

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

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Year ended 31 March 2019

20 August 2019



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# Executive Summary

## Purpose

Our Joint Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at the 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 2019.

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 Independent Audit Committee in our Joint Audit Findings Report on 23 July 2019.

## Our work

## Respective responsibilities

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

- give opinions on the group and PCC and the Chief Constable financial statements (section two)
- assessed the PCC's and Chief Constable's arrangements for securing economy, efficiency and effectiveness in their use of resources (the value for money conclusions) (section three).

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

<b>Materiality</b>	We determined materiality for the audit of the group, PCC and Chief Constable's financial statements to be £6,600k, which is approximately 1.8% of the Chief Constable's gross revenue expenditure.
<b>Financial Statements opinion</b>	We gave unqualified opinions on the group and PCC and Chief Constable's financial statements on 2 August 2019.
<b>Whole of Government Accounts (WGA)</b>	Our work on the Group's consolidation return is in progress. We intend to issue our Assurance Statement to the NAO by the deadline of 13 September 2019.
<b>Use of statutory powers</b>	We did not identify any matters which required us to exercise our additional statutory powers.
<b>Value for Money arrangements</b>	We were satisfied that the PCC and Chief Constable each put in place proper arrangements to ensure economy, efficiency and effectiveness in their use of resources. We reflected this in our audit reports to the PCC and Chief Constable on 2 August 2019.
<b>Certificate</b>	We are unable to certify that we have completed the audit of the financial statements of Police and Crime Commissioner for Devon and Cornwall and the Chief Constable for Devon and Cornwall until we have completed the work necessary to issue our Whole of Government Accounts (WGA) Assurance statement for the year ended 31 March 2019.

# Executive Summary

## **Working with the PCC and Chief Constable**

During the year we have delivered a number of successful outcomes with you including:

- Understanding your operational health – through the value for money conclusion we provided you with assurance on your operational effectiveness.
- Sharing our insight – we provided regular audit committee updates covering best practice and held a South West Police Audit Committee Workshop in November 2018.
- Providing training – we provided your finance team with training on financial accounts and annual reporting issues in advance of the year end to ensure that they were aware of latest accounting developments.

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

# Audit of the Financial Statements

## Our audit approach

### Materiality

In our audit of the group and 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, PCC and Chief Constable financial statements to be £6,600k, which is approximately 1.8% of the Chief Constable's gross revenue expenditure. We used this benchmark as, in our view, users of the financial statements are most interested in where the organisations have spent their revenue and budget allocations in the year.

We also set a lower level of specific materiality for senior officer remuneration of £35k.

We set a lower threshold of £331k; above which we reported errors to the Independent Audit Committee in our Joint Audit Findings Report.

### The scope of our audit

Our audits involve 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 financial statements, the Narrative Reports and the Annual Governance Statement to check they are consistent with our understanding of the PCC and Chief Constable and with the financial statements on which we gave our opinions.

We carry out our audits 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 opinions.

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

Risk identified in our Joint Audit Plan	Relevant to PCC or Chief Constable?	Findings and conclusions
<p><b>Management over-ride of controls</b></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>Group, PCC and Chief Constable</p>	<p>We:</p> <ul style="list-style-type: none"> <li>evaluated the design effectiveness of management controls over journals</li> <li>analysed the journals listing and determined the criteria for selecting high risk unusual journals</li> <li>tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration</li> <li>gained an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence</li> <li>evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.</li> </ul> <p>Our work identified the following issues:</p> <p>Finance staff can authorise and post their own journals. There is a weekly retrospective approval system where two managers review the journals, but the journals are already posted. A new system is in the process of being introduced that requires approval before posting but is not currently available. We recommended that the new system be implemented as soon as possible.</p> <p>Our review of the control environment identified that it was possible for manual journals to be posted across Devon and Cornwall Police's and Dorset Police's ledgers as there was no control in place to stop this. A control was implemented in January 2019 which meant that this facility was restricted to three members of staff. We recommended that controls be implemented to ensure that manual journals cannot be posted across the two general ledgers.</p> <p>Our testing identified an instance where payroll was posted across Devon and Cornwall's and Dorset's ledgers. This had already been identified by management checks, who have now strengthened the process to ensure this does not reoccur.</p>

# Audit of the Financial Statements

Risk identified in our Joint Audit Plan	Relevant to PCC or Chief Constable?	Findings and conclusions
<p><b>Valuation of land and buildings</b></p> <p>The PCC revalues its land and buildings on a three-yearly basis. In the intervening years, such as 2018/19, to ensure the carrying value in the PCC and group financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date, the PCC 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 (£137m at 31/3/18) 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>Group and PCC</p>	<p>We:</p> <ul style="list-style-type: none"> <li>evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work</li> <li>evaluated the competence, capabilities and objectivity of the valuation expert</li> <li>wrote to the valuer to confirm the basis on which the valuation was carried out to ensure that the requirements of the Code are met</li> <li>challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding</li> <li>tested revaluations made during the year to see if they had been input correctly into the PCC's/group's asset register.</li> </ul> <p>Our interim work on confirming the existence of property, plant and equipment identified one item out of twelve tested that should not be included in the asset register. The item was trivial but should have been removed from the asset register. We recommended that a review of the asset register is carried out to ensure it has been updated for assets no longer held.</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.

Risk identified in our Joint Audit Plan	Relevant to PCC or Chief Constable?	Findings and conclusions
<p><b>Valuation of net defined benefit pension liability</b></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 in the group's balance sheet) 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>PCC and Chief Constable</p>	<p>We:</p> <ul style="list-style-type: none"> <li>• 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;</li> <li>• evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work;</li> <li>• assessed the competence, capabilities and objectivity of the actuary who carried out the group's pension fund valuation;</li> <li>• assessed the accuracy and completeness of the information provided by the group to the actuary to estimate the liability;</li> <li>• 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;</li> <li>• undertook 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.</li> </ul> <p>The draft financial statements were updated to reflect the additional liability on the Police Pension Schemes and Local Government Pension Scheme for Devon and Cornwall in respect of the McCloud / Sargeant ruling, which increased the year end net pension liabilities by £103m. This increase was also reflected as an additional charge through the Comprehensive Income and Expenditure Statement.</p>



# Audit of the Financial Statements

## **Audit opinion**

We gave unqualified opinions on the group and PCC and the Chief Constable's financial statements on 2 August 2019.

## **Preparation of the financial statements**

We were presented with draft financial statements in accordance with the national deadline alongside 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 audits to the Independent Audit Committee on 23 July 2019.

## **Annual Governance Statement and Narrative Report**

We are required to review the Annual Governance Statements and Narrative Reports. The PCC and Chief Constable published the documents on their websites in line with the national deadlines.

The documents 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 group and PCC and Chief Constable and with our knowledge of the entities.

## **Whole of Government Accounts (WGA)**

Due to the amendments to the accounts in respect of the McCloud / Sargeant ruling, the Group now meets the threshold for the completion of full WGA procedures. Our work on the Group's consolidation return is in progress. We intend to issue our Assurance Statement to the NAO by the deadline of 13 September 2019.

## **Certificate of closure of the audit**

We are unable to certify that we have completed the audit of the financial statements of Police and Crime Commissioner for Devon and Cornwall and the Chief Constable for Devon and Cornwall until we have completed the work necessary to issue our Whole of Government Accounts (WGA) Assurance statement for the Devon and Cornwall Police and Crime Commissioner and Chief Constable for the year ended 31 March 2019.

# Value for Money conclusion

## **Background**

We carried out our reviews in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in November 2017 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 risk we identified and the work we performed are set out overleaf.

## **Overall Value for Money conclusions**

We are satisfied that in all significant respects both the PCC and the Chief Constable each put in place proper arrangements to secure economy, efficiency and effectiveness in their use of resources for the year ending 31 March 2019.

## Value for Money conclusion

Risk identified in our Joint Audit Plan	Findings	Conclusion
<p><b>Financial sustainability</b></p> <p>The 2019/20 budget includes savings of £2m. Further cumulative savings of £13m are required in 2020/21 to 2022/23, with ongoing annual savings of £4.8m being needed in 2022/23.</p>	<p>We reviewed the latest MTFS and budget, including the assumptions and the savings plans reflected within them. We also reviewed the 2018/19 savings achieved against those planned.</p> <p>The Group (that is, the PCC and the Chief Constable) delivered a small surplus in 2018/19 and achieved 80% of its £1m planned savings for the year. A balanced 2019/20 budget has been set, with a more challenging savings target of just over £2m.</p> <p>The MTFS shows that cumulative savings of £13m are required to be achieved over the 2020/21 to 2022/23 period,. These savings have been identified and incorporated into the MTFS, with 73% of this expected to come from PCSO costs.</p> <p>The assumptions built into the MTFS appear reasonable, although other forces in the South West have not generally assumed an increase in the main grant.</p> <p>The level of reserves as a proportion of gross expenditure of 12% is above the average of 9% but still represents a significant drop from the 2016/17 position of 22%, and reflects the increased financial pressures on forces.</p>	<p>The plans in place to achieve the £13m cumulative savings over the next three years are essential to achieving the MTFS, and need to continue to be carefully monitored to ensure their delivery.</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>

## Value for Money conclusion

Risk identified in our Joint Audit Plan	Findings	Conclusion
<p><b>Collaboration</b> With the proposed merger between Devon &amp; Cornwall Police and Dorset Police not going ahead, there will be an impact of this on the existing Strategic Alliance arrangements and future collaboration plans.</p>	<p>We reviewed the impact on Devon and Cornwall Police of the merger with Dorset Police not going ahead, focusing on how the Strategic Alliance between the two forces will operate going forward. We also considered if the decision has had an impact on effective working between the entities.</p> <p>From our discussions with the officers (PCC and Chief Constable) at both Forces it is clear that the Strategic Alliance is unaffected by the merger not going ahead and any workstreams currently within the Strategic Alliance would remain as such.</p> <p>However, all planned further additions to the Strategic Alliance workstreams have been put on hold and are subject to review, while the Strategic Alliance is being rebranded as 'Working Together'.</p> <p>Any savings related to the merger have been removed from the medium term financial plans for both forces.</p> <p>This means that there is additional pressure on the forces to individually find the savings that they require to balance their budgets in the medium term.</p> <p>There is currently one Independent Audit Committee that covers both forces, with no immediate plans for this to change.</p>	<p>There is no evidence that the merger not going ahead has had a significant detrimental impact on the effective working between Devon &amp; Cornwall Police and Dorset Police. The Strategic Alliance is continuing under the 'Working Together' title for all areas that it already covered, and, with one exception, no current plans to reverse any of the decisions previously made in respect of this. No issues impacting on our VFM conclusion were identified.</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 2019
Audit Findings Report	July 2019
Annual Audit Letter	August 2019

### Fees

	Planned £	Actual fees £
PCC audit	27,992	28,742
Chief Constable audit	14,438	15,188
<b>Total fees</b>	<b>42,430</b>	<b>43,930</b>

### Audit fee variation

As outlined in our audit plan, the 2018/19 scale fees published by PSAA assume 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 in the table opposite.

### Additional fees

Area	Reason	Fee proposed
<b>Assessing the impact of the McCloud ruling</b>	The Government's transitional arrangements for pensions were ruled discriminatory by the Court of Appeal last December. The Supreme Court refused the Government's application for permission to appeal this ruling. As part of our audit we have reviewed the revised actuarial assessment of the impact on the financial statements along with any audit reporting requirements.	£1,500 (split between the PCC and CC)
<b>Whole of Government Accounts</b>	Due to the amendments to the accounts in respect of the McCloud / Sargeant ruling, the Group now meets the threshold for the completion of full WGA procedures.	TBC
<b>Total</b>		£1,500

Fee variations are subject to PSAA approval.



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