



POLICE AND CRIME COMMISSIONER FOR HERTFORDSHIRE / CHIEF CONSTABLE OF HERTFORDSHIRE CONSTABULARY

Annual Audit Letter

Year ended 31 March 2019

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EXECUTIVE SUMMARY

Purpose of the Annual Audit Letter

This Annual Audit Letter summarises the key issues arising from the work that we have carried out in respect of the year ended 31 March 2019.

It is addressed to the Police and Crime Commissioner (“PCC”) and the Chief Constable (“CC”), but is also intended to communicate the key findings we have identified to key external stakeholders and members of the public.

Responsibilities of auditors and the PCC and CC

It is the responsibility of the PCC and CC to ensure that proper arrangements are in place for the conduct of business and that public money is safeguarded and properly accounted for.

Our responsibility is to plan and carry out an audit that meets the requirements of the National Audit Office’s (NAO’s) Code of Audit Practice (the Code). Under the Code, we are required to report:

- Our opinion on the financial statements; and
- Whether the PCC and CC have made proper arrangements for securing economy, efficiency and effectiveness in their use of resources.

Aphrodite Lefevre
BDO LLP

October 2019

Audit conclusions

Audit area	Conclusion
Financial statements	Unmodified opinion
Use of resources	Unmodified conclusion

We issued our audit opinion on the financial statements and use of resources conclusion on 30 September 2019; the issuing of the opinion did not meet the statutory deadline.

This is due to delays experienced during the fieldwork in obtaining timely and good quality audit evidence to support our work. Further, the McCloud case which had a material impact for the financial statements was a complex area that was concluded on nationally late in the audit process and required increased time and effort both from the management team and the audit team.

We recognise the value of your co-operation and support and would like to take this opportunity to express our appreciation for the assistance and co-operation provided during the audit.

FINANCIAL STATEMENTS

Audit opinion on the financial statements

We issued an unmodified audit opinion on the financial statements. This means that we consider that the financial statements:

- Give a true and fair view of the financial position and its income and expenditure for the year; and
- Have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting 2018/19.

Final materiality

Final group materiality was determined based on 1.75% of the net pension fund liability. This being £34.018 million. The materiality figure was applied to the audit of the pension fund only.

Specific materiality for income and expenditure and other balance sheet Items, was calculated at £4.413 million based on a benchmark of 1.75% of gross expenditure.

Material misstatements

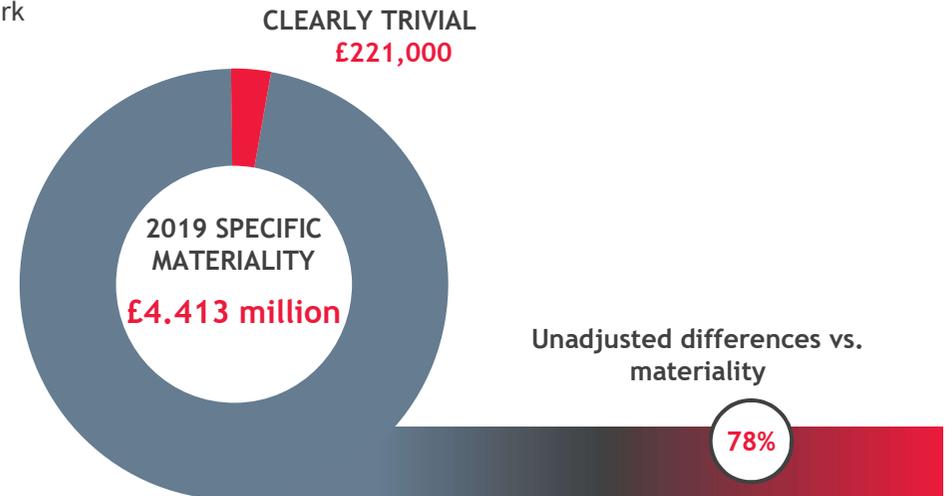
We identified three material misstatements in the group accounts, being the increase on the pension liability for the impact of the McCloud ruling and two classification errors on the balance sheet.

Two further balance sheet classification errors identified were material to the Police and Crime Commissioner accounts.

Unadjusted audit differences

We identified audit adjustments that, if posted, would decrease the deficit on the provision of services by £3.430 million.

The adjustment relates to further information provided by the actuary, in response to managements requests regarding the impact of the McCloud case on the pension Liability.



FINANCIAL STATEMENTS

We set out below the risks that had the greatest effect on our audit strategy, the allocation of resources in the audit, and the direction of the efforts of the audit team.

Risk description	How the risk was addressed by our audit	Results
Management override of controls	<p>We carried out the following planned audit procedures:</p> <p>Reviewed and verified unusual journal entries made in the year and agreed the journals to supporting documentation;</p> <p>Reviewed estimates and judgements applied by management in the financial statements to assess their appropriateness and the existence of any systematic bias; and</p> <p>Reviewed unadjusted audit differences for indications of bias or deliberate misstatement.</p>	No issues were identified by our audit of journals and accounting estimates for management override of controls or management bias.
Expenditure recognition	<p>We carried out the following planned audit procedures:</p> <p>Tested an increased sample of transactions to ensure that expenditure has been recorded in the correct period and that all expenditure that should have been recorded has been recorded;</p> <p>Traced an increased sample of items selected from the pre and post year-end bank statements to supporting documentation to confirm the completeness of the amounts recorded.</p>	Our work did not identify any errors in relation to expenditure being recorded in the incorrect period.

FINANCIAL STATEMENTS

Risk description	How the risk was addressed by our audit	Results
Property, Plant and Equipment (PPE) Valuation	<p>We carried out the following planned audit procedures:</p> <p>Reviewed the instructions provided to the valuer as well as the valuer's skills and expertise in order to determine if we can rely on them as a management expert;</p> <p>Confirmed that the basis of valuation for assets valued in year is appropriate based on their usage;</p> <p>Reviewed the accuracy and completeness of asset information provided to the valuer such as rental agreements and floor sizes; and</p> <p>Confirmed that the valuation movements are consistent with the expectations provided by independent data about the property market.</p>	<p>No issues were identified by our audit of PPE valuations, or our consideration of the valuer's expertise.</p>
Pension Liability Valuation	<p>We carried out the following planned audit procedures:</p> <p>Reviewed and considered the expert's skills and expertise to ensure we are able to rely on them (the actuary);</p> <p>Agreed the disclosures in the accounts to the information provided by the pension fund actuary;</p> <p>Obtained assurance over the controls for providing complete and accurate data to the actuary;</p> <p>Contacted the administering authority of the Local Government Pension Scheme and requested confirmation of the controls in place for providing accurate membership data to the actuary and testing of that data; and</p> <p>Reviewed the reasonableness of the assumptions used in the calculation against other local government actuaries and other observable data.</p>	<p>We found that no additional liability had been recognised in relation to the 'McCloud' age discrimination case which affects all LGPS, Police and Fire Schemes. The Force requested additional costs to be calculated by their actuaries so that the impact could be reflected in the accounts.</p> <p>In the LGPS the impact on the accounts was an increased liability and past service cost of £527,000.</p> <p>In the Police Pension Scheme, the overall impact was an increase of £85.530 million in the liability and in past service costs.</p>

FINANCIAL STATEMENTS

Risk description	How the risk was addressed by our audit	Results
Collaboration Transactions	<p>We carried out the following planned audit procedures:</p> <p>Tested an increased sample of expenditure transactions which have been allocated between the bodies within the Bedfordshire, Cambridgeshire, Hertfordshire Collaborated Units (BCH) or Eastern Region Special Operations Unit (ERSOU) collaborations and confirm that all have been allocated to the correct body, on the correct basis; and</p> <p>Tested an increased sample of transactions from within the year-end debtor and creditor balances, ensuring that they have been correctly classified as debtors and/or creditors.</p>	No issues were identified by our audit of the year end collaboration balances in the accounts.

USE OF RESOURCES

Audit conclusion on use of resources

We issued an unmodified conclusion on the Force's arrangements for securing economy, efficiency and effectiveness in its use of resources. This means that we consider that in all significant respects, the PCC and CC had proper arrangements to ensure they took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

We set out below the risks that had the greatest effect on our audit strategy.

Risk description	How the risk was addressed by our audit	Results
Sustainable Resource Deployment	<p>We carried out the following planned audit procedures:</p> <ul style="list-style-type: none">Reviewed assumptions used in the Medium Term Financial Strategy to assess their reasonableness;Considered delivery of the budgeted savings in 2018/19 and the plans to deliver the identified savings for 2019/20; andConsidered the current level of reserves and the planned use of reserves in the medium term.	<p>The annual budget contains an updated Medium Term Financial Strategy covering the period 2019/20 to 2022/23. A balanced position is forecast for this period, on the assumption that the significant savings are found.</p> <p>The savings plans for 2020/21 onwards have recently been reconsidered in light of the Police and Crime Commissioners expectation that 2% efficiency savings are found each year from this date. This has the effect of smoothing the savings requirements over the three year period rather than targeting increases each year in a way that could be unmanageable. It does however mean that a significant £4 million of savings are required in 2020/21 and maintained at approximately this level each year going forwards. This is a total of £12 million savings over the three year period.</p> <p>Whilst we acknowledge that over the medium term there is a risk that the plan for a balanced budget may not be achieved, given the significant savings required; we are satisfied that the assumptions used in the plans, and the savings required over the coming financial year, are reasonable. We also note that the current levels of reserves are adequate to cover any unforeseen issues that could arise in the shorter term.</p>

REPORTS ISSUED AND FEES

Fees summary

	2018/19 Final £	2018/19 Planned £
Audit fee - PSAA scale fee		
• Police and Crime Commissioner for Hertfordshire	TBC	24,434
• The Chief Constable for Hertfordshire Constabulary	TBC	11,550
Total Audit Fees	TBC*	35,984
Fees for other non-audit services	5,000	5,000
Total fees	TBC*	40,984

* The audit fees for 2018/19 will be agreed with management at a meeting later this year.

Communication

Reports	Date	To whom
Audit plan	March 2019	Audit Committee
Materiality Update	June 2019	Audit Committee
Draft audit completion report	July 2019	Audit Committee
Audit Completion Report	September 2019	Audit Committee



FOR MORE INFORMATION:

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The matters raised in our report prepared in connection with the audit are those we believe should be brought to your attention. They do not purport to be a complete record of all matters arising. This report is prepared solely for the use of the organisation and may not be quoted nor copied without our prior written consent. No responsibility to any third party is accepted.

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