The Police Crime Commissioner for Norfolk / The Chief Constable of Norfolk Constabulary

Annual Audit Letter for the year ended 31 March 2018

28 August 2018

EY

Building a better working world

Contents

Public Sector Audit Appointments Ltd (PSAA) have issued a ‘Statement of responsibilities of auditors and audited bodies’. It is available from the Chief Executive of each audited body and via the PSAA website (www.psaa.co.uk)

The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The ‘Terms of Appointment (updated 23 February 2017)’ issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Annual Audit Letter is prepared in the context of the Statement of responsibilities. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

01 Executive Summary

Executive Summary

We are required to issue an annual audit letter to the Police and Crime Commissioner for Norfolk (the PCC) and the Chief Constable of Norfolk Police (the CC) following completion of our audit procedures for the year ended 31 March 2018.

Below are the results and conclusions on the significant areas of the audit process.

Area of Work	Conclusion
Opinion on the PCC's and the CC's: ► Financial statements	Unqualified – the financial statements give a true and fair view of the financial position of the PCC and the CC as at 31 March 2018 and of their expenditure and income for the year then ended.
► Consistency of other information published with the financial statements	Other information published with the financial statements was consistent with the Annual Accounts. We have made an observation about compliance with the Code requirements. We have no other matters to report as a result of this work.
Concluding on the PCC's and the CC's arrangements for securing economy, efficiency and effectiveness	We concluded that you have put in place proper arrangements to secure value for money in your use of resources.

Area of Work	Conclusion
Reports by exception:	
► Consistency of Governance Statement	Following a number of amendments to the Annual Governance Statement as a result of our work final Governance Statement was consistent with our understanding of the PCC and the CC.
► Public interest report	We had no matters to report in the public interest.
► Written recommendations to the PCC and the CC, which should be copied to the Secretary of State	We had no matters to report.
► Other actions taken in relation to our responsibilities under the Local Audit and Accountability Act 2014	We had no matters to report.

Area of Work	Conclusion
Reporting to the National Audit Office (NAO) on our review of the PCC's and the CC's Whole of Government Accounts return (WGA).	The PCC and the CC are below the specified audit threshold of £500 million. Therefore, we did not perform any audit procedures on the consolidation pack.

Executive Summary (cont'd)

As a result of the above we have also:

Area of Work	Conclusion
Issued a report to those charged with governance communicating significant findings resulting from our audit.	Our Audit Results Report was issued on 17 August 2018.
Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2015 Code of Audit Practice.	Our certificate was issued on 28 August 2018.

We would like to take this opportunity to thank the PCC's and the CC's staff for their assistance during the course of our work.

MARK HODGSON

Mark Hodgson

Associate Partner

For and on behalf of Ernst & Young LLP

02 Purpose and Responsibilities

Purpose and Responsibilities

The Purpose of this Letter

The purpose of this annual audit letter is to communicate to the PCC, the CC, the Audit Committee and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to the attention of the PCC and the CC .

We have already reported the detailed findings from our audit work in our 2017/18 Audit Results Report to the Audit Committee meeting on 24 August 2018 and to the PCC and the CC, as those charged with governance. We do not repeat those detailed findings in this letter. The matters reported here are the most significant for the PCC and the CC.

Responsibilities of the Appointed Auditor

Our 2017/18 audit work has been undertaken in accordance with the Audit Plan that we presented at the Audit Committee meeting on 9 January 2018 and is conducted in accordance with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office.

As auditors we are responsible for:

- Expressing an opinion:
  - On the 2017/18 financial statements; and
  - On the consistency of other information published with the financial statements.
- Forming a conclusion on the arrangements the PCC and the CC has to secure economy, efficiency and effectiveness in its use of resources.
- Reporting by exception:
  - If the annual governance statement is misleading or not consistent with our understanding of the PCC and the CC;
  - Any significant matters that are in the public interest;
  - Any written recommendations to the PCC and the CC, which should be copied to the Secretary of State; and
  - If we have not discharged our duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

Alongside our work on the financial statements, we also review and report to the National Audit Office (NAO) on your Whole of Government Accounts return. The PCC and the CC are below the specified audit threshold of £500 million. Therefore, we did not perform any audit procedures on the return.

Responsibilities of the PCC and the CC

The PCC and the CC are responsible for preparing and publishing their statement of accounts accompanied by an Annual Governance Statement. In the AGS, the PCC and the CC report publicly each year on how far they comply with their own code of governance, including how they have monitored and evaluated the effectiveness of their governance arrangements in year, and any changes planned in the coming period.

The PCC and the CC are also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in their use of resources.

03 Financial Statement Audit

Financial Statement Audit

Key Issues
The PCC's and the CC's Statements of Accounts are an important tool for the PCC and the CC to show how they have used public money and how they can demonstrate their financial management and financial health. We audited the PCC's and the CC's Statements of Accounts in line with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office and issued an unqualified audit report on 28 August 2018. Our detailed findings were reported to the Audit Committee meeting on 24 August 2018.

The key issues identified as part of our audit were as follows:

Significant Risk	Conclusion
Misstatements due to fraud or error The financial statements as a whole are not free of material misstatements whether caused by fraud or error. As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.	We obtained a full list of journals posted to the general ledger during the year, and analysed these journals using criteria we set to identify any unusual journal types or amounts. We then tested a sample of journals that met our criteria and tested these to supporting documentation. We considered the accounting estimates relating to pensions and property valuations as the most susceptible to bias. We challenged the significant assumptions in the actuarial pension valuation and found no indication of management bias in these estimates. Our work on the property valuations found no material errors in the balances presented within the financial statements. We have not identified any material weaknesses in controls or evidence of material management override. We have not identified any instances of inappropriate judgements being applied. We did not identify any other transactions during our audit which appeared unusual or outside the PCC's and CC's normal course of business. Overall, our audit work did not identify any material issues or unusual transactions to indicate any misreporting of the PCC's or CC's financial position, that revenue or expenditure has been incorrectly recorded or that management has overridden control.
Risk of fraud in revenue and expenditure recognition Auditing standards also required us to presume that there is a risk that revenue and expenditure may be misstated due to improper recognition or manipulation. We identified the potential for the incorrect classification of revenue spend as capital as a particular area where there is a risk of misstatement.	We performed sample testing on additions to the property, plant and equipment balance and found that these items met the relevant accounting requirements to be capitalised. Our testing did not identify any expenditure which had been inappropriately capitalised. We designed journal procedures to identify and review adjustment manual journals that moved amounts from revenue codes to capital codes and did not find any evidence of management bias. Overall, our audit work did not identify any material misstatements to indicate that revenue and expenditure had been incorrectly recorded.

Financial Statement Audit (cont'd)

Other Key Findings	Conclusion
Property, plant and equipment valuation The fair value of Property, Plant and Equipment (PPE) represents significant balances in the PCC's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.	Our initial work indicated the estimate for buildings was outside of an acceptable range. We engaged our specialist, EY Real Estates, to review the PCC's estimates and in particular the values assigned to the Operational Command Centre (OCC) at Wymondham and the Police Investigation Centres. Following their review we have concluded that: • Property valuations based on existing use values (EUV) were unlikely to have moved significantly over the five year period; • The value of the OCC, based on EUV, is within an expected range of values, albeit close to the higher end; and • The PCC should uplift the values of those specialised assets valued at depreciated replacement cost (DRC), primarily the police investigation centres (PICs) to reflect build costs each year. However, for 2017/18, as the range of values suggested by EY Real Estates falls below our nominal amount, we do not require the consideration of an amendment to the 2017/18 financial statements. We have therefore gained sufficient assurance for opinion purposes about the carrying value of the PCC's Land and buildings. However, we recommend, however, that the PCC: • Revalues in 2018/19 those £2 million of assets not valued in2017/18 and which fell outside the five year valuation cycle; and • Revalues annually the larger EUV assets along with the PIC assets valued on a DRC basis to o prevent unnecessary distortion of the carrying value in the financial statements; and • Instruct the valuers not to include a finance cost within the calculation of the PIC values in order to comply with the Code of Audit Practice.

Financial Statement Audit (cont'd)

Other Key Findings	Conclusion
Pension valuation & disclosures The Code of Practice on Local Authority Accounting and IAS19 require the CC to make extensive disclosures within its financial statements regarding the Local Government Pension Scheme (LGPS) in which it is a scheduled body. The PCC must also do similar in respect of the Police Pension Fund. The PCC's and the CC'S current pension fund deficit is a material and sensitive item and the Code requires that this liability be disclosed on the respective balance sheets. The information disclosed is based on the IAS 19 report issued to the PCC and the CC by the actuary to the administering body. Accounting for this scheme involves significant estimation and judgement. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.	We assessed and were satisfied with the competency and objectivity of the PCC's and CC's actuaries: Hymans Robertson and the Government actuaries Department. EY Pensions team and PwC (Consulting Actuary to the NAO) reviewed the work of the actuary. We challenged the significant movement in the actuarial valuation and found no indication of management bias in this estimate. We have received reports from the Norfolk Pension Fund Auditor and the EY actuarial team. The report from the Norfolk Pension Fund Auditor identified material movements in the pension assets and related disclosures, as a result of significant movements in the asset values between the date of the estimates used by the actuary to produce the IAS19 report and the year end. As a result, the PCC and CC obtained a revised IAS 19 report and updated the accounts to reflect the new figures. This resulted in an decrease in the pension liability of £1.781 million for the CC and £1.794 million for the PCC Group and a corresponding decrease in the pension reserve. This adjustment is a result of a timing difference between an estimate made by the Actuary, and information that has become available since the time of their initial report. The PCC and CC correctly used the information provided within the original IAS 19 report within its draft financial statements. The accounting entries and disclosures are in line with our expectations and the Code.

Other Key Findings	Conclusion
Private Finance Initiative The PCC and CC discloses two PFI contracts within their financial statements for: The use of Jubilee House, Operations and Communications Centre at Wymondham from 2001 until 2037. At the 31 March 2017 the PFI Liability associated with the OCC amounted to £25.9 million; and The use of six Police Investigation Centres shared with the Police and Crime Commissioner for Suffolk from 2011 until 2041. The arrangements also includes payments by the Police and Crime Commissioner for Cambridgeshire. At 31 March 2017, the PCC for Norfolk's share of the PFI liability was £36.4 million. The liability and payments for services are dependent upon assumptions within the accounting models underpinning both PFI schemes. As such Management is required to apply estimation techniques to support the disclosures within the financial statements.	The PCC and CC have not made any significant changes to the models during 2017/18. We have agreed the models to the disclosures within the financial statements and have no matters to report.

Financial Statement Audit (cont'd)

Our application of materiality

When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole.

Item	Thresholds applied
Planning materiality	We determined planning materiality to be: • For the Group: £5.2 million (2016/17: £4.8 million), which is 2% of gross expenditure on provision of services reported in the accounts of £204.5 million, increased by £6.8 million interest payable and £50.5 million for interest on the police and local government pension liability • For the PCC: £2 million (2016/17: £2.4 million), which is 2% of gross assets reported in the accounts of £100.2 million • For the CC: £4.7 million (2016/17: £4.4 million), which is 2% of gross expenditure on provision of services reported in the accounts of £186.1 million, increased by £50.4 million for interest on the police and local government pension liability; and • For the Police Pension Fund: £0.9 million (2016/17: £0.9 million), which is 2% of the higher of Benefits Payable/Contributions Receivable on the Police Pension Fund of £44.1 million. We consider the above materiality bases to be the principal considerations for stakeholders in assessing the financial performance of the Group, the PCC, the CC and the Police Pension Fund.
Reporting threshold	We agreed with the Audit Committee that we would report to the Committee all uncorrected audit differences in excess of £0.2 million, £0.1 million, £0.2 million and £0.04 million for the Group, the PCC, the CC and the Police Pension Fund respectively.

We also identified the following areas where misstatement at a level lower than our overall materiality level might influence the reader. For these areas we developed an audit strategy specific to these areas. The areas identified and audit strategy applied include:

- Remuneration disclosures including any severance payments, exit packages and termination benefits; and
- Related party transactions.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations.

04 Value for Money

Value for Money

We are required to consider whether the PCC and the CC have put in place 'proper arrangements' to secure economy, efficiency and effectiveness on their use of resources. This is known as our value for money conclusion.

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- Take informed decisions;
- Deploy resources in a sustainable manner; and
- Work with partners and other third parties.

We identified one significant risk in relation to these arrangements. The tables below presents the findings of our work in response to the risk identified and any other significant weaknesses or issues to bring to your attention.

We have performed the procedures outlined in our audit plan. We did not identify any significant weaknesses in the PCC's or the CC's arrangements to ensure they took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

We therefore issued an unqualified value for money conclusion on 28 August 2018.

Value for Money (cont'd)

Significant Risk	Conclusion
Financial Planning and Resilience ***(Deploying resources in a sustainable manner)*** The PCC and CC continue to face significant financial challenges over the next three years, with a forecasted underlying budget gap of £2.96 million by 2020/21, after taking into account proposed Council Tax increases of 1.986% per annum. The budget gap is reliant upon the cumulative delivery of £7.0 million savings and the planned use of reserves of £14.0 million. This would reduce the underlying reserve balance to £6.0 million as at the 31 March 2021. Given the level of the savings required and the reserves being used, this presents a risk to the PCC's and CC's finances over the medium term	We have undertaken the procedures as set out in our audit strategy through our review of the HMIC's 2017/18 Peel Report and the updated 2018/19 MTFP and savings plans. **The work of HMIC on its PEEL assessment.** HMIC's 2017 review classified the CC as good for effectiveness, efficiency and legitimacy. The Efficiency Report judged the CC to be outstanding in its understanding of demand and good in its use of resources to manage demand and its planning for future demand. **The key assumptions made within the 2018/19 annual budget** The process for setting the PCC's and CC's budget is sound. We concluded that the MTFP identifies the key assumptions expected to underpin the 2018/19 budget. Management use scenario planning effectively to provide guidance to the PCC to make decisions on the level of precept to set. **An assessment of the sensitivity of those assumptions underlying the 2018/19 MTFS** Using sensitivity analysis, by taking into account the PCC's and CC's history of under and overspends, past savings achieved, planned use of reserves in 2018/19 and dependency on innovative income streams, we have determined that the PCC and CC should have sufficient reserves above the minimum level of £4.475 million in 2018/19. We also noted that the capital programme is fully funded. However, the PCC and CC have reported an underspend on the capital programme of £8 million on a £17 million budget, primarily due to slippage on the redevelopment of Great Yarmouth and Norwich Police Stations. We recommend that the PCC and CC improve their profiling of the capital budget to ensure delivery to timescales and objectives. **The detailed plans being developed to deliver the required savings** The updated MTFS shows an updated savings requirement of £9.204 million by 31 March 2022, including a budget gap of £4.613 million as there are unidentified savings arising in 2020/21 and 2021/22. The gap of £4.613 million is dependent on the: • Delivery of the cumulative identified savings schemes of £4.591 million to 31 March 2022; and • Planned use of £9.3 million reserves to support the budget and capital financing. The PCC and CC have a record of achieving savings plans. Our review of the £4.591 million saving scheme programme concludes the PCC and CC have arrangements and a timetable for their delivery. The MTFP forecasts that the planned use of reserves will reduce earmarked reserves from £13.9 million at 31 March 2018 to £5.5 million at 31 March 2022, with General Fund Reserves remaining constant at £4.475 million. The use of reserves beyond this level to support the budget is not sustainable. The PCC and CC need to continue to identify and deliver savings to replenish reserves especially should austerity continue.

05 Other Reporting Issues

Other Reporting Issues

Whole of Government Accounts

The PCC and the CC are below the specified audit threshold of £500 million. Therefore, we did not perform any audit procedures on the consolidation pack.

Annual Governance Statement

We are required to consider the completeness of disclosures in the PCC's and the CC's annual governance statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it is misleading.

We have reviewed the Annual Governance Statement. We concluded that further information around the Forecast Medium Term Financial Plan and future level of reserves should be provided for context. In addition, given the number of findings, that disclosure of the eight audits for which Internal Audit issued a limited assurance opinion should be clearly set out. These amendments have been made. We have no other matters to report.

Report in the Public Interest

We have a duty under the Local Audit and Accountability Act 2014 to consider whether, in the public interest, to report on any matter that comes to our attention in the course of the audit in order for it to be considered by the PCC and the CC or brought to the attention of the public.

We did not identify any issues which required us to issue a report in the public interest.

Written Recommendations

We have a duty under the Local Audit and Accountability Act 2014 to designate any audit recommendation as one that requires the PCC and the CC to consider it at a public meeting and to decide what action to take in response.

We did not identify any issues which required us to issue a written recommendation.

Other Reporting Issues (cont'd)

Objections Received

We did not receive any objections to the 2017/18 financial statements from members of the public.

Other Powers and Duties

We identified no issues during our audit that required us to use our additional powers under the Local Audit and Accountability Act 2014.

Independence

We communicated our assessment of independence in our Audit Results Report to the Audit Committee on 24 August 2018. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning regulatory and professional requirements.

Control Themes and Observations

As part of our work, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control, we are required to communicate to you significant deficiencies in internal control identified during our audit.

We have adopted a fully substantive approach and have therefore not tested the operation of controls.

We have reported the following areas where improvements could be made to the operation or design of controls within the CC.

1. **Calculation of employee contributions for both the local government and police pensions scheme**

Our audit work identified three control exceptions where the system calculated employee pension contributions using the incorrect pension percentage rate. This arises as the payroll system does not update the new pensions contribution rate for those employees who during the year have moved into a new payroll banding. We reviewed the CC's quantification of the likely error and have agreed that the impact is below our reporting threshold for this year. We have recommended that the PCC and CC should expedite current discussions with their software provider to reach a prompt solution to rectify the pension rate control weakness.

1. **Evidence to support the pay pint and banding to which officers and staff are entitled**

As part of the controls test on the automatic calculation of the payroll each month, we undertook a test of detail to agree the salary paid to the contract of employment with that employee. We found three employees who did not have direct supporting evidence including a valid contract of employment and job evaluation forms to support the pay banding and pay point of the officers. We have accepted alternative information provided by the Constabulary to indicate that the members of staff were entitled to their actual rate of pay. We have recommended that the PCC and Constabulary need to design procedures so that key documentation upon change of pay rates or job evaluation is retained on file for each employee.

07 Data Analytics

Use of Data Analytics in the Audit

[Data analytics – Area of the Financial Statements e.g., revenue recognition]

Analytics Driven Audit

Data analytics

We used our data analysers to enable us to capture entire populations of your financial data. These analysers:

- Help identify specific exceptions and anomalies which can then be the focus of our substantive audit tests; and
- Give greater likelihood of identifying errors than traditional, random sampling techniques.

In 2017/18, our use of these analysers in the Council's audit included testing journal entries and employee expenses, to identify and focus our testing on those entries we deem to have the highest inherent risk to the audit.

We capture the data through our formal data requests and the data transfer takes place on a secured EY website. These are in line with our EY data protection policies which are designed to protect the confidentiality, integrity and availability of business and personal information.

Journal Entry Analysis

We obtain downloads of all financial ledger transactions posted in the year. We perform completeness analysis over the data, reconciling the sum of transactions to the movement in the trial balances and financial statements to ensure we have captured all data. Our analysers then review and sort transactions, allowing us to more effectively identify and test journals that we consider to be higher risk, as identified in our audit planning report.

Payroll Analysis

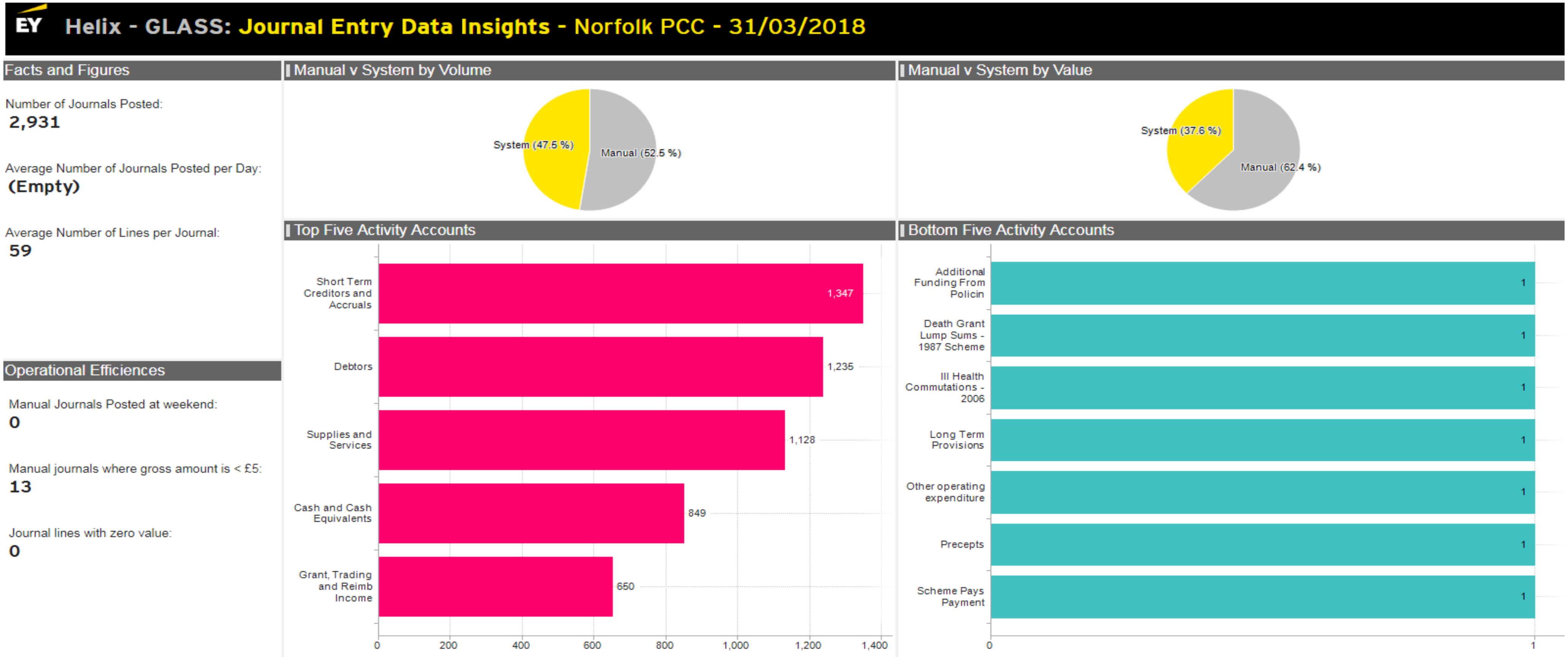
We also use our analysers in our payroll testing. We obtain all payroll transactions posted in the year from the payroll system and perform completeness analysis over the data, including reconciling the total amount to the General Ledger trial balance. We then analyse the data against a number of specifically designed procedures. These include analysis of payroll costs by month to identify any variances from established expectations, as well as more detailed transactional interrogation.

Data Analytics

Journal Entry Data Insights

The graphic outlined below summarises the PCC's and CC's journal population for 2017/18. We review journals by certain risk based criteria to focus on higher risk transactions, such as journals posted manually by management, those posted around the year-end, those with unusual debit and credit relationships, and those posted by individuals we would not expect to be entering transactions.

The purpose of this approach is to provide a more effective, risk focused approach to auditing journal entries, minimising the burden of compliance on management by minimising randomly selected samples.



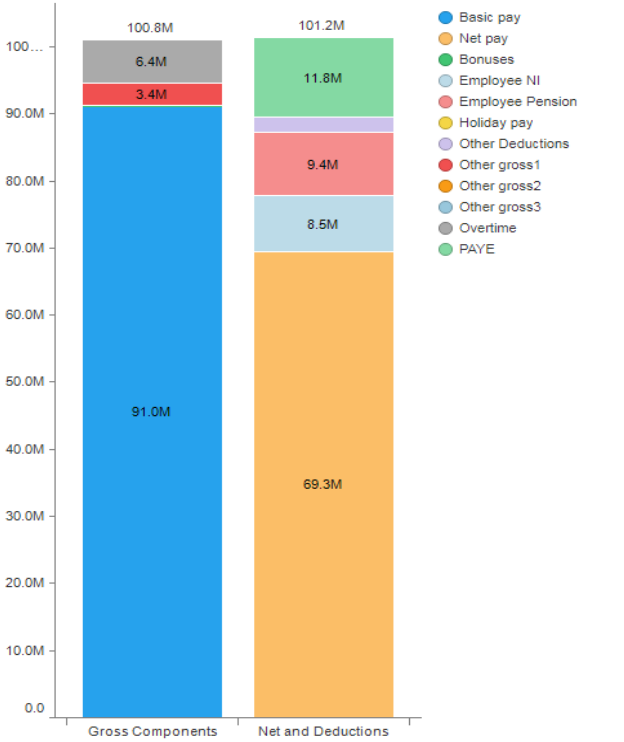
Data Analytics (cont'd)

Payroll Analyser Insights

The graphic outlined below summarises the PCC's and CC's payroll data for 2017/18. We review transactions for payroll at a more granular level, which allows us to identify items with a higher likelihood of containing material misstatements or to identify unusual patterns within a population of data and to design tests of details. This allows us to provide a more effective and risk focused audit on payroll, improving efficiency for both audit and the management as we reduce the need for evidence support for larger random sample.

EY Helix - Payroll Analyser: 1. Payroll Overview

1.1 Payroll Summary



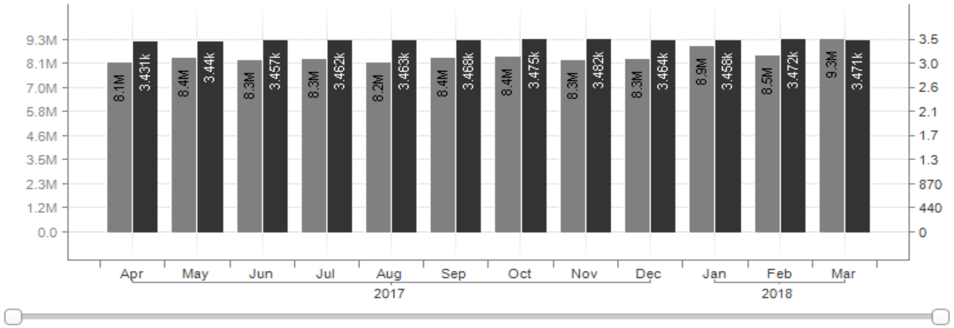
1.2 Transaction Summary

Column	Value	% of Gross
Basic Pay	91.0M	89.8 %
Overtime	6.4M	6.3 %
Holiday pay	35.0k	0.0 %
Bonuses	40.3k	0.0 %
Other gross1	3.4M	3.3 %
Other gross2	(Empty)	(Empty)
Other gross3	(Empty)	(Empty)
Gross Pay	101.3M	100.0 %
Net Pay	69.3M	68.4 %
PAYE	11.8M	11.7 %
Employee NI	8.5M	8.4 %
Employer NI	10.3M	10.2 %
Employee Pension	9.4M	9.3 %
Employer Pension	19.0M	18.8 %
Other	2.3M	2.2 %

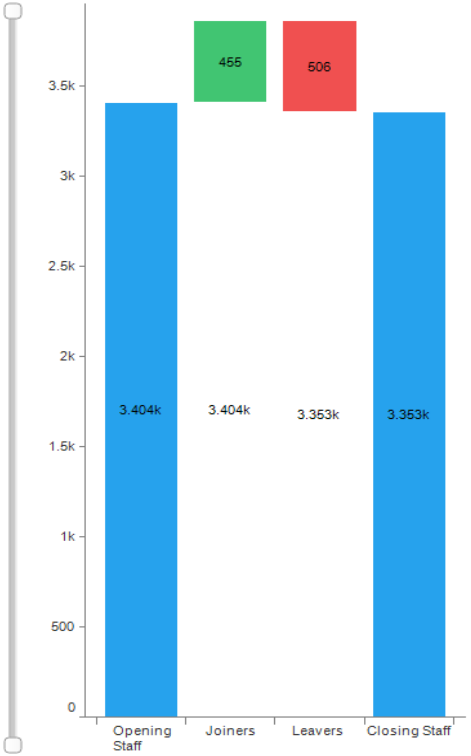
1.3 Data Insights

	Gross	#/%
Staff Turnover		13.11 %
Employees not in Master File	0.0	1
Employees not in Transactions	0.0	6
Payments after Leave Date	573.3k	260
Payments before Join Date	(Empty)	0
Largest Gross Payment	32.1k	
Average Gross Payment	2.4k	
Smallest Gross Payment	-6.1k	
Employee(s) under minimum wage		0
Highest Paid Employee : Median Employee		5.70

1.4 Monthly Trending Analysis of Gross Pay and Employee Count



1.5 Employee Movement



07 Focused on your future

Focused on your future

The Code of Practice on Local Authority Accounting in the United Kingdom introduces the application of new accounting standards in future years. The impact on the PCC and the CC is summarised in the table below.

Standard	Issue	Impact
IFRS 9 Financial Instruments	Applicable for local authority accounts from the 2018/19 financial year and will change: ▸ How financial assets are classified and measured; ▸ How the impairment of financial assets are calculated; and ▸ The disclosure requirements for financial assets. There are transitional arrangements within the standard and the 2018/19 Accounting Code of Practice for Local Authorities has now been issued, providing guidance on the application of IFRS 9. In advance of the Guidance Notes being issued, CIPFA have issued some provisional information providing detail on the impact on local authority accounting of IFRS 9, however the key outstanding issue is whether any accounting statutory overrides will be introduced to mitigate any impact.	Although the Code has now been issued, providing guidance on the application of the standard, along with other provisional information issued by CIPFA on the approach to adopting IFRS 9, until the Guidance Notes are issued and any statutory overrides are confirmed there remains some uncertainty. However, the PCC and the CC will have to: ▸ Reclassify existing financial instrument assets ▸ Re-measure and recalculate potential impairments of those assets; and ▸ Prepare additional disclosure notes for material items.
IFRS 15 Revenue from Contracts with Customers	Applicable for local authority accounts from the 2018/19 financial year. This new standard deals with accounting for all contracts with customers except: ▸ Leases; ▸ Financial instruments; ▸ Insurance contracts; and ▸ For local authorities; Council Tax and NDR income. The key requirements of the standard cover the identification of performance obligations under customer contracts and the linking of income to the meeting of those performance obligations.	As with IFRS 9, some provisional information on the approach to adopting IFRS 15 has been issued by CIPFA in advance of the Guidance Notes. Now that the Code has been issued, initial views have been confirmed; that due to the revenue streams of Local Authorities the impact of this standard is likely to be limited. The standard is far more likely to impact on Local Authority Trading Companies who will have material revenue streams arising from contracts with customers.

Focused on your future (cont'd)

Standard	Issue	Impact
IFRS 16 Leases	It is currently proposed that IFRS 16 will be applicable for local authority accounts from the 2019/20 financial year. Whilst the definition of a lease remains similar to the current leasing standard; IAS 17, for local authorities who lease a large number of assets the new standard will have a significant impact, with nearly all current leases being included on the balance sheet. There are transitional arrangements within the standard and although the 2019/20 Accounting Code of Practice for Local Authorities has yet to be issued, CIPFA have issued some limited provisional information which begins to clarify what the impact on local authority accounting will be. Whether any accounting statutory overrides will be introduced to mitigate any impact remains an outstanding issue.	Until the 2019/20 Accounting Code is issued and any statutory overrides are confirmed there remains some uncertainty in this area. However, the PCC and the CC will need to undertake a detailed exercise to identify all of its leases and capture the relevant information for them. The PCC and the CC must therefore ensure that all lease arrangements are fully documented.

08 Audit Fees

Audit Fees

As part of our reporting on our independence, we set out below a summary of the fees paid for the year ended 31 March 2018.

	Final Fee 2017/18	Scale Fee 2017/18	Final Fee 2016/17
	£'s	£'s	£'s
Total Audit Fee – PCC Code work	See Note 1	33,825	37,233
Total Audit Fee – CC Code work	See Note 1	15,000	16,546
Total Fees	See Note 1	48,825	53,779

Note 1:

We reported in our Audit Plan that the planned fees for 2017/18 are to be subject to a scale fee variation. This is due to the scale and nature of errors found in the 2016/17 audit, concerning the allocation of grant income between the PCC and CC and the incorrect classification of a prepayment of sums due to Police Pension Fund Pensioners. As a consequence of these errors, and in line with audit methodology, we increased our sample sizes to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements does not exceed materiality.

In addition, we have also incurred extra cost through the need to engage with our valuation expert in relation to assurances over the PCC's Property, Plant & Equipment valuations. We also need to consider the additional procedures that we have had to undertake in relation to identified and reported control weaknesses within this report. There have also been a few instances where we have encountered some other delays with the provision of adequate supporting information. We need to assess the full impact of these items once the audit is fully concluded. This will lead to a variation to the Scale Fee being levied. This additional fee will be discussed with management and is then subject to approval by the Public Sector Audit Appointments (PSAA Ltd).

We will confirm our final fees following the agreement process set out above and will report this via a separate letter.

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