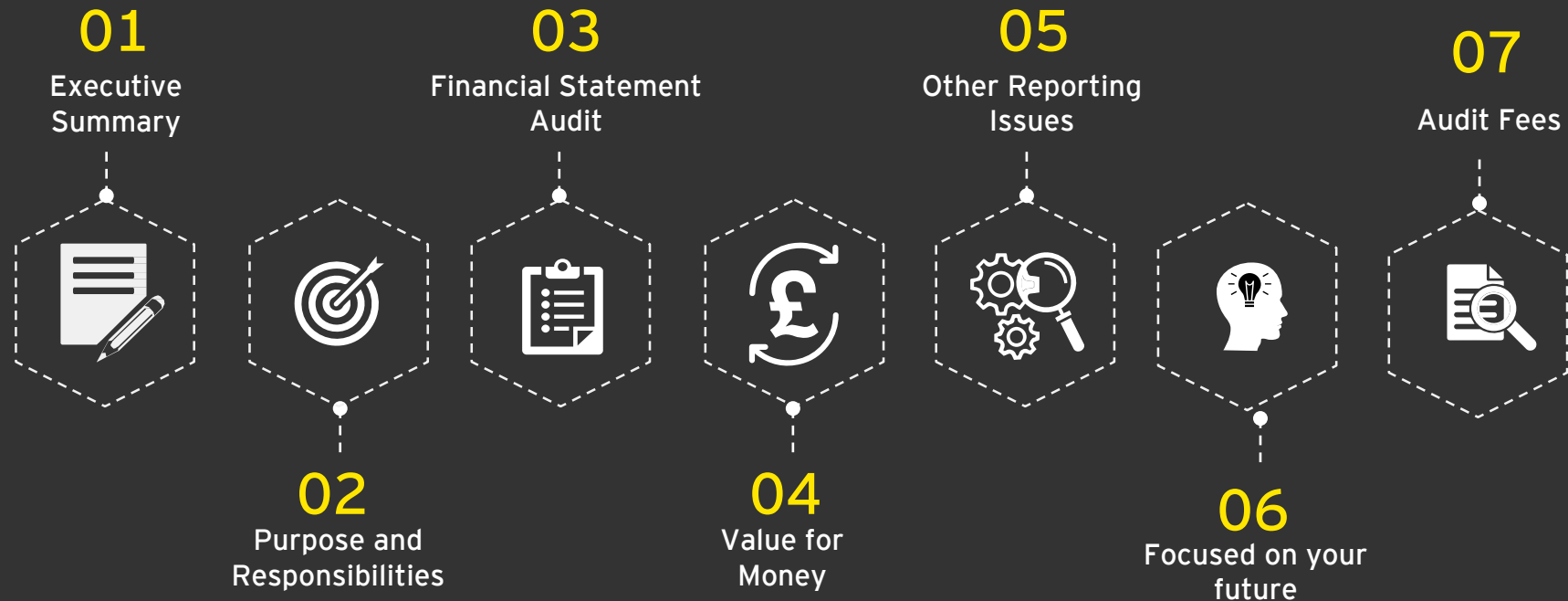


**The Police and Crime  
Commissioner for Norfolk and  
the Chief Constable of Norfolk**

Annual Audit Letter for the year  
ended 31 March 2019

12 August 2019

# 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.psa.co.uk](http://www.psa.co.uk)).

This 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 April 2018)' 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 (PCC) and the Chief Constable of Norfolk (CC) following completion of our audit procedures for the year ended 31 March 2019. Below are the results and conclusions on the significant areas of the audit process.

Area of Work	Conclusion
<b>Opinion on the Group, PCC and CC's:</b>	Unqualified - the financial statements give a true and fair view of the financial position of the Group, PCC and CC respectively as at 31 March 2019 and of its expenditure and income for the year then ended
▶ Financial statements	
▶ Consistency of other information published with the financial statements	Other information published with the financial statements was consistent with the Annual Accounts
<b>Concluding on the PCC and CC's arrangements for securing economy, efficiency and effectiveness</b>	We concluded that you have put in place proper arrangements to secure value for money in your use of resources

Area of Work	Conclusion
<b>Reports by exception:</b>	
▶ Consistency of Annual Governance Statements	The Annual Governance Statements for both the PCC and the CC were consistent with our understanding of the Group.
▶ Public interest report	We had no matters to report in the public interest.
▶ Written recommendations to the Group, 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
<b>Reporting to the National Audit Office (NAO) on our review of the Group's Whole of Government Accounts return (WGA).</b>	The Group is below the specified audit threshold of £500 million specified by the National Audit Office. Therefore, we did not perform any audit procedures on the consolidation pack.

## Executive Summary (cont'd)

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As a result of the above we have also:

Area of Work	Conclusion
Issued a report to those charged with governance of the Group, PCC and CC communicating significant findings resulting from our audit.	Our Audit Results Report was issued on 18 July 2019 for the Police and Crime Commissioner for Norfolk and the Chief Constable of Norfolk (joint report).
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 31 July 2019.

We would like to take this opportunity to thank the staff at Norfolk Police 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 Members 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 Group.

We have already reported the detailed findings from our audit work in our 2018/19 Audit Results Report to the 30 July 2019 meeting of the Joint Audit Committee, representing those charged with governance. We do not repeat those detailed findings in this letter. The matters reported here are the most significant for the Group.

## Responsibilities of the Appointed Auditor

Our 2018/19 audit work has been undertaken in accordance with the Audit Plan that we issued on 3 January 2019 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 2018/19 financial statements; and
  - ▶ On the consistency of other information published with the financial statements.
- ▶ Forming a conclusion on the arrangements the Group has to secure economy, efficiency and effectiveness in its use of resources.
- ▶ Reporting by exception:
  - ▶ If the annual governance statements are misleading or not consistent with our understanding of the Group;
  - ▶ Any significant matters that are in the public interest;
  - ▶ Any written recommendations to the Group, which should be copied to the Secretary of State; and
  - ▶ If we have 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 Group is below the specified audit threshold of £500 million. Therefore, we did not perform any audit procedures on the return.

## Responsibilities of the Police

The Group are responsible for preparing and publishing their respective statements of accounts accompanied by an Annual Governance Statement for each set of accounts for the PCC and the CC. In the Annual Governance Statements, the PCC and the CC reports 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 Group is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.



03

## Financial Statement Audit



# Financial Statement Audit

## Key Issues

The Group's Statements of Accounts is an important tool for the Group to show how it has used public money and how it can demonstrate its financial management and financial health.

We audited the Group'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 for the PCC and the CC on 31 July 2019.

Our detailed findings were reported to the 30 July 2019 Joint Audit Committee.

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

## Significant Risks

### Misstatements due to 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.

Local authorities have a statutory duty to balance their annual budget and are operating in a financially challenged environment with reducing levels of government funding and increasing demand for services. Achievement of budget is critical to minimizing the impact and usage of the Authority's usable reserves and provides a basis for the following year's budget. Any deficit outturn against the budget is therefore not a desirable outcome for the authority and management, and therefore this desire to achieve budget increases the risk that the financial statements may be materially misstated.

Taking these pressures into account we have concluded that there is a risk of management manipulation of revenue expenditure to re-classify it as capital to improve the financial position over the medium term.

## Conclusion

We did not identify any material weaknesses in controls or evidence of material management override. We have not identified any instances of inappropriate judgements being applied or management bias.

We did not identify any other transactions during our audit which appeared unusual or outside the normal course of business.

Our audit work found no evidence of any inappropriate capitalisation of revenue expenditure.



# Financial Statement Audit (cont'd)

The key issues identified as part of our audit were as follows: (cont'd)

Other Risks	Conclusion
<p><b>Valuation of Land and Buildings</b></p> <p>Property, Plant and Equipment represent a significant balance in the Group and PCC's accounts and are subject to valuation changes, impairment reviews and depreciation charges.</p> <p>Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the Balance Sheet for land and buildings in particular.</p> <p>The PCC will engage an external expert valuer who will apply a number of complex assumptions to these assets. Annually assets are assessed to identify whether there is any indication of impairment.</p> <p>As the PCC's asset base is significant, and the outputs from the valuer are subject to estimation, there is a risk fixed assets may be under/overstated.</p>	<p>We concluded that the Property, Plant and Equipment valuations are materially correct.</p>
<p><b>Pension asset valuation</b></p> <p>The Group is required to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Norfolk County Council and the Police Pension Fund.</p> <p>Accounting for these schemes involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. We are required to undertake procedures on the assumptions of the actuary.</p>	<p>We are satisfied that the required IAS 19 disclosures have been reflected in the financial statements and are based on accurate supporting information.</p> <p><b>McCloud Ruling</b></p> <p>A national issue resulted in a relatively late change to the pension fund accounts and IAS 19 fund liability disclosure. This related to legal rulings regarding age discrimination arising from public sector pension scheme transitional arrangements, commonly described as the McCloud ruling. Revised actuarial reports provided by the actuaries showed an increase in the liability of £75.6 million to the Chief Constable's Pension Liabilities and £2.3 million to the Police and Crime Commissioner's Pension Liabilities as a result of the adjustments, with further associated disclosure added to recognise this as a source of estimation uncertainty and an adjusted post balance sheet event. The impact of the Guaranteed Minimum Pension ruling was also taken into account in these adjustments.</p>

# Financial Statement Audit (cont'd)

The key issues identified as part of our audit were as follows: (cont'd)

Other Risks	Conclusion
<p><u>Public Finance Initiative (PFI) valuation</u></p> <p>The PCC and CC discloses two PFI contracts within their financial statements for:</p> <ul style="list-style-type: none"> <li>• The use of Jubilee House, Operations and Communications Centre at Wymondham from 2001 until 2037; and</li> <li>• The use of six Police Investigation Centres shared with the Police and Crime Commissioner for Suffolk from 2011 until 2041.</li> </ul> <p>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.</p>	<p>We identified one non material judgemental difference which was not adjusted for within the financial statements on the basis of materiality.</p> <p>The PFI accounting model used by management assumes the minimum lease rentals match an element of the unitary charge. This methodology risks including cash in contingent rentals that do not meet the definition in IAS 17. The impact of this in 2018/19 was £938,000. We concluded that the estimate used by management was within a reasonable tolerance and therefore the PFI has been accounted for appropriately within the accounts although we reported the difference for consideration by management and those charged with governance.</p> <p><b>Recommendation: We would recommend that the PCC considers updating the model in relation to IAS17 definitions.</b></p>
<p><u>IFRS 9 financial instruments</u></p> <p>This new accounting standard changes:</p> <ul style="list-style-type: none"> <li>• How financial assets are classified and measured;</li> <li>• How the impairment of financial assets are calculated; and</li> <li>• The disclosure requirements for financial assets.</li> </ul> <p>There are transitional arrangements within the standard; and the 2018/19 CIPFA Code of Practice on local authority accounting provides guidance on the application of IFRS 9.</p>	<p>We concluded that IFRS 9 financial instruments had been applied correctly.</p>
<p><u>IFRS 15 Revenue from contracts with customers</u></p> <p>This new accounting standard covers the identification of performance obligations under customer contracts and the linking of income to the meeting of those performance obligations.</p> <p>The impact on local authority accounting is likely to be limited as large revenue streams like council tax, non domestic rates and government grants will be outside the scope of IFRS 15. However where that standard is relevant, the recognition of revenue will change and new disclosure requirements introduced.</p>	<p>We agreed with the PCC and CC's conclusion that IFRS 15 had not had a material impact on the financial statements. This reflects the nature of revenue in effect and the fact that the majority of the revenue does not meet the specific criteria to satisfy applicability under IFRS 15. This is consistent with our findings elsewhere within the sector.</p>

## 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.

Materiality	Planning materiality	Operating expenditure or Assets	Audit differences
Group	£5.039 million	£251.9 million (expenditure)	£251,000
Chief Constable	£4.626 million	£231.339 million (expenditure)	£231,000
Office of the Police and Crime Commissioner	£2.213 million	£110.661 million (assets)	£110,000
Police Pension statement	£931,000	£46.5 million (expenditure)	£46,500

Item	Thresholds applied
Reporting threshold	We agreed with the Joint Audit Committee that we would report to the Committee all audit differences in excess of £110,000.



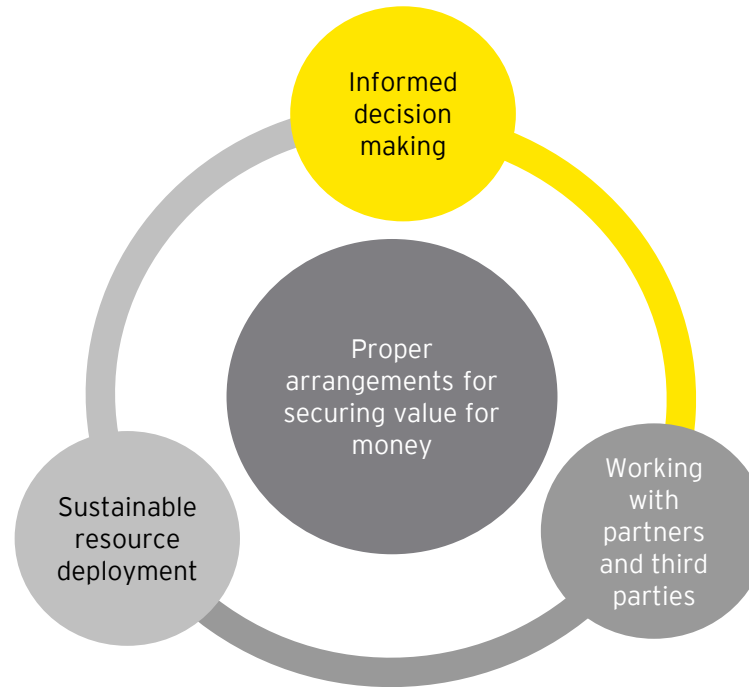
# 04 Value for Money

# £ Value for Money

We are required to consider whether the Group has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its 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 did not identify any significant risks in relation to these criteria.

We did not identify any significant weaknesses in the PCC and CC's arrangements to ensure it 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 31 July 2019.



05

## Other Reporting Issues



## Other Reporting Issues

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### Whole of Government Accounts

We performed the procedures required by the National Audit Office on the accuracy of the consolidation pack prepared by the Group for Whole of Government Accounts purposes. We had no issues to report.

The Group is 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 Statements, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it is misleading.

We completed this work and did not identify any areas of concern.

### 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 Group 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 Group 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)

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### Objections Received

We did not receive any objections to the 2018/19 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 Joint Audit Committee on the 30 July 2019. 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

Under ISA (UK&I) 265 it is mandatory to communicate significant deficiencies in internal control in writing to any audit client. Unless the audit team has used the 'Management Letter template' to communicate significant deficiencies, it is mandatory to use this section if there are any.

It is the responsibility of the Group to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the Group has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. As we have adopted a fully substantive approach, we have therefore not tested the operation of controls.

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.

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware.



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
<b>IFRS 16 Leases</b>	<p>It is currently proposed that IFRS 16 will be applicable for local authority accounts from the 2020/21 financial year.</p> <p>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.</p> <p>There are transitional arrangements within the standard and although the 2020/21 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.</p>	<p>Until the 2020/21 Accounting Code is issued and any statutory overrides are confirmed there remains some uncertainty in this area.</p> <p>However, what is clear is that 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.</p>
<b>IASB Conceptual Framework</b>	<p>The revised IASB Conceptual Framework for Financial Reporting (Conceptual Framework) will be applicable for local authority accounts from the 2019/20 financial year.</p> <p>This introduces;</p> <ul style="list-style-type: none"><li>- new definitions of assets, liabilities, income and expenses</li><li>- updates for the inclusion of the recognition process and criteria and new provisions on derecognition</li><li>- enhanced guidance on accounting measurement bases</li><li>- enhanced objectives for financial reporting and the qualitative aspects of financial information.</li></ul> <p>The conceptual frameworks is not in itself an accounting standard and as such it cannot be used to override or disapply the requirements of any applicable accounting standards.</p> <p>However, an understanding of concepts and principles can be helpful to preparers of local authority financial statements when considering the treatment of transactions or events where standards do not provide specific guidance, or where a choice of accounting policies is available.</p>	<p>It is not anticipated that this change to the Code will have a material impact on Local Authority financial statements.</p> <p>However, the PCC and the CC will need to undertake a review to determine whether current classifications and accounting remains valid under the revised definitions.</p>



## 07 Audit Fees



## Audit Fees

Our final fee for 2018/19 as expected, at the scale fee set by the PSAA and reported in our 18 July 2019 Annual Results Report.

	Final Fee 2018/19	Planned Fee 2018/19	Scale Fee 2018/19	Final Fee 2017/18
	£'s	£'s	£'s	£'s
Total Audit Fee - PCC Code work	Note 1	26,045	26,045	37,898
Total Audit Fee - CC Code work	Note 1	11,550	11,550	20,387
Total		37,595	37,595	58,285

Note 1: As a result of the additional time spent on the audit of the PCC and the CC financial statements in relation to the audit adjustments and McCloud issue, we will need to charge an additional audit fee and so cannot confirm our final fee for 2018/19 at this stage.

We will discuss and agree our proposed additional fee with the Chief Finance Officers before gaining formal approval from Public Sector Audit Appointments Ltd (PSAA) for the scale fee variation. We will report our final fee to you in a separate fee letter.

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