

The Joint Annual Audit Letter for Gloucestershire Police and Crime Commissioner and Chief Constable

Year ended 31 March 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 Gloucestershire (the PCC) and the Chief Constable for Gloucestershire (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 Joint Audit Committee in our Joint Audit Findings Report on 25 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.

Materiality	We determined materiality for the audit of the group, PCC and Chief Constable's financial statements to be £2,460,000, which is approximately 2% of the Chief Constable's gross revenue expenditure.
Financial Statements opinion	We gave unqualified opinions on the group and PCC and Chief Constable's financial statements on 31 July 2019.
Whole of Government Accounts (WGA)	We were not required to complete work on the group's consolidation return following guidance issued by the NAO as it was below the audit threshold. We confirmed this in our Assurance Statement to the NAO.
Use of statutory powers	We did not identify any matters which required us to exercise our additional statutory powers.
Value for Money arrangements	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 31 July 2019.
Certificate	We certified that we have completed the audits of the financial statements of the Police and Crime Commissioner for Gloucestershire and the Chief Constable for Gloucestershire in accordance with the requirements of the Code of Audit Practice on 31 July 2019.

Executive Summary

Working with the PCC and Chief Constable

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

- An efficient audit – we delivered an efficient audit with you in July, reporting to the Joint Audit Committee on 25 July 2019 and signing the audit opinions on 31 July 2019.
- Sharing our insight – we provided regular audit committee updates covering best practice.
- Providing training – we provided your finance team with free 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 also provided training to audit committee colleagues from Gloucestershire and the other Forces in the South West.

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 £2,460,000, which is approximately 2% 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 £20,000.

We set a lower threshold of £123,000, above which we reported errors to the Joint 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 and the narrative report, the joint annual governance statement and the summary accounts published alongside the financial statements 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

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>Valuation of net defined benefit pension 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.</p>	<p>Group and Chief Constable</p>	<p>We:</p> <ul style="list-style-type: none"> • updated our understanding of the processes and controls put in place by management; • evaluated the instructions issued by management to their actuary and the scope of the actuary's work; • assessed the competence, capabilities and objectivity of the actuary who carried out the pension fund valuation; • assessed the accuracy and completeness of the information provided to the actuary; • tested the consistency of the financial statements disclosures to the valuation report from the actuary; • undertook procedures to confirm the reasonableness of the actuarial assumptions by reviewing the report of the consulting actuary (as an auditor's expert) and performing any additional procedures suggested within the report; and • obtained assurances from the auditor of Gloucestershire 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. <p>The draft financial statements were updated to reflect the additional liability on the Police Pension Schemes for Gloucestershire in respect of the McCloud / Sargeant ruling, which increased the year end net pension liability by £63.2m. This increase was also reflected as an additional charge through the Comprehensive Income and Expenditure Statement. An adjustment for the impact of this ruling on the Local Government Pension Scheme liability was not made on the grounds of materiality.</p>

Audit of the Financial Statements

Risk identified in our Joint Audit Plan	Relevant to PCC or Chief Constable?	Findings and conclusions
<p>Valuation of land and buildings</p> <p>The PCC (and group) revalue land and buildings on a five-yearly basis, with a desktop valuation undertaken in the intervening years. In 2018/19, the PCC requested a full valuation of their land and buildings from their valuation expert. 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.</p>	Group and PCC	<p>We:</p> <ul style="list-style-type: none"> • updated our understanding of the processes and controls put in place by management; • 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 valuation was carried out to ensure that the requirements of the CIPFA Code were met; • challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding; and • tested a sample of revaluations made during the year to see if they had been input correctly into the PCC (and group's) asset register. <p>Our audit work has not identified any significant issues in respect of the valuation of land and buildings.</p>
<p>Management over-ride 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.</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.</p>	Group, PCC and Chief Constable	<p>We:</p> <ul style="list-style-type: none"> • evaluated the design effectiveness of management controls over journals; • analysed the journals listing and determined the criteria for selecting high risk unusual journals; • tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration; • gained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness with regard to corroborative evidence; and • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. <p>We made a best practice recommendation in relation to journals which management accepted.</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 31 July 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 Joint Audit Committee on 25 July 2019.

Our audits identified two recommendations for management. As reported previously, one related to a best practice recommendation in respect of journals, the other related to overtime payments. Both were accepted by management.

Joint Annual Governance Statement and Narrative Report

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

They 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)

We carried out work on the Council's Data Collection Tool in line with instructions provided by the NAO. We issued an assurance statement which confirmed the return was below the audit threshold and that no further work was required on 31 July 2019.

Certificate of closure of the audit

We certified that we have completed the audits of the financial statements of the Police and Crime Commissioner for Gloucestershire and the Chief Constable for Gloucestershire in accordance with the requirements of the Code of Audit Practice on 31 July 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 and conclusions
<p>Medium Term Financial Planning</p> <p>In considering this risk we:</p> <ul style="list-style-type: none"> reviewed the outturn revenue position; considered the arrangements for monitoring and managing the delivery of the budget and savings plans for 2018/19; reviewed the arrangements for developing and agreeing the 2019/20 budgets and updated Medium Term Financial Plan (MTFP), including the identification of savings plans, and considered the level of risk within these plans; and reviewed the Constabulary's plans for recruitment to ensure that these are aligned to the future financial plans. 	<p><u>2018/19 outturn</u></p> <p>An outturn breakeven revenue budget was achieved on the total expenditure budget for 2018/19 of £111.221m. Within this position were areas of overspend offset by underspends in other budget areas. Useable reserves increased by a net total of £0.2m and the General Reserve stood at £6m at 31 March 2019. The Constabulary delivered all of the £1.4m savings requirement in 2018/19.</p> <p>The capital outturn was £2.5m, with £4.5m of expenditure deferred until 2019/20. The key projects deferred were the vehicle replacement programme (£2.6m), the mobile working project (£0.8m) and the national Emergency Services Network programme (£0.4m).</p> <p><u>Budget monitoring</u></p> <p>Throughout the year revenue monitoring reports are produced on a monthly basis to allow the PCC, the Chief Constable and other key stakeholders to scrutinise budget performance. The reports are then to pro-actively manage the revenue budget, which is evidenced by the year-end breakeven outturn. At the end of July 2018, the monitoring reports forecast an overspend of £0.5m, and in the following months management used this information to take actions to bring the revenue budget back to a balanced position.</p> <p><u>Medium Term Financial Planning</u></p> <p>The MTFP covers the period from 2019/20 to 2022/23 and reflects the increased precept for 2019/20 that was agreed by the Police and Crime Panel following the PCC's recommendation. The MTFP identifies balanced budgets to the end of 2022/23, following planned savings totalling £4.1m over the period. £0.8m of this savings requirement has been identified for the 2019/20 financial year.</p> <p>The better than anticipated settlement has allowed the Constabulary to commit to £4.1m of additional investment, which will provide at least 80 additional police officers and staff. The longer term funding picture remains unclear for all public service providers, including the police. There is further uncertainty for police bodies from the potential reform of the police funding formula which means that planning for the medium and long term remains challenging. Despite this, the MTFP has been produced using assumptions that appear reasonable based upon the information available at it's time of production.</p> <p>The MTFP assumes that the funding received to cover the increased pensions costs in 2019/20 will be recurrent. This is in line with the majority of neighbouring Forces and national recommendations, although some in the sector have taken a more conservative approach and assumed that the pension grant will not be paid in future years. Gloucestershire received £1.2m of pensions funding in 2019/20 and therefore if this were one-off in nature additional savings would be required to balance the base budget in future years.</p> <p>The biggest area of expenditure for the Constabulary remains its employees, and it has assumed annual pay increases of 2% over the life of the MTFP. Any pay increases in excess of this amount would have a significant effect on the budget at a cost of circa £1m for each percentage increase. This assumption was in line with the other Forces in the South West and around the country, though recent</p>

Value for Money conclusion

Risk identified in our Joint Audit Plan	Findings and conclusions
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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	January 2019
Audit Findings Report	July 2019
Annual Audit Letter	August 2019

Fees

	Planned £	Actual fees £	2017/18 fees £
Statutory audit - PCC	23,897	23,897	31,035
Statutory audit – Chief Constable	11,550	11,550	15,000
Additional fee	0	4,500	0
Total fees	35,447	39,947	46,035

Audit fee variation

As outlined in our audit plan, the 2018-19 scale fee published by PSAA of £35,447 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 in the following table.

Area	Reason	Fee proposed
Assessing the impact of the McCloud ruling	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
Pensions – IAS 19	The Financial Reporting Council has highlighted that the quality of work by audit firms in respect of IAS 19 needs to improve across local government audits. Accordingly, we have increased the level of scope and coverage in respect of IAS 19 this year to reflect this.	£1,500
PPE Valuation – work of experts	As above, the Financial Reporting Council has highlighted that auditors need to improve the quality of work on PPE valuations across the sector. We have increased the volume and scope of our audit work to reflect this.	£1,500
Total		£4,500

Fee variations are subject to PSAA approval.



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