



# THE POLICE AND CRIME COMMISSIONER FOR CAMBRIDGESHIRE AND PETERBOROUGH / THE CHIEF CONSTABLE OF CAMBRIDGESHIRE CONSTABULARY

Annual Audit Letter

Year ended 31 March 2020

IDEAS | PEOPLE | TRUST



# EXECUTIVE SUMMARY

## Purpose of the Annual Audit Letter

This Annual Audit Letter summarises the key issues arising from the work that we carried out in respect of the year ended 31 March 2020.

It is addressed to the Police and Crime Commissioner (“PCC”) and the Chief Constable 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 Chief Constable

It is the responsibility of the PCC and Chief Constable to ensure that proper arrangements are in place for the conduct of its 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 review and report on:

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

**BDO LLP**

21 January 2021

## Audit conclusions

Audit area	Conclusion
Financial statements	Unqualified opinion, with an emphasis of matter in respect of the valuation of land and buildings, due to a material uncertainty included in the final valuation report by the PCC’s valuer. Issued on 30 November 2020.
Use of resources	Unmodified conclusion issued on 30 November 2020.

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 conclusion

We issued our audit report on 30 November 2020.

We issued an unqualified 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 income and expenditure for the year
- Have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting 2019/20.

## Final materiality

Final group materiality was determined based on 1.75% of the net pension fund liability. This being £27.080 million. This materiality figure was applied to the audit of the pension fund only.

Specific materiality for income and expenditure and other balance sheet items was based on a benchmark of 1.75% of net cost of services expenditure. For the Chief Constable this materiality was £2.970 million.

The PCC had a materiality of £1.550 million, based on 1.75% of gross assets.

## Material misstatements

We did not identify any material misstatements.

## Unadjusted audit differences

We identified unadjusted audit differences that, if adjusted, would increase the PCC deficit on the provision of services for the year by £37,000, and decrease the Chief Constable deficit on the provision of services for the year by £18.231 million.

We reported these audit differences and the Joint Audit Committee accepted management's decision not to amend the Statement of Accounts for these differences because the impact was not material.

ENTITY	Materiality - Pension Fund	Pension fund clearly trivial threshold	Specific materiality - I&E / other balance sheet items	I&E / other balance sheet items clearly trivial threshold
Group	27,080,000	1,354,000	3,180,000	159,000
Police and Crime Commissioner for Cambridgeshire and Peterborough	-	-	1,550,000	77,000
The Chief Constable of Cambridgeshire Constabulary	27,000,000	1,350,000	2,970,000	149,000

# 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
<p><b>Management override of controls</b></p> <p>Auditing standards presume that management is in a unique position to perpetrate fraud by overriding controls</p>	<p>We carried out the following planned audit procedures:</p> <ul style="list-style-type: none"> <li>Reviewed and verified journal entries made in the year, agreeing the journals to supporting documentation. We determined key risk characteristics to filter the population of journals. We used our IT team to assist with the journal extraction</li> <li>Reviewed estimates and judgements applied by management in the financial statements to assess their appropriateness and the existence of any systematic bias</li> <li>Reviewed unadjusted audit differences for indications of bias or deliberate misstatement.</li> </ul>	<p>We used our data analytics tools to inspect journals processed throughout the year and as part of the financial reporting close process for any unusual transactions.</p> <p>We identified a number of journal entries that we considered to be high risk. All were agreed to supporting documentation, with appropriate explanations obtained for all journals identified.</p> <p>We assessed and corroborated significant management estimates and judgements in the following key areas:</p> <ul style="list-style-type: none"> <li>- Depreciation/Amortisation</li> <li>- Insurance provision</li> <li>- Accruals and accrued income</li> <li>- Valuation of land and buildings</li> <li>- Pension liability</li> <li>- Going concern assumptions</li> </ul> <p>We found no evidence of management override in these estimates.</p>
<p><b>Expenditure cut-off</b></p> <p>For public sector bodies the risk of fraud related to expenditure is relevant.</p>	<p>We checked that expenditure had been recognised in the correct accounting period by substantively testing an increased sample of expenditure items around year-end.</p>	<p>Our audit work on expenditure cut off did not identify any issues. We tested a sample of items around the year-end, agreeing them to supporting documentation, and confirmed that the expenditure had been recognised in the correct year, with accruals/creditors or prepayments recognised where necessary.</p>

# FINANCIAL STATEMENTS

Risk description	How the risk was addressed by our audit	Results
<p><b>Valuation of non-current assets</b></p> <p>The valuation of non-current assets is a significant risk as it involves a high degree of estimation uncertainty.</p>	<p>We carried out the following planned audit procedures:</p> <ul style="list-style-type: none"> <li>Reviewed the instructions provided to the valuer and the valuer's skills and expertise in order to determine if we can rely on the management expert</li> <li>Confirmed that the basis of valuation for assets valued in year is appropriate based on their usage</li> <li>Reviewed the accuracy and completeness of information provided to the valuer, such as floor areas</li> <li>Reviewed assumptions used by the valuer and movements against relevant indices for similar classes of assets</li> <li>Followed up on valuation movements that appeared unusual</li> <li>Confirmed that assets not specifically valued in the year had been assessed to ensure their reported values remained materially correct.</li> </ul>	<p>From our review of the instructions provided to the valuer and our assessment of the expertise of the valuer, we satisfied ourselves that we could rely on their work.</p> <p>We checked that the basis of the valuation for each asset was appropriate and looked at the assumptions and input data that informed the valuation.</p> <p>Our work in this area identified the following:</p> <ul style="list-style-type: none"> <li>Of the ten assets valued, the valuation movements were posted to the financial statements for nine of them. The movement posted for three of these nine was posted incorrectly. An adjustment was made in the revised financial statements to amend one of these misstatements by £104,000. The remaining unadjusted misstatement was concluded to be trivial.</li> <li>Our testing identified that the floor areas had been included in the valuation calculation incorrectly for a number of assets, the impact of which was an overstatement of asset values of £154,000. An unadjusted audit difference was raised for this.</li> <li>We were unable to verify the land areas for three of the assets to source documentation as the valuer did not retain a record of this documentation. We confirmed that there would be no material impact on the financial statements even if the land balances were 100% errors.</li> </ul> <p>The valuer included a material uncertainty statement in their final valuation reports in respect of the year-end valuations, in light of circumstances surrounding coronavirus. We included an Emphasis of Matter in our audit report to highlight this uncertainty.</p>

# FINANCIAL STATEMENTS

Risk description	How the risk was addressed by our audit	Results
<p><b>Valuation of Pension Liability</b></p> <p>The valuation of the pension liability is a significant risk as it involves a high degree of estimation uncertainty</p>	<p>We carried out the following planned audit procedures:</p> <ul style="list-style-type: none"> <li>• Agreed the disclosures to the information provided by the pension fund actuary</li> <li>• Reviewed the competence of the management expert (actuary)</li> <li>• Reviewed the reasonableness of the assumptions used in the calculation against other local government actuaries and other observable data</li> <li>• Reviewed the controls in place for providing accurate membership data to the actuary</li> <li>• Contacted the pension fund auditor for the Local Government pension scheme and the pension fund administrator for the Police pension schemes, requesting confirmation of the controls in place for providing accurate membership data to the actuary and testing of that data</li> <li>• Checked that any significant changes in membership data had been communicated to the actuary.</li> </ul>	<p>No issues were found in assessing the competency of managements experts, or, in the agreement of disclosures to the information provided by the actuary.</p> <p>We compared the key financial and demographic assumptions used by the actuary, to an acceptable range provided by a consulting actuary commissioned for local public auditors by the NAO. We considered that the assumptions and methodology used by the Pension Fund actuary were appropriate, and resulted in an estimate of the net pension liability which falls within a reasonable range.</p> <p>We requested that a revised actuary report was obtained that took into consideration the proposed remedy for the McCloud Judgement. This resulted in a £18.231 million reduction in the police pension liability in the Chief Constable. An unadjusted misstatement was raised for this.</p> <p>The auditor of the Cambridgeshire Pension Scheme (LGPS), highlighted immaterial errors in the asset values, which were reported as unadjusted misstatements.</p>

# USE OF RESOURCES

## Audit conclusion

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 Chief Constable 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
<b>Sustainable finances</b> The Force will need to deliver its savings and achieve income targets to maintain financial sustainability in the medium term and there is a risk that these projections will not be met.	We carried out the following planned audit procedures: <ul style="list-style-type: none"><li>Reviewed the Force's in year budget monitoring processes, and the completeness and accuracy of management information reported for decision making purposes.</li><li>Reviewed the Force's medium term financial plan and annual budgets, including the reasonableness of the underlying assumptions made by management and the consideration of risks to sustainable finances.</li><li>Reviewed progress against the Force's savings targets and arrangements to ensure that future targets are realistic and achievable, including how the Force works with collaboration partners and other third parties to develop required savings schemes.</li><li>Considered the impact of COVID-19 on financial plans.</li></ul>	<p>For 2019/20 the Force reported an underspend of £1.949 million.</p> <p>Specific savings of £3.522 million were identified as part of the Medium Term Financial Strategy, for this financial year, which were achieved in full.</p> <p>At 31 March 2020, the usable reserves of the Group were £17.129 million. The Group plans to utilise £1.737 million of usable reserves in total in 2020/21 to include the capital requirements. This will leave an expected remaining useable reserves balance of £15.392 million as at 31/03/2021.</p> <p>Increased uncertainty does now exist in financial planning as a result of coronavirus. A risk still exists that the plan for a balanced budget may not be met, should planned savings not be achievable. However, adequate arrangements are in place to identify and achieve savings.</p> <p>We also note that the current levels of reserves are adequate to cover unexpected overspends or reduced funding in the shorter term. Management has eliminated its reliance on reserves from its plans, meaning that in a worst case scenario, a comfortable buffer of reserves would exist.</p>

# REPORTS ISSUED AND FEES

## Fees summary

	2019/20	2018/19
	£	£
Audit fee	£34,910	£34,910
Police and Crime Commissioner for Cambridgeshire and Peterborough	£23,360	£23,360
The Chief Constable for Cambridgeshire Police	£11,550	£11,550
Proposed Amendment	TBC <sup>1</sup>	-
Non-audit assurance services	-	-
<b>Total fees</b>	<b>TBC</b>	<b>£34,910</b>

<sup>1</sup> An additional fee for 2019/20 will be agreed with management at a meeting later this year.

## Communication

Communication	Date (to be) communicated	To whom
Audit Planning Report	January 2020	Joint Audit Committee
Audit Progress report	April 2020	Joint Audit Committee
Draft Audit Completion report	July 2020	Joint Audit Committee
Final Audit Completion report	November 2020	Circulated by e-mail
Annual Audit Letter	January 2021	Joint Audit Committee

FOR MORE INFORMATION:

Rachel Brittain

t: +44 (0)20 7893 2362

m: +44 (0)7971 716 487

e: [rachel.brittain@bdo.co.uk](mailto:rachel.brittain@bdo.co.uk)

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 company and may not be quoted nor copied without our prior written consent. No responsibility to any third party is accepted.

BDO is an award winning UK member firm of BDO International, the world's fifth largest accountancy network, with more than 1,000 offices in more than 100 countries.

BDO LLP is a corporate establishment under the Limited Liability Partnership Act 2000 and a UK Member Firm of BDO International. BDO Northern Ireland, a separate partnership, operates under a licence agreement. BDO LLP and BDO Northern Ireland are both separately authorised and regulated by the Financial Conduct Authority to conduct investment business.

©2021 BDO LLP. All rights reserved.

[www.bdo.co.uk](http://www.bdo.co.uk)