



# Annual Audit Letter 2017/18

**Police and Crime  
Commissioner for  
Humberside and Chief  
Constable of  
Humberside**

—  
October 2018



# Summary for Audit Committee

This Annual Audit Letter summarises the outcome from our audit work at Police and Crime Commissioner for Humberside ("the PCC") and Chief Constable of Humberside ("the CC") in relation to the 2017-18 audit year.

## Audit opinion

We issued an unqualified opinion on the PCC and CC's financial statements on 28<sup>th</sup> of September 2018. This means that we believe the financial statements give a true and fair view of the financial position of the PCC and CC and of its expenditure and income for the year.

The PCC and CC lost key members of the finance team after the year end audit in 2016/17, and vacancies have resulted in a stretched finance function. Consequently the financial statements were not prepared in time of the draft accounts deadline and the audit was subsequently delayed.

## Financial statements audit

Our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole. Materiality for the PCC and CC's accounts was set at £3.3 million which equates to around 1.6 percent of gross expenditure. We design our procedures to detect errors in specific accounts at a lower level of precision.

We report to the Joint Independent Audit Committee any misstatements of lesser amounts, other than those that are "clearly trivial", to the extent that these are identified by our audit work. In the context of the PCC and CC, an individual difference is considered to be clearly trivial if it is less than £165k for the PCC and CC.

We have identified two audit adjustments impacting the primary statements with a total value of up to £3.45 million. Management will be adjusting for an unrecognised debtor relating to a duplicate payment (£1.94m) but the potential overstated valuation of up to £1.51m will remain unadjusted. Note this is an estimated unadjusted error and represents a worst case position. The adjustment result has had a nil impact on the reported deficit on provision of services and general fund balance. We also identified some presentational differences.

We have made two audit recommendations. These relate to the processing of valuations through the PCC's asset system and the CC and PCC's financial statement closedown procedures. We have received management responses for both of these recommendations, with an implementation date of December 2018.

Our audit work was designed to specifically address the following significant risks:

- **Net pension liability** –The valuation of the PCC's and Chief Constable's net pension liabilities, as calculated by the Actuary, is dependent upon both the accuracy and completeness of the data provided and the assumptions adopted. We have reviewed the processes in place to ensure accuracy of data provided to the Actuary and considered the assumptions used in determining the valuation.;
- **Faster close** –The timetable for the production of the financial statements has been significantly advanced with draft accounts having to be prepared by 31 May (2017: 30 June) and the final accounts signed by 31 July (2017: 30 September). The PCC and the Chief Constable was unable to meet the draft accounts deadline and subsequent signing. We have raised a recommendation in response to this;
- **Valuation of PPE** -The valuation of PPE for the Police and Crime Commissioner is was performed by a new Valuer (Carter Jonas) and covered the whole of the Force's estate. We have reviewed the work performed by Carter Jonas and the assumptions used by the Valuer in determining the valuation and concluded the estate is fairly stated in the financial statements; and
- **New Payroll System** -On 1 April 2017 the Police and Crime Commissioner and the Chief Constable changed their payroll system. We have reviewed the controls in place surrounding the transfer of standing

## Section one:

# Summary for Audit Committee (cont.)

## Other information accompanying the financial statements

Whilst not explicitly covered by our audit opinion, we review other information that accompanies the financial statements to consider its material consistency with the audited accounts. This year we reviewed the Annual Governance Statements and Narrative Reports. We concluded that they were consistent with our understanding and did not identify any issues.

## Whole of Government Accounts

We reviewed the consolidation pack which the PCC and CC prepared to support the production of Whole of Government Accounts by HM Treasury. We reported that the PCC and CC's pack was consistent with the audited financial statements.

## Value for Money conclusion

We have concluded that the PCC and CC have made proper arrangements to secure economy, efficiency and effectiveness in their use of resources in 2017/18. We therefore issued an unqualified value for money opinion on 31 July 2018.

To arrive at our conclusion we looked at the PCC and CC's arrangements to make informed decision making, sustainable resource deployment and working with partners and third parties. Our risk assessment did not highlight any significant VFM risks.

## High priority recommendations

We raised two high priority recommendations as a result of our 2017-18 work. The detail is included in Appendix 1.

## Audit fees

Our audit fees for 2017/18 (in comparison to 2016/17) are set out in the table below. The increase of £2,768 for both the PCC and CC relate to the additional audit work required as a result of the new payroll system and delays in relation to the closedown of the 2017/18 financial statements, which in turn delayed the audit. We note the increases are subject to approval from the PSAA.

	2017/18 Audit Fee (£)	2016/17 Audit Fee (£)
PCC	36,593	33,825
CC	17,768	15,000

We did not charge any additional fees for other services.

## Section one:

# Summary for Audit Committee (cont.)

## Exercising of audit powers

We have a duty to consider whether to issue a report in the public interest about something we believe the PCC and CC should consider, or if the public should know about.

We have not identified any matters that would require us to issue a public interest report.

In addition, we have not had to exercise any other audit powers under the Local Audit & Accountability Act 2014.

## Certificate

We issued our certificate on 28<sup>th</sup> of September 2018. The certificate confirms that we have concluded the 2017/18 audits of the PCC's and CC's financial statements in accordance with the requirements of the Local Audit & Accountability Act 2014 and the Code of Audit Practice.

## Acknowledgements

We would like to take this final opportunity to thank all officers for their thorough professionalism and excellent help over the many years we have provided the external audit service to Humberside's PCC and CC, and wish you all and both organisations all the very best for the future.

# Appendices



# Key issues and recommendations

Our audit work on the PCC's and Chief Constable's 2017/18 financial statements identified two high risk recommendations.

## Priority Rating for Recommendations

<b>1</b>	<p><b>Priority One:</b> Issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.</p> <p>Recommendations Raised: 2</p>	<b>2</b>	<p><b>Priority Two:</b> Issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.</p> <p>Recommendations Raised: 0</p>	<b>3</b>	<p><b>Priority Three:</b> Issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.</p> <p>Recommendations Raised: 0</p>
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No.	Risk	Issue & Recommendation	Management Response
1	1	<p><b>Processing of revaluation through asset system</b></p> <p>Through our testing of valuation of Property, Plant and Equipment, we discovered that additions made in the year had been added to the value of a number of properties, creating a risk of double counting. This is not in line with accounting standards, as these additions have already been incorporated into the valuation of the properties. We identified that this was due to the asset management system being unable to separate out the assets where additions had occurred prior to point of valuation.</p> <p>The total additions in year (excluding the South Bank Custody, which is still under construction, and as such not included within the revaluation) are £1,510k. As such this issue would not have a material effect upon the accounts. The range of the misstatement therefore would be between nil (if all additions occurred after 31st January) and £1,510k (if all additions occurred before 31st January).</p> <p><b>Risk</b></p> <p>There is a risk that assets are materially misstated at the year end due to additions made in year and not being factored into the revalued asset value.</p> <p><b>Recommendation</b></p> <p>A review of the processes through which the asset management system accounts for additions and revaluations should take place in order to prevent this from occurring in future years.</p>	<p>There will be a comprehensive review of the process for completion of the annual accounts for 2017/18 which will include an assessment of the procedure for the valuation of assets which was a full valuation of all properties for the first time this year using new valuers, Carter Jonas. It is proposed that a full valuation will once again be undertaken in early 2019 for the 2018/19 annual accounts. The issues raised in this report will be discussed with Carter Jonas ahead of the valuation and arrangements will be made to ensure that any additions to properties after the valuation date are identified and the impact on the final valuation assessed. If necessary this may require agreement to later revisits and updated valuations, to avoid any possibility of double counting. Training on Asset Manager will be arranged to improve efficiency in utilising the valuation data in the preparation of the supporting working papers for the financial statements.</p> <p><b>Responsible Officer</b></p> <p>Chief Finance Officer</p> <p><b>Implementation Deadline</b></p> <p>December 2018</p>

# Key issues and recommendations

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No.	Risk	Issue & Recommendation	Management Response
2	1	<p><b>Financial Statement Closedown Procedure</b></p> <p>The overall processes for the preparation of the financial statements were not satisfactory and the PCC was unable to meet the Faster Close deadline of the 31 May. The draft accounts were published on 27 June 2018.</p> <p>PCC and Chief Constable lost key members of the finance team after the year end audit in 2016/17, and vacancies have resulted in a stretched finance function. Consequently the financial statements were not prepared in time of the draft accounts deadline and the audit was subsequently delayed.</p> <p>This also contributed to working papers being of varying quality and evidence was not always timely due to staff leave.</p> <p><b>Risk</b></p> <p>There is a risk that deadlines will be missed in future years impacting the PCC's reputation and suggesting a poor financial governance arrangements are in place with regard to accounts preparation.</p> <p><b>Recommendation</b></p> <p>We recommend PCC and Chief Constable establish a clear accounts closedown timetable which can be easily monitored against including defined milestones and timescales. This will aid in ensuring the reporting deadlines are met in 2018/19.</p>	<p>There will be a full review and analysis of the process for the compilation of the financial statements for 2017/18. This will inform a reappraisal of the established timetable for the provision of information. A revised timetable will be formulated, including the identification improved reconciliation and other activity which can be undertaken during the year to reduce the pressure at the end of the financial year. The timetable will be supported with the development of accompanying procedure notes providing clarity over the actions and sequencing of the use of that information and production of BI and other reports. This will be incorporated into a detailed checklist which can be used to track progress in preparing the accounts to the deadline. Consideration is being given to staffing arrangements within the OPCC and the Force which will examine the division of duties and responsibilities to improve the process and ensure it is adequately resourced. This will include comparisons with the arrangements operating in other OPCC and force areas.</p> <p><b>Responsible Officer</b></p> <p>Chief Finance Officer</p> <p><b>Implementation Deadline</b></p> <p>December 2018</p>



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This report is addressed to the PCC and CC and has been prepared for the sole use of the PCC and CC. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. We draw your attention to the Statement of Responsibilities of auditors and audited bodies, which is available on Public Sector Audit Appointment's website ([www.psaa.co.uk](http://www.psaa.co.uk)).

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Rob Jones the engagement lead to the PCC and CC, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers, by email to [Andrew.Sayers@kpmg.co.uk](mailto:Andrew.Sayers@kpmg.co.uk). After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing [generalenquiries@psaa.co.uk](mailto:generalenquiries@psaa.co.uk) by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3HZ.

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