismissal, or other disciplinary action.
- Engaging with the Corporate Communications, where appropriate, in order to maximise the publicity of successful outcomes in combating fraud and corruption.
- Taking robust action to maximise financial recovery for the Alliance through penalties, court action or agreements.
- Deploying robust systems of internal control to mitigate the opportunity for fraud and corruption, and assessing their effectiveness and compliance on a regular basis.
- Developing and delivering general and tailored fraud awareness sessions to Alliance employees and volunteers across the organisation.

2.2.7 Training and awareness

2.2.7.1 By implementing an effective fraud awareness program, the Alliance can harness the efforts of all its employees (staff officers and volunteers) in its anti-fraud activities and can significantly reduce the cost of fraud within the organisation, as well as identifying and supporting employees at a higher risk of turning to fraud or corruption.

2.2.7.2 Fraud awareness will form part of induction processes and remain an ongoing part of professional development. All employees will take part in regular fraud awareness training. This will be based on the nature and risks of the policing environment, and will be bolstered by periodic

newsletters, posters in break rooms, and other casual reminders help keep fraud prevention and detection in the front of employees' minds.

2.2.7.3 Fraud awareness will cover:

- behaviour and ethics
- the impact on the Alliance (e.g. lost resources, lowered morale, reputational damage)
- the impact on employees (increased scrutiny, decreased trust throughout the organisation)
- the impact on the public (loss of confidence, reduced engagement and support)
- the likely triggers to consider: the combination of sufficient pressure, adequate opportunity, and an ability to rationalise a dishonest act
- how to report fraud and corruption
- examples of the explicit action taken against those found to have acted dishonestly and / or criminally

2.3 Punishing Fraudulent Behaviour and Recovering Associated Losses

2.3.1 Consideration will be given to legal action against the perpetrator of any fraud, theft or corruption or those benefitting from such fraud, theft or corruption. The presumption is that arrangements will be made for the prosecution of offenders by the Crown Prosecution Service.

2.3.2 Disciplinary procedures will be invoked where the outcome of any investigation indicates misconduct of a current employee. Proven cases of misconduct may result in the dismissal of the employee. Misconduct includes fraud committed by a member of staff against another organisation.

2.3.3 As a matter of principle, the forces and OPCCs will seek to recover any losses incurred as a result of fraud, theft and corruption, if necessary by civil action.

2.3.4 In the event that a person under investigation offers money in settlement of losses, it will only be accepted if, acting upon legal advice received, such action will not prejudice the position of the forces / OPCCs. In such circumstances, the offer may be accepted but it must be made clear that any such monies offered will only be accepted subject to the acceptance by the person under the investigation of the following conditions:

- The offer is without prejudice to any other action the forces / OPCCs may wish to take;

| | |
|---|---|
| 2.3.5 | <ul style="list-style-type: none">• Acceptance of the offer relates solely to losses that have been substantiated at the time of acceptance; and• The forces / OPCCs reserve the right to seek recovery of any further losses that may subsequently come to light. <p>Claims under the forces' / OPCC's insurance arrangements arising from fraud, theft or corruption cases should be regarded as a 'last resort', and will only be instigated once all other avenues of recovery have been fully explored.</p> |
| | |
| 3. Monitoring and Review | |
| <ul style="list-style-type: none">- Review and amendments will be coordinated by the Policy Unit.- The policy owner has overall responsibility for ensuring the content of the policy is appropriate and up to date.- This policy will be monitored jointly by the Professional Standards Department and the forces' Resources Board (D&C) and Resource Control Board (Dorset) and its ongoing effectiveness will be considered by the forces and the OPCCs as part of the Annual Governance Statement- This policy will be reviewed every 2 years subject to legislation/process changes.- Feedback relating to this policy can be made in writing or by e-mail to: Head of Alliance Audit, Insurance and Strategic Risk Department Address: OPCC for Dorset, C/O Force HQ, Winfrith Dorset DT2 8DZ E-mail: countercorruptionunit@dorset.pnn.police.uk Telephone: 01202 223429 | |
| | |
| 4. Associated Documents | |
| <ul style="list-style-type: none">• Mission & Values (D&C pages)• Values (Dorset pages)• Human Rights Legislation• Records Management (D&C page)• Records Management (Dorset)• FOIA• GSC• GDPR/DPA 2018• National Decision Model• Code of Ethics (D&C page)• Code of Ethics (Dorset Page)• Police Staff Council Standards of Professional Behaviour | |

- [Authorised Professional Practice \(APP\)](#)
- [D223 Reporting of Suspected Irregularities to the Treasurer \(D&C\)](#)
- [SA032 Alliance Vetting Policy](#)
- **D021** Public Complaints against Police Officers, Police Staff and members of the Special Constabulary (D&C)
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- [SA015 Lawful Business Monitoring Policy](#)
- **D343** Intelligence Led Integrity Testing
- [P022 Strategic Risk Management Strategy](#)
- [SA035 Strategic Risk Management Policy & Procedure](#)

5. Document History

| | |
|---|---------------------------------------|
| Present portfolio holder | Julie Strange (Dorset OPCC Treasurer) |
| Present document owner | Karen James (Head of AIR) |
| Present owning department | Alliance Audit Insurance & Risk (AIR) |
| Below details required for version 1.0 and major amendments only | |
| Name of board | |
| Date approved | |
| Chief Officer approving | |

6. Version History

| Version | Date | Reason for Amendments | Amended by |
|---------|------------|---|----------------------------------|
| 1.0 | 12/01/2021 | Initial document. Content transferred to new template. Document renumbered. Replaces SA031 | Legitimacy Team (7101) |
| 1.0 | 29/01/2021 | Annual Review Reference to the Risk and Assurance Board has been removed and replaced with Resources Board and Resource Control Board. | Jo George (Senior Audit Manager) |
| | | | |



AGENDA NO: 12B

INDEPENDENT AUDIT COMMITTEE

DATE OF MEETING: 29 April 2021

FOIA: OPEN

TITLE OF REPORT: FRAUD AND CORRUPTION INVESTIGATIONS

REPORT BY: Karen James , Head of Audit, Insurance and Strategic Risk

PURPOSE OF THE REPORT:

To present an update and provide assurance on one or more of the following areas:

| | |
|---|---|
| Governance, Risk and Control | |
| Internal Audit | |
| External Audit | |
| Financial reporting | |
| Other matter – <i>Fraud & Corruption</i> | X |

RECOMMENDATIONS:

The Independent Audit Committee is asked to:

| | |
|------------------------------------|---|
| Review the Report | |
| Consider the Report | |
| Note the report | X |
| Other (please specify here) | |

1. BACKGROUND INFORMATION

- 1.1 The purpose of this report is to present to members of the Audit Committee the number of fraud and corruption investigations that have commenced and been finalised for the period 1st January 2021 to 31st March 2021.

2. INTRODUCTION

- 2.1 CIPFA guidance requires the Audit Committee to 'monitor the effectiveness of the control environment, including arrangements for ensuring value for money, supporting standards and ethics and for managing the authority's exposure to the risks of fraud and corruption.'

- 2.2 The term of reference of the audit committee give specific responsibility to review the arrangements for the assessment of fraud risk and potential harm arising from fraud and corruption and to monitor the effectiveness of the counter-fraud strategy.

3. FRAUD AND CORRUPTION INVESTIGATIONS

- 3.1 A summary of investigations for the period from the 1st January 2021 to 31st March 2021 are attached in Appendix A.
- 3.2 Table one of Appendix A shows new cases reported to Professional Standards and Counter Corruption Unit that are currently being investigated. Table two shows the number of cases, which have been concluded in the same period.
- 3.3 The table below shows the scoring criteria that has been applied in Appendix A table two where the alleged and identified loss has been identified. The highest individual category is used to determine the overall rating.

| | £ value | No of perpetrators | No of incidents | Seniority of those involved | Duration of incident | Nature of incident | Extend of Impact |
|---------------|------------|--------------------|-----------------|-----------------------------|----------------------|-----------------------|-------------------|
| RED | Over £10k | More than 10 | More than 5 | Up to Chief Officer and PCC | More than 3 months | Breach of Legislation | External |
| AMBER | Up to £10k | Up to 10 | Up to 5 | Up to Chief Supt/Dept Head | Up to 3 months | Breach of Policy | Whole Force/ OPCC |
| YELLOW | Up to £1k | Up to 2 | Up to 2 | Up to Sgt/Manager | Up to 1 month | Breach of Guidance | Team / Dept |
| GREEN | nil | nil | nil | n/a | n/a | n/a | n/a |

Scoring Criteria Table

4. RECOMMENDATIONS

- 4.1 Members are asked to note the report.

DEVON & CORNWALL**Fraud and Corruption summary risk assessment (version Nov 2019)**

Period under review:

from 01/01/2021 to 31/03/2021

Total value of actual fraud losses as identified this period (from closed cases - Table 2)

£0

Risk self assessment tool to record the nature of fraud and corruption indicators

The table below sets out some of the main types of fraud and corruption risks, concerning staff, officers and volunteers, that relate to internal controls

There are five categories: accounting, spending, pay, claims and theft

Please completed the table by selecting the appropriate RAG status from each drop down in line with PSD's current assessment based on intel and work

Table 1 New cases / intelligence reported to Professional Standards Dept / Counter Corruption Unit

| 1. accounting | Tot | RAG | 2. spending | Tot | RAG | 3. pay | Tot | RAG | 4. claims | Tot | RAG | 5. theft | Tot | RAG |
|---|-----|-----|--|-----|-----|---|-----|-----|---|-----|-----|--|-----|-----|
| 1.1 diverting funds - moving funding from eligible activity to personal use, or through collusion to another ineligible beneficiary | 0 | | 2.1 inappropriate spend - placing orders and or approving invoices for goods and services not required and / or for personal use | 0 | | 3.1 ghost employees - setting up or colluding to set up a false employee record to obtain salary | 0 | | 4.1 insurance - making a false / exaggerated personal claim against the Force/OPCC | 1 | | 5.1 misuse of resources - using property of the Force/OPCC for personal purposes | 0 | |
| 1.2 obscuring fraud - falsifying records or obscuring information to prevent the detection of fraud | 0 | | 2.2 collusion - colluding with suppliers to enable them to unfairly win contracts / orders and / or claim performance bonuses | 0 | | 3.2 bonuses / honoraria / promotion - setting up or colluding to set up (or remove) unauthorised additional pay to self or others | 1 | | 4.2 expenses - claiming for expenses not incurred on business, or exaggerating the expenditure incurred | 1 | | 5.2 theft of resources - taking money or property of the Force/OPCC without permission | 0 | |
| | | | 2.3 eligibility - colluding with third party recipients to over-ride eligibility criteria for funding awards | 0 | | | | | 4.3 timesheet / overtime - knowingly claiming for work not undertaken or at an inflated rate | 0 | | | | |
| | | | 2.4 conflict of interest - failing to declare an interest in decisions which lead to personal gain (or avoid personal loss) | 0 | | | | | 4.4 sickness - working elsewhere whilst taking sickness leave, or claiming sickness when fit and able to work | 1 | | | | |

Table 2 Finalised cases (RAG assessment to be completed)

| 1. accounting | Tot | RAG | 2. spending | Tot | RAG | 3. pay | Tot | RAG | 4. claims | Tot | RAG | 5. theft | Tot | RAG |
|---|-----|-----|--|-----|-----|---|-----|-----|---|-----|-----|--|-----|-----|
| 1.1 diverting funds - moving funding from eligible activity to personal use, or through collusion to another ineligible beneficiary | 0 | | 2.1 inappropriate spend - placing orders and or approving invoices for goods and services not required and / or for personal use | 0 | | 3.1 ghost employees - setting up or colluding to set up a false employee record to obtain salary | 0 | | 4.1 insurance - making a false / exaggerated personal claim against the Force/OPCC | 1 | | 5.1 misuse of resources - using property of the Force/OPCC for personal purposes | 0 | |
| 1.2 obscuring fraud - falsifying records or obscuring information to prevent the detection of fraud | 0 | | 2.2 collusion - colluding with suppliers to enable them to unfairly win contracts / orders and / or claim performance bonuses | 0 | | 3.2 bonuses / honararia / promotion - setting up or colluding to set up (or remove) unauthorised additional pay to self or others | 0 | | 4.2 expenses - claiming for expenses not incurred on business, or exaggerating the expenditure incurred | 0 | | 5.2 theft of resources - taking money or property of the Force/OPCC without permission | 0 | |
| | | | 2.3 eligibility - colluding with third party recipients to over-ride eligibility criteria for funding awards | 0 | | | | | 4.3 timesheet / overtime - knowingly claiming for work not undertaken or at an inflated rate | 1 | | | | |
| | | | 2.4 conflict of interest - failing to declare an interest in decisions which lead to personal gain (or avoid personal loss) | 0 | | | | | 4.4 sickness - working elsewhere whilst taking sickness leave, or claiming sickness when fit and able to work | 0 | | | | |

DORSET**Fraud and Corruption summary risk assessment (version Nov 2019)**

Period under review:

from 01/01/2021 to 31/03/2021

Total value of actual fraud losses as identified this period (from closed cases - Table 2)

£0.00

Risk self assessment tool to record the nature of fraud and corruption indicators

The table below sets out some of the main types of fraud and corruption risks, concerning staff, officers and volunteers, that relate to internal controls

There are five categories: accounting, spending, pay, claims and theft

Please completed the table by selecting the appropriate RAG status from each drop down in line with PSD's current assessment based on intel and work

Table 1 New cases / intelligence reported to Professional Standards Dept / Counter Corruption Unit

| 1. accounting | Tot | | 2. spending | Tot | | 3. pay | Tot | | 4. claims | Tot | | 5. theft | Tot | |
|---|-----|--|--|-----|--|---|-----|--|---|-----|--|--|-----|--|
| 1.1 diverting funds - moving funding from eligible activity to personal use, or through collusion to another ineligible beneficiary | 0 | | 2.1 inappropriate spend - placing orders and or approving invoices for goods and services not required and / or for personal use | 0 | | 3.1 ghost employees - setting up or colluding to set up a false employee record to obtain salary | 0 | | 4.1 insurance - making a false / exaggerated personal claim against the Force/OPCC | 0 | | 5.1 misuse of resources - using property of the Force/OPCC for personal purposes | 0 | |
| 1.2 obscuring fraud - falsifying records or obscuring information to prevent the detection of fraud | 0 | | 2.2 collusion - colluding with suppliers to enable them to unfairly win contracts / orders and / or claim performance bonuses | 0 | | 3.2 bonuses / honararia / promotion - setting up or colluding to set up (or remove) unauthorised additional pay to self or others | 0 | | 4.2 expenses - claiming for expenses not incurred on business, or exaggerating the expenditure incurred | 0 | | 5.2 theft of resources - taking money or property of the Force/OPCC without permission | 0 | |
| | | | 2.3 eligibility - colluding with third party recipients to over-ride eligibility criteria for funding awards | 0 | | | | | 4.3 timesheet / overtime - knowingly claiming for work not undertaken or at an inflated rate | 1 | | | | |
| | | | 2.4 conflict of interest - failing to declare an interest in decisions which lead to personal gain (or avoid personal loss) | 0 | | | | | 4.4 sickness - working elsewhere whilst taking sickness leave, or claiming sickness when fit and able to work | 0 | | | | |

Table 2 Finalised cases (RAG assessment to be completed)

| 1. accounting | Tot | RAG | 2. spending | Tot | RAG | 3. pay | Tot | RAG | 4. claims | Tot | RAG | 5. theft | Tot | RAG |
|---|-----|-----|--|-----|-----|---|-----|-----|---|-----|-----|--|-----|-----|
| 1.1 diverting funds - moving funding from eligible activity to personal use, or through collusion to another ineligible beneficiary | 0 | | 2.1 inappropriate spend - placing orders and or approving invoices for goods and services not required and / or for personal use | 0 | | 3.1 ghost employees - setting up or colluding to set up a false employee record to obtain salary | 0 | | 4.1 insurance - making a false / exaggerated personal claim against the Force/OPCC | 1 | | 5.1 misuse of resources - using property of the Force/OPCC for personal purposes | 0 | |
| 1.2 obscuring fraud - falsifying records or obscuring information to prevent the detection of fraud | 0 | | 2.2 collusion - colluding with suppliers to enable them to unfairly win contracts / orders and / or claim performance bonuses | 0 | | 3.2 bonuses / honararia / promotion - setting up or colluding to set up (or remove) unauthorised additional pay to self or others | 0 | | 4.2 expenses - claiming for expenses not incurred on business, or exaggerating the expenditure incurred | 0 | | 5.2 theft of resources - taking money or property of the Force/OPCC without permission | 0 | |
| | | | 2.3 eligibility - colluding with third party recipients to over-ride eligibility criteria for funding awards | 0 | | | | | 4.3 timesheet / overtime - knowingly claiming for work not undertaken or at an inflated rate | 0 | | | | |
| | | | 2.4 conflict of interest - failing to declare an interest in decisions which lead to personal gain (or avoid personal loss) | 0 | | | | | 4.4 sickness - working elsewhere whilst taking sickness leave, or claiming sickness when fit and able to work | 0 | | | | |



AGENDA NO: 13

INDEPENDENT AUDIT COMMITTEE

DATE OF MEETING: 29 APRIL 2021

FOIA: OPEN

TITLE OF REPORT: PSAA – ANNUAL QUALITY ASSESSMENT and AUDIT FEE SCALES FOR 2021/22

REPORT BY: Karen James – Head of Audit, Insurance and Strategic Risk

PURPOSE OF THE REPORT:

To present an update and provide assurance on one or more of the following areas:

| | |
|---|----------|
| Governance, Risk and Control | |
| Internal Audit | X |
| External Audit | |
| Financial reporting | |
| Other matter (please specify here) | |

RECOMMENDATIONS:

The Independent Audit Committee is asked to:

| | |
|------------------------------------|----------|
| Review the Report | |
| Consider the Report | |
| Note the report | X |
| Other (please specify here) | |

1. BACKGROUND INFORMATION

- 1.1 Under transitional arrangements Public Sector Audit Appointments (PSAA) was responsible for the monitoring the quality of the audit work undertaken by the five contracted audit firms undertaking work at principal bodies, such as the Police.
- 1.2 This work included an annual report on the results of the regulatory compliance and quality review programme covering all five firms. The final report under these transitional arrangements was published in Autumn 2019.

- 1.3 Attached at Appendix A is the first Annual quality Monitoring Report for 2020, which covers the work of local auditors appointed by the PSAA for the 2018/19 financial year.
- 1.4 The PSAA has adopted the International Auditing and Assurance Standards Board's, 'Framework for Audit Quality' (IAASB framework) as the model for its appointing person audit service quality monitoring arrangements.
- 1.5 The framework follows three key attributes that are expected to be present within a quality audit:
 - Adherence to professional standards and guidance
 - Compliance with contractual requirements and
 - Effective relationship management

2. KEY FINDINGS

2.1 Adherence to professional standards and guidance

- 2.2 Drawing upon the work of the Financial 'reporting Council (FRC) and the Institute of Chartered Accountants of England and Wales (ICAEW), they commented specifically on three firms where they review more than one engagement. One of those three was Grant Thornton.
- 2.3 The FRC reviewed six financial statement audits: one was assessed as meeting required standards, and five as 'improvement required'.
- 2.4 Across all of the FRC review the report highlights that the quality of audit work on property valuations continues to be its greatest concern and that firms must focus on improvement.
- 2.5 In contrast the Value for Money (VFM) arrangement conclusion work across all firms remain high, with all reviews meeting the standard.
- 2.6 It should be noted that the new Code of Audit Practice will change the scope of the VFM arrangements work from 2020/21 onwards.
- 2.7 ICAEW reported that 11 of the 12 financial statement audits that they reviewed across all firms met the required standard, along with all of the associated VFM arrangements work.
- 2.8 The review of internal quality monitoring (IQM), covered 29 individual audits with only 8 requiring improvement, and two as needing significant improvement.
- 2.9 The FRC report cited some good practice examples such as the increased use of internal specialist for property and pension valuation, improved work practices to record evidence of challenge of management and better risk assessments for VFM arrangements work.

2.10 Effective relationship management.

2.11 Following the PSAA survey of s151 officers and Audit Committee chairs, which reported in July 2020, 80% of respondents said the audit service provided met their expectations. They received responses from 40% of s 151 officers and 15% Audit Committee chairs.

2.12 The survey also highlighted the known tensions in local audit and the areas of audit focus.

2.13 The survey feedback has been anonymised and provided back to the audit firms, to support future improvement.

2.14 Compliance with contractual requirements

2.15 42% of audit opinions in the 2018/19 year were not provided by 31 July 2019. This contrasted with 13% of opinions being delayed in the previous year.

2.16 The main causes of delay were identified as being:

- Resourcing issues
- Dealing with technical audit and accounting issues; and
- Poor quality working papers provided by authorities

2.17 The PSAA are keen to continue to work with regulators, auditors, finance staff and those charged with governance to improve audit quality.

3. AUDIT FEE SCALES 2021/22

3.1 Attached at Appendix B is the published report by the PSAA on the audit fees for 2021/22.

3.2 Members will note that the proposed fees for the 2021/22 year remain unchanged for both Devon & Cornwall Police and Dorset Police.

29 March 2021

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Audit Quality Monitoring Report 2020

Public Sector Audit Appointments Limited (PSAA) is an independent company limited by guarantee incorporated by the Local Government Association in August 2014.

The Secretary of State specified PSAA as an appointing person for principal local government bodies from 2018/19, under the provisions of the Local Audit and Accountability Act 2014 and the Local Audit (Appointing Person) Regulations 2015

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Executive Summary

We are pleased to present our Annual Quality Monitoring Report for 2020. This covers the work of local auditors appointed by PSAA for the 2018/19 financial year, the first under the appointing person arrangements. This report is later than intended because the impact of the Covid-19 pandemic has delayed the completion of the professional regulators' work.

PSAA is committed to good quality audit services being provided to its opted-in bodies. PSAA has adopted the International Auditing and Assurance Standards Board's *Framework for Audit Quality* (IAASB framework) as the model for its appointing person audit service quality monitoring arrangements. This is widely regarded as a definitive statement on overall audit quality. The IAASB framework recognises there is a complex interplay of many factors in audit quality and notes the need for a rounded approach. We have taken the attributes that IAASB Framework expects to be present within a quality audit and distilled them into three tests which we use to monitor the quality of audit services provided by auditors under our contracts:

- Adherence to professional standards and guidance;
- Compliance with contractual requirements; and
- Effective relationship management.

Local audit has had to adapt and respond to a number of significant pressures and challenges over the recent period. High profile corporate failures have led to unprecedented scrutiny of auditors and their regulators, with three government initiated reviews of corporate audit and reporting (Kingman, Competition and Markets Authority, and Brydon) all of which will impact significantly on the firms that currently provide local audit services. Unsurprisingly local audit is facing similar challenges and in September Sir Tony Redmond published his independent review for MHCLG of the effectiveness of local audit and the transparency of local government financial reporting. He drew attention to many of the significant challenges and the unprecedented turbulence which exist in the current local audit system highlighting that at present local government audit is under-resourced and under-valued and is not having sufficient impact. The Government published its response to the review on 17 December, identifying that further work was required to refine the recommendations that had been made.

Adherence to professional standards and guidance

Information on the quality of local audit work in this report comes from the reports provided by the audit regulators, the Financial Reporting Council (FRC) and the Institute of Chartered Accountants of England and Wales (ICAEW). The FRC issued its audit quality inspection [report](#) (FRC report) containing the results of its audit quality inspections of 2018/19 engagements on 30 October 2020. It also included the results of reviews undertaken by the Quality Assurance Department (QAD) team of the ICAEW, and firms' own internal quality monitoring arrangements. We note that the scope of the report covers the whole of local audit, including those not opted-in to the PSAA appointing person arrangements and NHS bodies, but our judgement is that we are able to use the findings to inform our contract monitoring arrangements.

FRC reviews

The FRC is the primary regulator, and it reviewed the audits of 15 of the 271 bodies that meet the major local audit definition (Expenditure in excess of £500 million), 10 local authorities, two other local government bodies and three from the NHS, focusing in particular on audits with 'higher risk attributes'. The report sets out that nine financial statements audits (across four of the seven firms reviewed) did not meet the required standard (which is being

assessed as '1 - good 'or '2A – limited improvements required') for their work on financial statements, and that accordingly urgent action is required by the relevant firms to address the issues concerned; but the results at some of the reviews at some individual firms were encouraging with no more than limited improvements identified.

The FRC report commented specifically on three firms where it reviewed more than one engagement, those with the largest share of major local audits. The FRC reviewed six GT financial statement audits: one was assessed as meeting the required standard, and five as 2B (improvements required). The FRC reviewed two Mazars financial statements audits which they assessed as 3 (significant improvements required). All EY's audits reviewed by the FRC were assessed as meeting the required standard (no more than limited improvement). Two of the remaining four firms inspected (BDO, Deloitte, KPMG and PwC) had audits that required more than limited improvement although these were not named by the FRC.

The FRC report highlights that the quality of audit work on property valuations continues to be its greatest concern and that firms must focus on improvement, some of them urgently. Other areas of concern include the audit evidence for debtor balances, the audit response to fraud risks relating to journals and expenditure, the Engagement Quality Control review process, auditing estimates, and the audit of pension fund assets.

The main areas of concern highlighted by the reviewers have been raised in previous reports. Whilst auditors have responded by increasing their coverage of these areas the FRC report states that some firms still need to do more if its professional expectations are to be met.

We are pleased that the FRC's reviews found that the quality of VFM arrangements conclusion work across all firms remains high, with all 15 reviews meeting the standard. The new Code of Audit Practice will change the scope of the VFM arrangements work from 2020/21 onwards.

ICAEW reviews

The FRC report also includes the findings of both the ICAEW reviews of audits of bodies that do not meet the MLA definition, and the firms' Internal Quality Monitoring (IQM) reviews of audits.

The ICAEW reported that 11 of the 12 financial statement audits that they reviewed across all firms met the required standard, along with all of the associated VFM arrangements work.

The IQM results covered 29 individual audits of which 12 related to major local audits. 19 audits were considered to be of a good or limited improvements standard (nine for major local audits), eight were assessed as requiring improvement and two audits were classified as needing significant improvement.

The FRC report cited some good practice examples such as the increased use of internal specialists for property and pension valuation, improved workpapers to record evidence of challenge of management and better risk assessments for VFM arrangements work.

We will follow up the results and resulting action plans of all firms to get assurance that the FRC's concerns are being actively addressed. We are aware that firms have taken steps to respond to the findings by updating their work programmes.

Effective relationship management

We surveyed all of our 2018/19 Section 151 officers and Audit Committee chairs to judge the effectiveness of relationships between bodies and their auditors. We received responses from 193 (40%) Section 151 officers and 75 (15%) Audit Committee chairs. For 80% of respondents the audit service provided had met their expectations.

The survey also highlighted the known tensions in local audit around resourcing and the topics of specific audit focus.

We have provided firms with details of the anonymised analysis of survey responses to enable them to develop tailored improvement plans where appropriate. Communication is the area where most improvement can be made with delays in reporting the need for an audit deferral or a fee variation highlighted in responses.

Compliance with contractual requirements

The biggest disappointment for 2018/19 engagements was the very large number (208, 42%) where an opinion was not given by the publishing date of 31 July 2019 set out in the Accounts & Audit Regulations. This compares to 2017/18, the first year with a 31 July deadline, when 65 (13%) opinions were delayed beyond the publishing date. In order to comply with auditing and ethical standards there is no statutory or contractual requirement date for an audit opinion to be provided by the publishing date.

The causes of the delays were identified by auditors as a broadly equal combination of:

- Resourcing issues;
- Dealing with technical audit and accounting issues; and
- Poor quality working papers provided by authorities.

The third of instances where firms did not have sufficient staff to undertake particular audits is symptomatic of the vulnerability that has developed in the local audit market, and the lack of trainees and qualified staff with the appropriate knowledge to undertake this work.

We note that firms are prioritising technical audit quality. The report from the FRC commended a decision to delay reporting where there were significant concerns over areas of audit judgements. Similarly, in a thematic review of Audit Quality Indicators published in May 2020, a firm's decision to defer audit work until it had appropriately experienced resources in place was given as a case study illustrating where an action had prevented poor audit quality.

Overall

We are disappointed with the results of the professional regulatory reviews of financial statement work, with only 62% reviewed assessed as requiring no more than limited improvements. In contrast all VFM arrangements work inspected met this standard. We have discussed with the firms their plans to address the matters raised by the professional regulators.

The fragility of the local audit market supply was exposed by the proportion (broadly one third) of delayed opinions where audit firms acknowledged that audit resourcing issues were a significant contributory factor. We commissioned a report from [Touchstone Renard](#) (TR) in March 2020 to better understand the stresses on the system. The TR Report was submitted as evidence to the Redmond Review.

Our client survey identified that there are improvements that firms can make in their communications with clients. For 2019/20 we requested firms to engage early on key issues

such as where they believed that a fee variation would be required or a change to the audit timetable was needed,

The IAASB framework notes that all parts of the financial reporting supply chain have a role in contributing to and encouraging an audit environment that supports high quality audits. We will continue to work with regulators, auditors, finance staff and those charged with governance to improve audit quality. Meeting the challenges posed within the Redmond Review will form part of that work.

Introduction

1 This report summarises the results of the Quality Review Process (QRP) for 2018/19 engagements and related contractual monitoring. This is the first such report produced by PSAA under our appointing person responsibilities conveyed by the Local Audit (Appointing Person) Regulations 2015 (the Regulations).

2 PSAA has a duty under the Regulation 7(b) to design and implement appropriate systems to:

- oversee issues of independence; and
- monitor compliance against contractual obligations.

3 An overall [summary](#) of our approach is provided in on our website

PSAA approach to audit quality monitoring

4 Our approach is grounded in the International Auditing and Assurance Standards Board (IAASB)'s Framework for Audit Quality. This is widely regarded as a definitive statement on overall audit quality. We have taken the attributes the IAASB expects to be present in a quality audit and distilled them into three tests, which we use to consider the quality of audits and auditors under our contracts:

- adherence to professional standards and guidance;
- compliance with contractual requirements; and
- relationship management

5 Table 1 shows the main evidence sources that PSAA uses to monitor audit quality for the three tests to provide a rounded view of audit quality.

Table 1 PSAA's audit quality monitoring

| PSAA test | Evidence source |
|--|---|
| Adherence to professional standards and guidance | Professional regulatory reports; and Firm transparency reports |
| Compliance with contractual requirements | Contract performance indicators Method statement monitoring |
| Effective relationship management | Satisfaction survey scores |

Source: PSAA

6 The relationship between the IAASB framework and our audit quality monitoring arrangements is shown in the Table 2 below. Audit quality formed a core part of the

evaluation of tenderers in our 2017 audit procurement. Tenderers were encouraged to have regard to the IAASB Framework in the development of their submissions.

Table 2 IAASB Framework elements

| Key element/PSAA test | Adherence to professional standards and guidance | Compliance with contractual requirements | Effective relationship management |
|--|--|--|-----------------------------------|
| Inputs: | | | |
| Values, ethics and attitude | Y | Y | Y |
| Knowledge, skills, experience and time | Y | Y | Y |
| Process: | | | |
| Audit process and quality control procedures | Y | Y | |
| Outputs: | | | |
| Auditors' reports | Y | Y | Y |
| Transparency reports | Y | | |
| Professional regulators' reports | Y | | |
| Key interactions | Y | | Y |

Source: PSAA

7 While responsibility for providing audits of appropriate quality rests ultimately with an appointed auditor, audit quality, efficiency and effectiveness are a shared responsibility: for appointed auditors and audit firms; for PSAA as Appointing Person; for chief finance officers (CFOs) and audit committees; for regulatory and supervisory bodies; for the Comptroller & Auditor General (C&AG) and the National Audit Office (NAO); and for government. The IAASB framework notes that all parts of the financial reporting chain have a role in contributing to and encouraging an audit environment that supports provision of an audit service of the expected quality.

Adherence to Professional Standards and guidance

8 Information on the firms' adherence to professional standards and guidance comes from the results of professional regulatory reviews completed by the Audit Quality Review team (AQR) for the Financial Reporting Council (FRC) and the Quality Assurance Department

(QAD) for the Institute of Chartered Accountants in England and Wales (ICAEW), the principal Recognised Supervisory Body (RSB) for local audits in England.

9 The AQR reviews a sample of the largest local government and NHS audits. These are known as ‘major local audits’ and are those bodies with income or expenditure above £500 million. The QAD reviews a sample of local audits that fall below this threshold. The regulatory reviews covered both financial statement and VFM arrangements work. The publicly reported results cover local government and police bodies which have not opted-in to the PSAA appointing person arrangements as well as NHS bodies. However, our judgement is that we are able to use the findings as reported to inform and support our contract monitoring arrangements.

10 The professional reviews focus on identifying areas where improvements are required and individual ratings will reflect a wide range of factors, which may include size, complexity and risk of the individual audits selected for review. The FRC notes that because of this and the small non-statistically valid nature of the review sample, the inspection findings may not be representative of audit quality across a firm’s entire major local audit portfolio. Nonetheless, any inspection cycle which identifies audits requiring more than limited improvements is a cause for concern and indicates the need for a firm to take action to achieve the necessary improvements.

11 The FRC issued its audit quality inspection [report](#) on 30 October 2020. This contained the results of its reviews, those of the ICAEW regarding non-major Local Audits, and also the firms’ own internal quality monitoring. This provided the results of 56 audit file reviews, although VFM arrangements work was not reviewed in every case.

Financial Statements

12 Auditors are required to give an opinion on whether the financial statements of an audited body give a true and fair view of its financial position and of its income and expenditure for the period then ended. They have other reporting responsibilities with respect to the preparation of the financial statements, the remuneration report and other information published with the financial statements.

13 The FRC reported that not all firms were consistently achieving the necessary level of audit quality and that urgent action is required from auditors to respond to their findings and improve audit quality. They also reported that the results at some individual firms have been encouraging with no more than limited improvements identified.

14 The FRC report commented specifically on three firms where it reviewed more than one engagement, those with the largest share of major local audits. The FRC reviewed six GT financial statement audits: one was assessed as meeting the required standard, and five as 2B (improvements required). The FRC reviewed two Mazars financial statements audits which they assessed as 3 (significant improvements required). All EY’s audits reviewed by the FRC were assessed as meeting the required standard (no more than limited improvement). Two of the remaining four firms inspected (BDO, Deloitte, KPMG and PwC) had audits that required more than limited improvement although these were not named by the FRC.

15 Those firms with audits requiring limited improvement are required to complete and submit a root cause analysis to the FRC and put in place an audit quality action plan across local audits.

16 The most significant quality findings related to challenge and corroboration of the valuation of properties (council dwellings, specialised properties and investment properties), improvements required in the audit of amounts receivable (sample sizes and the assumptions used for expected credit loss provisions), and improved audit responses required to the risk of fraud arising from management override of controls and fraud in expenditure recognition. Given the findings on higher risk areas the FRC have challenged the effectiveness of the 'second partner review' process or Engagement Quality Control Review (EQCR). In the report the areas for improvement are detailed as:

- significantly strengthen audit procedures and challenge of management and their own valuation experts in the testing of property revalued in the year;
- improve the level of evidence obtained over amounts receivable, particularly sample sizes and the assumptions used to value credit losses for financial receivables;
- strengthen the audit response to the risk of fraud arising from management override of controls;
- improve the consideration of the risk of fraud in expenditure recognition and the extent of testing around the completeness and occurrence of expenditure;
- design and execute appropriate audit procedures to assess the estimates to determine liability provisions; and
- enhance the procedures over defined benefit pension arrangements, with improvements in the sufficiency of audit work performed over pension fund assets.

17 We note that the current statutory environment following International Financial Reporting Standards requires a valuations basis on which auditors express a true and fair opinion. The views of local government practitioners expressed in the Redmond Review were *that the extent and nature of asset valuations, very relevant in a commercial setting, undertaken by auditors, have limited significance in local government where assets are more often than not critical to service delivery and "market value" is not a consideration*. The Redmond Review also noted the FRC's view that if the sector considers the focus on asset and pension valuations is inappropriate, then this can be resolved through modifications to the Accounting Code. Accordingly, Sir Tony has recommended that CIPFA/LASSAC review the format and content of local authority accounts.

18 The FRC also highlighted the proportion of the audits they inspected (48%) that contained a prior period adjustment. Whilst these adjustments can be the result of changes in accounting policies or management reporting configurations, they can also be the result of errors which are a concern for both preparers and auditors of accounts.

19 There is a clear message in the FRC report for firms to provide stronger challenge management in these areas of complexity and forward-looking judgement. Until this matter is resolved the audit of these areas will continue to be a point of contention between auditors and those that they audit, but auditors must strive to meet the requirements of the statutorily appointed regulator.

20 Table 3 shows the results of this year's inspection reviews together with those from earlier years completed under the post-Audit Commission transitional arrangements which included firm's internal quality monitoring results moderated by PSAA.

Table 3 Financial statements – inspection review gradings

Results of the reviews completed by engagement year

| Grading | Total 2018/19* | Total 2017/18 | Total 2016/17* |
|---|-------------------|------------------|-------------------|
| 1 or 2A – Good or Limited improvements required | 17 | 20 | 31 |
| 2B – Improvements required | 8 | 11 | 13 |
| 3 Significant improvements required | 2 | 4 | 8 |

**sample includes NHS and other bodies not within the PSAA contract*

Source: FRC audit quality inspection report

21 As noted above, the sampling methodology means that changes in ratings from one year to the next are not necessarily indicative of any overall change in audit quality. Nevertheless, any inspection cycle with audits requiring more than limited improvements is a cause for concern and indicates the need for a firm or firms to take action to achieve the necessary improvements. In commenting on its findings within Appendix 2 to the FRC report the ICAEW noted that assessing an audit as needing improvement or significant improvement does not mean that the audit opinion was incorrect or that the financial statements were materially misstated.

22 Following each review the FRC sent a private report to each Audit Committee Chair, with a meeting to follow (at the discretion of the audited body) where the quality of the audit was assessed as requiring more than limited improvement. We are pleased that the FRC is giving greater support and attention to the role of the local government Audit Committee Chair discussing risk and concerns over the audit process.

23 The FRC report did highlight a number of specific examples of good practice including in some of the areas where they have raised concerns. Such examples included:

- audit work to corroborate key property valuation assumptions and valuation movements to independent sources;

- use of internal specialists to assist with the audit of pension liabilities and property valuations;
- improvements in calculating an individual local audit body's share of the overall defined benefit pension scheme;
- bespoke approach to testing capital spending and
- robust challenge to the sign-off of the auditor's report until the authority responded with additional information and reconciled balances.

Value for money arrangements

24 Auditors are required to give a value for money (VFM) arrangements conclusion as to whether the audited body has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

25 We are pleased that the improving trend within the assessments of VFM arrangements work has continued albeit on a limited sample. The FRC reported for their 15 reviews that the audit work to support the VFM arrangements conclusion was satisfactory in all cases as shown in Table 4. Separate information is not available on the results of the ICAEW or internal quality monitoring results, but the ICAEW reported that the work to support VFM arrangements conclusion was satisfactory on all audits that they reviewed.

Table 4 VFM arrangements – inspection review gradings

Results of the reviews completed by engagement year

| Grading | Total 2018/19* | Total 2017/18 | Total 2016/17* |
|---|-------------------|------------------|-------------------|
| 1 or 2A – Good or Limited improvements required | 15 | 20 | 31 |
| 2B – Improvements required | 0 | 11 | 13 |
| 3 Significant improvements required | 0 | 4 | 8 |

**sample includes NHS and other bodies not within the PSAA contract*

Source: FRC audit quality inspection report

26 We note from both the Redmond Review and the NAO's consultation on its 2020 Code of Audit Practice that whilst the technical quality of auditors work is rated highly by regulators, the VFM arrangements conclusion is viewed by many local bodies to be an exercise of limited value to them as it is too retrospective and often states what the local body already knows. The new Code of Audit Practice operable from 2020/21 attempts to

address these concerns with the introduction of a VFM arrangements commentary as part of a more tailored Auditor's Annual Report.

Transparency Reports

27 The FRC's Local Auditors (Transparency) Instrument 2015 requires firms that conduct major public audits to report annually on information specific to their local audit responsibilities and includes inter alia:

- a statement on the effectiveness of the functioning of internal quality monitoring arrangements in relation to local audit work;
- a description of independence procedures and practices, including a confirmation that an internal review of independence practices has been conducted;
- a statement on the firm's policies and practices to ensure that Key Audit Partners continue to maintain their theoretical knowledge, professional skills and values at a sufficiently high level; and
- confirmation that all engagement leads are competent to undertake local audit work and staff working on such assignments are suitably trained.

28 The Transparency Reports published by firms in December 2019 provide information on the results of regulatory reviews of 2017/18 engagements and the responses of firms to the matters raised. Some firms produce a specific 'Local Audit' Transparency Report, whilst others adopt the practice of publishing a firm-wide Transparency Report. Transparency Reports can be found on firms' websites.

29 We found that the required disclosures were contained within each contracted firm's Transparency Report but these were not always clear. Arguably it is more helpful for the sector's stakeholders if a separate report is produced covering 'Local Audit' requirements or, if a single report is produced, the matters pertaining to Local Audit are clearly delineated.

30 The reports also present an opportunity for the firms to:

- provide relevant, reliable and useful information that facilitates engagement between firms and users of financial information;
- communicate a balanced self-assessment of the challenges the firms face in relation to audit quality and the effectiveness of their actions to overcome them, including how the independent non-executives at the firms have assessed this; and
- promote confidence (where warranted) in their systems, processes and governance to engender public trust.

31 The Transparency Reports do acknowledge the commercial pressures that the firms are under, identifying both the availability of resources and client risk (corporate governance and quality of management) as well as economic returns as factors that are being used in the evaluation of audit portfolios and decisions on whether to participate in future tenders.

32 We note that the FRC reported on a review of the 2018 Transparency Reports (which included the local audit disclosures) in September 2019. This found that the reports tended to be too long and overly positive and not as effective as intended highlighting that *'The reports would be more useful if they were more balanced and explained more clearly the challenges and risks the firms face in seeking to deliver consistently high-quality audits,*

along with their assessment of how successful they are being at meeting those challenges’. The FRC concluded that, for the full benefits of Transparency Reporting to be realised, the existing requirements need to be rethought and that it would begin work on this in 2020.

33 The Transparency Reports contain confirmations and information on the training and development that is provided for key audit partners and audit staff. The Redmond review reported that ‘many local authorities reported significant concerns about the knowledge and expertise of staff working on their audit’. Our client survey reported that 25% of Finance Directors did not consider that the audit team had the skills, knowledge and understanding to deliver the audit. This clearly represents a challenge for firms, especially in the context of an overall shortage of experienced local authority auditors in the market.

34 Firms are due to publish their next Transparency Reports by the end of 2020.

Compliance with Contractual requirements

35 PSAA monitors firms’ compliance with contractual requirements by considering performance against a range of contract indicators and also their compliance with agreed method statements.

36 PSAA has not been required to take formal action against any firm in respect of non-compliance with contractual requirements in respect of 2018/19 engagements.

Contract performance indicators

37 During the year PSAA has reported publicly on firms’ performance against targets of particular interest to opted-in bodies. This has included information on delivery of audit opinions and other outputs in a timely manner, and matters which facilitate publication of annual accounts. For clarity, in order to comply with auditing and ethical standards there is no statutory or contractual requirement date for an audit opinion to be provided by the publishing date.

38 The expectation is that the audit report containing the opinion will be issued by the publishing date set out in the Accounts and Audit Regulations 2015 (or equivalent) wherever the auditor can do so under the auditing standards and the guidance issued by the NAO. This expectation has been written into the NAO Code of Audit Practice from 2020/21 onwards. It is firmly established practice in local government that if auditors are unable to issue an unqualified opinion at the publishing date then rather than issuing a qualified opinion they will delay issue until they can issue a non-qualified opinion. Regulation 10(2) of the Accounts and Audit Regulations 2015 specifically provides for the circumstances where an audit of accounts has not been concluded before the specified publishing date with the requirement of the Council to publish a notice reporting the delay and the reasons for it.

39 We are disappointed to report that 208 of 486 (43%) opinions were not given by 31 July 2019, a very significant increase compared to the previous year (65, 13%). This is concerning to all local audit stakeholders. We have liaised with NAO, MHCLG and HMT on the progress in completing the remaining audits. In all cases the challenge to return to a ‘normal’ timetable has been exacerbated by Covid-19 pandemic. In addition to local

governance, stewardship and accountability concerns there is an unhelpful knock-on impact on the preparation and publication of audited Whole of Government Accounts. Table 5 below shows that, although progress has been made, 28 2018/19 opinions remained outstanding as at 30 November 2020.

Table 5 Delivery of audit opinions

Time profile of the completion of audits: opinions outstanding

| Year | 31 Jul 2019 | 30 Sep 2019 | 31 Dec 2019 | 31 Mar 2020 | 30 Nov 2020 |
|----------------|----------------|----------------|----------------|----------------|----------------|
| 2018/19 | 208 | 142 | 85 | 61 | 30 |
| 2017/18 | 65 | 25 | 14 | 11 | 7 |

Source: PSAA

40 Firms explained that there were three main reasons for the delays of broadly equal occurrence with some audit delays having more than cause:

- audit resourcing issues;
- dealing with technical audit and accounting issues; and
- issues with working papers or explanations provided in response to audit queries.

41 The lack of auditor resources where audit firms did not have sufficient staff to undertake particular audits emerged for the first time as a significant factor in 2018/19. This is symptomatic of the vulnerability that has developed in the local audit market and the lack of trainees and qualified staff with the appropriate knowledge to undertake this work. We note that the FRC in its thematic review of Audit Quality Indicators highlighted the positive impact on audit quality of a firm taking the decision to delay the audit timetable at a number of specific clients so that all audits could be resourced appropriately. As noted above the publishing date is not a statutory target.

42 The bringing forward of the publishing deadline has exacerbated the position by restricting the number of audits that sector specialist auditors can work on, and our understanding is that the intensity of the resulting work has increased the attrition of local audit staff leaving the field.

43 The other delay factors have also been impacted by the bringing forward of the publishing date. The accounts are described by both CIPFA and Sir Tony Redmond as “impenetrable”, but are being produced by smaller hard pressed teams of accountants with competing priorities, undertaking more complex and innovative transactions, which can result in delays in preparation and resolution as the audit window has been shortened. The Redmond Review reported that auditors raised concerns about local authorities not providing properly prepared draft accounts supported by high quality working papers or not being available to answer audit questions. Scale fees and auditor resource plans are based on the draft accounts and supporting working papers being of an appropriate standard.

44 All parts of the financial reporting supply chain have their role to play in delivering high quality and timely audits. A priority message to firms has been to communicate clearly with bodies on:

- the audit plan and timetable; and
- any changes to that timetable and the reasons concerned.

Objections

45 Local audit is different from corporate audit in that the appointed auditor has certain statutory powers under the LAAA 2014, and also that local electors have the right to raise objections.

46 The nature of individual objections and the levels of complexity they involve vary enormously. For simplicity we monitor against the expectation that cases should be resolved within nine months from the point at which the objection is accepted by the auditor for review. We recognise that this timetable cannot be achieved in all cases, for example, where objections are related to complex or difficult legal cases, or where a resolution is delayed because an auditor is reliant on others for responses.

47 The NAO's 2020 Code of Practice will require auditors to use best endeavours to complete their work on objections within six months including informing the objector and the body of their decision. We welcome particularly the requirement that where this is not possible that electors and bodies will be provided with a progress update every three months until the objection is decided.

Non-compliance with Terms of Appointment

48 There have been no significant areas of non-compliance with PSAA's Terms of Appointment (ToA). We reported five occasions during the year where firms had not notified us of their intention to issue a qualified VFM arrangements conclusion.

Independence issues

49 The ToA require firms to notify PSAA of any potential threats to their independence which may arise. In relation to 2018/19 engagements we received three such notifications. In all cases the matter was dealt with appropriately with relevant disclosures being made to the audit committees of the authorities concerned. There have been seven matters raised with respect to 2019/20. Again these have been dealt with appropriately.

Non-audit services

50 Firms are able to provide certain non-audit services to audited bodies subject to the requirements of the FRC's Ethical Standard and the NAO's Auditor Guidance Note 1. Where the fee for such services exceeds the higher of £18,000 or 20% of the scale fee then the firm must seek PSSA's confirmation that undertaking such work does not compromise their independence as auditor. The requirement by local auditors to provide a VFM arrangements conclusion is a key consideration in this judgement. The number of requests made has significantly reduced from earlier years because of changes to the Ethical Standard.

Table 6 Non-audit service requests

Number and value of non-audit service requests for the last three financial years

| Year | Number of requests approved for non-audit services | Total fee value of requests approved |
|---------|--|--------------------------------------|
| 2017/18 | 20 | £810,134 |
| 2018/19 | 10 | £336,773 |
| 2019/20 | 5 | £203,550 |

Source: PSAA

51 We have no concerns about how firms are operating their internal control systems for maintaining their independence.

Complaints

52 Complaints can be an indicator of poor quality audit services. Under our complaints policy PSAA can consider complaints that relate to a possible failure in service by one of the firms of appointed auditors, but we cannot consider complaints about the professional judgements and decisions made by auditors, or the process followed in relation to elector rights as these are matters for the courts.

53 In the year to September 2020 there were four complaints to PSAA none of which were upheld. In 2019 there were also four complaints one of which was partially upheld. In one 2020 case a complainant was referred to the ICAEW as the appropriate regulatory body.

Method Statement

54 Certain parts of firms' invitation to tender (ITT) responses in the 2017 PSAA procurement have been incorporated as 'method statements' in their contracts. The method statements cover a variety of topics that were all assessed as part of the tender evaluation process. PSAA has triangulated its monitoring of compliance with audit quality service information from other sources such as the professional regulatory reviews and client surveys. A client focussed version of the 'method statement' was provided to all bodies as part of firms' normal planning and reporting and also alongside our client surveys.

55 As audit is a highly regulated profession, much of the firms' method statements is contained in the expectations of the auditing standards in planning, conducting and reporting on an audit. The results of the regulatory reviews are reported above.

56 The findings from our client survey were that broadly 80% of finance directors and audit committee chairs considered that their audit service was meeting their expectations as set out in their method statement. Where this was not the case the main reasons highlighted

were because of ‘audit delays’ and communications about this and fee variations. The results from the client survey have been drawn to the attention of firms (see below).

Data Confidentiality

57 We have reviewed and confirmed that firms’ data confidentiality arrangements remain appropriate. There have been no notifiable breaches of data confidentiality. The introduction of cloud-based data holding and two-factor authentication arrangements have done much to improve overall security.

Social Value

58 In accordance with our obligations under the Public Services (Social Value) Act 2012, we used the procurement to seek to improve the economic, social and environmental well-being through the supply of audit services under our contract, whilst acknowledging that this is difficult to frame and measure in a national context.

59 As part of our tendering process we asked that firms specify how many apprenticeships, additional training, development and work experience opportunities would be provided as a result of the contract, and the measures that would be put in place to target these posts at people from more deprived communities. Across our five firms over 400 positions were to be provided across the life of the contract with 90 in place in the first year. Initial information shows that 137 positions were introduced in the first year of the contract.

60 A particular focus for all firms has been school leaver programmes for those not wishing to go to university (which had been the traditional joining route). Information on backgrounds has been more challenging to validate but firms have provided details of the strategies deployed to target potential employees in more deprived areas such as using blind interview techniques. One firm’s intake of 18 school leavers include 15% who had been recipients of free school meals.

61 Additionally our tendering process asked firms for information on what other economic, social and environmental initiatives they would undertake to deliver related to providing auditing services of their contract lot and what improvements in social value they expected those initiatives to stimulate. These vary by firm and include:

- support for national and local charities;
- committing additional time to social responsibility activities;
- reduction in carbon footprint; and
- supporting social mobility.

Effective relationship management

62 Effective relationship management is a key component of audit quality. Satisfaction surveys are the most effective way of obtaining this information.

63 Previously surveys have been undertaken by the audit firms themselves and have sought the responses of client Chief Finance Officers (CFOs) to a relatively small number of

high level questions. This year was the first under Appointing Person arrangements, and PSAA introduced a new approach which incorporated a number of important changes.

64 We commissioned the LGA's Research & Information team to administer the survey to provide assurance about independence and confidentiality. The views of both CFOs and Audit Committee Chairs were sought, recognising the importance of the auditor's relationships with both Management and Those Charged With Governance. A longer list of survey questions sought to probe more deeply into respondents' experience of different aspects of the audit and the auditor's performance. We surveyed all our bodies, and we received responses from 75 (15%) Audit Committee chairs and 193 (40%) Finance Directors. We reported the survey results in May 2020. A full copy can be found on our website: [PSAA Quality of Audit Service feedback survey](#).

Survey Results

65 The response rate is lower than we anticipated, particularly given the number of delayed opinions.

66 We hope that response rates will rise in the future and that both CFOs and Audit Committee Chairs will see this mechanism as an important opportunity to provide feedback based on their front-line experience of the audit service. We have commissioned further research for the LGA to help us to improve survey response rates in future years.

67 The responses from Audit Committee chairs showed that:

- 81% agreed that in presenting the audit closure report the auditor clearly explained the work undertaken and conclusions reached;
- In cases where an additional fee had been proposed (41), audit committee chairs agreed that in 83% of cases the audit team had explained the reasons for this, and in 72% of cases this had been reported to the Audit Committee on a timely basis; but
- Of the 32 cases where the audit opinion was to be delayed, 56% reported that the delay had not been communicated on a timely basis.

68 The responses from Finance Directors showed that:

- 74% said that the auditor could be approached as a sounding board when required;
- 25% did not think the audit team had the skills to deliver the audit;
- 70% thought they had been kept informed of audit progress throughout the year;
- In those cases where an additional fee had been proposed (148), 62% agreed this had been reported on a timely basis; and
- Of the 84 cases where the audit opinion was to be delayed, 58% reported that the delay had not been communicated on a timely basis.

69 We have shared the information with firms to assist in improving the quality of audit services. All firms wanted the additional comments provided and information on a more granular level than is available from an anonymous survey. Three of the comments made are provided below, illustrating the range of responses provided:

- *‘A frustrating year due to change in audit approach, especially around asset valuations and due to a new team. Likelihood that audit would not complete in time communicated very late’;*
- *‘The first year audit from a new provider can be challenging. However in this instance the transition was seamless’; and*
- *‘The auditors and councils are subject to a huge amount of regulation and the whole process of producing a statement of accounts and auditing them is expensive. We end up with a product that is not meaningful to our residents or councillors’.*

70 Overall, the survey results show that 80% of respondents were content with the quality of the audit service provided, but the known tensions in the local audit world around resourcing and property and pension valuations were highlighted. The nature of the survey means that it is difficult to draw meaningful comparisons between firms but there is work to be done by all to achieve improvements. Together with the other elements of our monitoring the survey results provide a strong evidence base from which firms will be able to develop tailored improvement plans where appropriate.

Actions

71 The FRC report contains the firms’ responses to its findings. All highlight the ongoing investment that they are making to their audit training and procedures and the firms’ oversight of the process. Some are undertaking Root Cause analysis to identify and understand the drivers for the identified poor quality audit work. This will be used to make changes to training, work programmes and review processes.

72 Where necessary the FRC will assess the firms local audit quality action plan and decided whether any additional procedures or increases audit reviews are required at individual firms.

73 We will be discussing with all firms the results of the reviews and the responses that they are putting in place. We meet with all firms on a regular ongoing basis to discuss delivery of the contract and the quality of audit service provided.



2021/22 audit fee scale

Opted-in local government and police bodies

March 2021

Public Sector Audit Appointments Limited (PSAA) is an independent company limited by guarantee incorporated by the Local Government Association in August 2014.

In July 2016, the Secretary of State specified PSAA as an appointing person for principal local government authorities for audits from 2018/19, under the provisions of the Local Audit and Accountability Act 2014 and the Local Audit (Appointing Person) Regulations 2015.

From 2018/19 PSAA is responsible for appointing an auditor and setting scales of fees for relevant principal authorities that have chosen to opt into its national scheme.

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Summary

- 1 This document sets the 2021/22 scale of audit fees payable by local bodies that have opted into PSAA's appointing person scheme.
- 2 Our consultation on the fee scale explained the impact on audit fees of the significant tensions and pressures currently in the audit market and profession. It also set out the practical difficulties for PSAA in setting a realistic fee scale before the start of the relevant financial year, as required under current regulations, because fees must be set more than eighteen months before audit work is complete.
- 3 MHCLG is currently considering options for system leadership following the Redmond review of local government financial reporting and audit, and further announcements are expected in Spring 2021. The government response is also expected to other major reviews of audit by Sir John Kingman, the Competition and Markets Authority and Sir Donald Brydon. In the meantime, there remains significant uncertainty about the nature and extent of any resulting changes to be taken forward.
- 4 In the short term, further developments are also taking place. The coronavirus emergency continues to add complexity to the audit process for finance teams and auditors. The impact of new or updated requirements has still to be evaluated, including for example for the new Code of Audit Practice and possible changes to local government financial reporting requirements proposed by the Redmond review. Further change to the accounts and audit timetable may also be implemented.
- 5 These are unprecedented circumstances in which to set the fee scale. PSAA is carrying out a programme of research to provide a detailed and up-to-date understanding of the expected impact on audit fees of changes in audit requirements. Where it is appropriate to introduce national fee variations, for example where changes apply consistently across all or most opted-in bodies, we will consult on proposals once regulations allow. MHCLG has indicated its intention to update the regulations during 2021.
- 6 On the basis of the positive response to our consultation on the 2021/22 fee scale and the information on additional fees we are able to use at this point, PSAA has confirmed the fee scale will comprise the following elements:
 - the 2020/21 scale fees; and
 - relevant adjustments for ongoing additional audit work from 2018/19 approved fee variations (notified during the consultation period to individual opted-in bodies).
- 7 We are very grateful for all the responses to our consultation on the fee scale, which have provided very helpful feedback on our proposals. The PSAA Board has reflected on the consultation outcome and takes very seriously all the points made. The matters raised are complex, and possible solutions are considered on their merits and having taken into account all stakeholder views.

Introduction to setting the 2021/22 fee scale

PSAA's appointing person role

- 8 PSAA is specified by the Secretary of State for Housing, Communities and Local Government under the Local Audit and Accountability Act 2014 and the Local Audit (Appointing Person) Regulations 2015 as the appointing person for principal local government bodies in England.
- 9 PSAA is responsible for providing an auditor appointment scheme for eligible bodies which choose to opt in. Its role is to:
 - appoint an auditor to all authorities that have chosen to opt into the scheme rather than appoint their own auditor;
 - set a scale or scales of fees; and
 - monitor independence and contractual compliance of the audit firms it appoints to opted-in bodies.

Scope of audit

- 10 The National Audit Office is responsible for publishing the statutory Code of Audit Practice for auditors of local public bodies. Further information on the Code and supporting guidance is available on the [NAO website](#).
- 11 The Code sets the overall scope of the audit, requiring the auditor to give an opinion on the financial statements of a principal body subject to audit and, from 2020/21, to provide a commentary on the arrangements for value for money (VFM).
- 12 The Code requires the auditor to:
 - use judgement to design an audit approach that meets their statutory responsibilities;
 - ensure their work is risk-based, proportionate and tailored to reflect local circumstances and their assessment of audit risk; and
 - carry out their work in compliance with the requirements of the relevant professional standards issued by the Financial Reporting Council and relevant quality control standards.

The fee scale consultation proposal

- 13 Our consultation explained that PSAA is setting the fee scale for the audit of 2021/22 financial statements and value for money arrangements in the context of significant continuing turbulence and uncertainty in the audit market.
- 14 Key developments include the possible reshaping of local audit following the [Redmond Review](#) and the Government's initial policy response to its findings and recommendations published in December. A further statement is expected in Spring, 2021. There could also be further implications arising from a series of other reviews of audit (the Kingman review of audit regulation, the Competition and Markets Authority review of the audit market, and the Brydon review of the quality and effectiveness of audit). A Government response to these developments is expected in the near future.

- 15 A significant proportion of audit work is undertaken after the relevant financial year by necessity. Consulting on changes to the fee scale in advance of the start of the relevant year (as the Appointing Person Regulations explicitly require) therefore presents us with significant challenges when audit is subject to as much change as it is currently. Ideally, we would be able to set fees with the benefit of relatively complete information about all preceding years' audits. In practice, we are having to consult on 2021/22 fees with incomplete information in relation to:
- audits of 2018/19 accounts for which a minority of audit opinions remain outstanding;
 - audits of 2019/20 accounts (a significant proportion of opinions remain outstanding)
 - audits of 2020/21 accounts (very limited if any audit work done).
- 16 Our consultation proposal for the 2021/22 fee scale therefore set out a proposal to construct fees using the following information:
- [2020/21 scale fees](#)
 - [plus](#) relevant adjustments for ongoing additional audit work arising from 2018/19 approved fee variations
 - [plus](#) any adjustments relating to changes in auditing and financial reporting requirements which are classified as national variations under PSAA's new arrangements for dealing with fee variations and which could be determined before 31 March 2021.
 - [plus any](#) relevant adjustment for inflation arising from PSAA's contracts with audit suppliers.
- 17 Since the consultation, we have confirmed the following:
- We wrote to opted-in bodies during the consultation period to confirm the ongoing adjustments to be applied to their fee for 2021/22. The responses from opted-in bodies to these communications are summarised later in this document.
 - We were able to confirm the ongoing adjustments for 34% of individual audits. The adjustments we were able to make have increased the scale fees for the opted-in bodies concerned by 6.63%, or 2.7% across the whole fee scale. Ongoing adjustments where information was not available this time will be considered in the next phase of the exercise. It is important to note that baking in the ongoing elements of previous fee variations does not actually have the effect of increasing fees or changing the overall quantum of fee to be paid by each body, rather it alters the timing of payment for additional work that is required on an ongoing basis.
 - Our work on potential national fee variations involves a range of stakeholders. We will consult on proposed changes to the fee scale in due course. Although this work is progressing it has not been possible to conclude and consult on any proposed adjustments to the 2021/22 fee scale ahead of 31 March. We will therefore consult during 2021/22 on appropriate national fee variations, subject to expected changes in the regulations during 2021. Where it is not possible to determine a national fee variation that is applicable across all or most opted-in bodies, we will provide information on indicative fee ranges or key determinants for the fees for additional work.

2021/22 audit fee scale

- Based on the CPI index for the rolling 12-month period to February 2021, the prevailing rate of inflation remains below 1%, so no adjustment for inflation is required under our contracts with audit suppliers (the formula specified in the contract is CPI minus 1%).
- 18** A summary of the responses to the consultation is set out in the Appendix to this fee scale document. We welcome all the feedback received to our consultation and thank those who responded. The PSAA Board has reflected on the consultation outcome and takes very seriously all the points made.

2021/22 fee scale

- 19 After careful consideration of the issues raised in the feedback to our consultation and the factors affecting auditors' work, PSAA has set the scale fee for 2020/21 on the basis of the following elements:
- the 2020/21 scale fees as a baseline; plus
 - relevant adjustments for ongoing additional audit work from 2018/19 approved fee variations built into the fee scale.
- 20 Additional requirements that are identified or quantified following publication of the fee scale, or are not ongoing requirements, will continue to be subject to the fee variations process.
- 21 Ongoing elements of 2019/20 fee variations (together with any further ongoing elements relating to 2018/19 variations which have still to be agreed), once determined, will either be built into the next fee scale, or, if amended regulations allow, added into the 2021/22 fee scale in due course.
- 22 We recognise that this decision may disappoint some stakeholders, who would prefer PSAA to make 'across the board' increases in fees. However, we are clear that increases in fees must be based on evidence of the actual work required for any additional requirement.
- 23 In discussing the fee consequences of any factors, it is important that auditors and audited bodies consider both short- and longer-term implications. Some issues will have a one-off impact, affecting a single year and resulting in a fee variation proposal for a one-off adjustment. Others will have ongoing implications which may or may not be the same as the impact in the first year.
- 24 Individual 2021/22 scale fees for opted-in authorities are available on the scale of fees page of our website at <https://www.psaa.co.uk/appointing-auditors-and-fees/list-of-auditor-appointments-and-scale-fees/>.

Fee variations process

- 25 The nature of audit is such that it may be necessary for an auditor to carry out more audit work than has previously been required or planned. PSAA has the power to vary the audit fee payable by an opted-in authority where it considers substantially more or less audit work was required than envisaged by the scale fee (which is set based on the most recent audit year for which complete fee information is available). Where it becomes clear that audit risk or complexity is significantly different from the level identified and reflected in the scale fee, the auditor may request a fee variation.
- 26 Variation requests must be made to PSAA by the auditor using a standard process. PSAA encourages discussions between the auditor and the body to take place as early as possible in the audit cycle, and ideally for the auditor to obtain agreement from the authority to the proposed variation before seeking approval from PSAA. However, irrespective of whether the proposed variation has or has not been agreed by the body concerned, PSAA will scrutinise every proposal and is responsible for the ultimate determination of every variation. The auditor cannot invoice an audited body until PSAA has approved the request.

- 27 PSAA regularly obtains updated fee information in relation to proposed variations from the scale fee from appointed auditors and considers the reasonableness of the explanations provided by auditors. For example, PSAA considers fee variations in relation to Code changes, regulatory changes and late or poor preparation of working papers are potentially valid (subject to individual circumstances and the body's observations).
- 28 Fees are chargeable when auditors carry out work in line with their other responsibilities, such as considering information provided by third parties, objections or carrying out other investigations.

Statement of responsibilities

- 29 The [statement of responsibilities of auditors and audited bodies](#) sets out the expectations on which scale fees are based. The statement effectively represents the terms of engagement between appointed auditors and audited bodies and summarises their respective responsibilities.
- 30 Scale fees are based on the expectation that audited bodies can provide the auditor with complete and materially accurate financial statements and supporting working papers within agreed timeframes. Where an authority is unable to fulfil these requirements, local fee variations may be required.
- 31 The statement of responsibilities also applies to auditors. Additional audit costs that arise due to auditors not meeting expectations, for example where members of the audit team are inadequately prepared or where changes in audit teams lead to repeated questions, are ineligible for a fee variation.
- 32 The same expectations will apply to the expected work covered by national fee variations. If an audited body does not meet its responsibilities, creating a need for further additional audit work, an additional local fee variation could also apply, and auditors must also meet their responsibilities for the work that generates the additional fee.

Value added tax

- 33 Individual audit fees under the 2021/22 fee scale do not include value added tax (VAT), which will be charged at the prevailing rate, currently 20 per cent, on all work done.

Enquiries

- 34 If you have questions about this fee scale document, please send them to us by email to: workandfeesconsultation@psaa.co.uk.

Appendix: Summary of responses to the fee consultation

Background to the consultation

Current regulations require PSAA to consult on and set the fee scale in advance of the financial year to which the scale applies. A significant proportion of audit work is undertaken after the end of relevant financial year by necessity. Consulting on changes to the fee scale in advance of the start of the relevant year (as the Appointing Person Regulations explicitly require) therefore presents us with significant challenges, particularly when audit is subject to as much change as it is currently. Ideally, we would be able to set fees with the benefit of relatively complete information about all preceding years' audits.

We consulted in January and February 2021 on the proposed fee scale for 2021/22, following a consultation in November 2020 on improvements to fee variations arrangements. We consulted a total of 526 organisations, including opted-in bodies, contracted firms and a broad range of national stakeholders. The regulations require us to consult:

- a) all opted in authorities;
- b) such representative associations of principal authorities as appear to the specified person to be concerned, and
- c) such bodies of accountants as appear to the appointing person to be appropriate.

Our consultation for the 2021/22 fee scale set out the proposal that fees would be set using the following information:

- [2020/21 scale fees](#)
- [plus](#) relevant adjustments for ongoing additional audit work arising from 2018/19 approved fee variations
- [plus](#) any adjustments relating to changes in auditing and financial reporting requirements which are classified as national variations under PSAA's new arrangements for dealing with fee variations and which could be determined before 31 March 2021.
- [plus](#) relevant adjustment for inflation arising from PSAA's contracts with audit suppliers.

Consultation responses

We received 70 responses to the consultation:

- 65 from opted-in bodies;
- 3 from contracted firms; and
- 2 from representative organisations of opted-in bodies.

Most consultation responses confirmed their support for the proposed approach to setting the 2021/22 fee scale:

- 53 responses (76%) confirmed they agree with the proposals;
- 23 of those positive responses (32% of all responses), support the proposed approach but raised some concerns or caveats;

2021/22 audit fee scale

- 17 responses (24%) did not support the proposals.

Summary of consultation responses

| Support without caveats | | Support with caveats | | Total who support the proposals | | Do not support the proposals | |
|-------------------------|----------------|----------------------|----------------|---------------------------------|----------------|------------------------------|----------------|
| Number | % of responses | Number | % of responses | Number | % of responses | Number | % of responses |
| 30 | 43% | 23 | 33% | 53 | 76% | 17 | 24% |

For comparison, we received 54 replies to last year's consultation on the 2020/21 fee scale.

Themes in the consultation responses

Although the level of support for the consultation proposals was high, there is a broad range of views reflected in individual responses, from those who consider the proposed approach to be a sensible way forward to those who think that fees should not change.

The positive responses generally welcome PSAA's proposed actions to build into scale fees the additional fees for ongoing audit requirements. Opted-in bodies welcome more certainty about audit fees, and many think the approach we have adopted in setting out our proposals for the 2021/22 fee scale is helpful and reasonable given current circumstances in local audit.

While confirming their support for the consultation proposals, some opted-in bodies have highlighted particular issues or caveats. Some are concerned that building into the fee scale the ongoing additional fees for 2018/19 alone at this stage will not produce a realistic indication of the audit fee payable for 2021/22. Their view is that the fee scale should cover all requirements and they would prefer that additional fees for 2019/20 are included in the fee scale as well. This is not straightforward because all additional fees required for 2019/20 audits cannot be confirmed yet by auditors and opted-in bodies, and then determined by PSAA. PSAA is required under current regulations to determine additional fees after audit work has been completed.

Responses from opted-in bodies also raise concerns about the size of some additional fees, particularly in the context of the financial pressures they are experiencing themselves. The additional fees under approved fee variations are required because audit requirements have increased as a result of changes in scope and regulatory oversight. PSAA's process for approving fee variation requests from auditors includes careful checks, balances and challenge before determination. Only the ongoing elements of fee variations will be included in the fee scale and will remain under review from year to year.

Consultation responses which do not support the proposal generally take the view that opted-in bodies should not be required to pay additional fees, and that any additional requirements should be allowed for in the audit contracts. The local audit framework under which the contracts were let requires the appointing person to set audit fees based on the requirements of the Code of Audit Practice. The legal framework recognises the potential need for additional audit work and includes a provision in the regulations for these. In the interests of safeguarding public funds, the contracts do not provide for potentially costly contingencies for changes in requirements that may or may not occur and for which the specific impact could not be quantified at the time of contract award.

The consultation responses we received from audit firms consistently present a strong view that the challenges of increased regulation and additional technical requirements mean that scale fees are no longer aligned with the level of audit work now required. The view of the firms is that scale fees need to increase, and that some form of percentage increase in the 2021/22 fee scale would be appropriate. Firms are also concerned that using fee variations for additional work limits their ability to allocate the necessary audit resources appropriately. PSAA is working

2021/22 audit fee scale

to incorporate additional requirements into scale fees within the constraints of current regulations.

Consultation outcome

We are very grateful for all the responses to our consultation on the fee scale, which have provided very helpful feedback on our proposals.

The PSAA Board has reflected on the consultation responses and takes very seriously all the points made. The matters raised are complex, and possible solutions must be considered in the context of the full range of views expressed by stakeholders, wider developments in local audit and the audit profession more generally, the local audit regulations, and the timetables within which fees must be set and audit work completed.

Following careful consideration, the Board has set the 2021/22 fee scale on the basis of the proposals set out in the consultation.

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