



Annual Audit Letter

Office of the Police and Crime Commissioner for
Humberside and Chief Constable for Humberside

Year ending 31 March 2019





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1. EXECUTIVE SUMMARY

Purpose of the Annual Audit Letter

Our Annual Audit Letter summarises the work we have undertaken as the auditor for the Police and Crime Commissioner for Humberside and Group (PCC and Group) and Chief Constable for Humberside (Chief Constable) for the year ended 31 March 2019. Although this letter is addressed to the PCC and Chief Constable, it is designed to be read by a wider audience including members of the public and other external stakeholders.

Our responsibilities are defined by the Local Audit and Accountability Act 2014 (the 2014 Act) and the Code of Audit Practice issued by the National Audit Office (the NAO). The detailed sections of this letter provide details on those responsibilities, the work we have done to discharge them, and the key findings arising from our work. These are summarised below.

Area of responsibility	Summary
Audit of the financial statements	<p>Our auditor's report issued on 30 July 2019 included our opinion that the financial statements:</p> <ul style="list-style-type: none">• give a true and fair view of the PCC and Group and Chief Constable's financial position as at 31 March 2019 and of its expenditure and income for the year then ended; and• have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.
Other information published alongside the audited financial statements	<p>Our auditor's report issued on 30 July 2019 included our opinion that:</p> <ul style="list-style-type: none">• The other information in the Statement of Accounts is consistent with the audited financial statements.
Value for Money conclusion	<p>Our auditor's report concluded that we are satisfied that in all significant respects, the PCC and Chief Constable have put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.</p>
Reporting to the group auditor	<p>In line with group audit instructions issued by the NAO, on 30 July 2019 we reported to the group auditor in line with the requirements applicable to the PCC and Group and Chief Constable's WGA return.</p>
Statutory reporting	<p>Our auditor's report confirmed that we did not use our powers under s24 of the 2014 Act to issue a report in the public interest or to make written recommendations to the PCC and Chief Constable.</p>

2. AUDIT OF THE FINANCIAL STATEMENTS

Opinion on the financial statements

Unqualified

The scope of our audit and the results of our work

The purpose of our audit is to provide reasonable assurance to users that the financial statements are free from material error. We do this by expressing an opinion on whether the statements are prepared, in all material respects, in line with the financial reporting framework applicable to the PCC and Group and Chief Constable and whether they give a true and fair view of the PCC and Group and Chief Constable's financial position as at 31 March 2019 and of its financial performance for the year then ended.

Our audit was conducted in accordance with the requirements of the Code of Audit Practice issued by the NAO, and International Standards on Auditing (ISAs). These require us to consider whether:

- the accounting policies are appropriate to the PCC and Group and Chief Constable's circumstances and have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management in the preparation of the financial statements are reasonable; and
- the overall presentation of the financial statements provides a true and fair view.

Our auditor's report, issued to the PCC and Group and Chief Constable on 30 July 2019, stated that, in our view, the financial statements give a true and fair view of the PCC and Group and Chief Constable's financial position as at 31 March 2019 and of its financial performance for the year then ended.

Our approach to materiality

We apply the concept of materiality when planning and performing our audit, and when evaluating the effect of misstatements identified as part of our work. We consider the concept of materiality at numerous stages throughout the audit process, in particular when determining the nature, timing and extent of our audit procedures, and when evaluating the effect of uncorrected misstatements. An item is considered material if its misstatement or omission could reasonably be expected to influence the economic decisions of users of the financial statements.

Judgements about materiality are made in the light of surrounding circumstances and are affected by both qualitative and quantitative factors. As a result we have set materiality for the financial statements as a whole (financial statement materiality) and a lower level of materiality for specific items of account (specific materiality) due to the nature of these items or because they attract public interest. We also set a threshold for reporting identified misstatements to the PCC and Group and Chief Constable which is our trivial threshold.

The table below provides details of materiality levels applied in the audit of the financial statements for the year ended 31 March 2019:

		Group £000's	PCC £000's	Chief Constable £000's
Financial statement materiality	Our financial statement materiality is based on 2% of Gross Revenue Expenditure	5,868	4,460	5,698
Trivial threshold	Our trivial threshold is based on 3% of financial statement materiality.	176	134	171
Specific materiality	We have applied a lower level of materiality to the following areas of the accounts:			
	- Senior officer remunerations	264	264	264
	- Exit packages	100	100	100

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2. AUDIT OF THE FINANCIAL STATEMENTS

Our response to significant risks

As part of our continuous planning procedures we considered whether there were risks of material misstatement in the PCC and Group and Chief Constable's financial statements that required special audit consideration. We reported significant risks identified at the planning stage to the PCC and Group and Chief Constable within our Audit Strategy Memorandum and provided details of how we responded to those risks in our Audit Completion Report. The table below outlines the identified significant risks, the work we carried out on those risks and our conclusions.

Identified significant risk	Our response	Our findings and conclusions
<p>Management override of controls (PCC and Group and Chief Constable)</p> <p>In all entities, management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur there is a risk of material misstatement due to fraud on all audits.</p>	<p>We addressed this risk through performing audit work over:</p> <ul style="list-style-type: none"> Accounting estimates impacting on amounts included in the financial statements; Consideration of identified significant transactions outside the normal course of business; and Journals recorded in the general ledger and other adjustments made in preparation of the financial statements. 	<p>We found no evidence of management override of controls</p>
<p>Defined benefit liability valuation (PCC and Group and Chief Constable)</p> <p>The financial statements contain material pension entries in respect of retirement benefits. The calculation of these pension figures, both assets and liabilities, can be subject to significant volatility and includes estimates based upon a complex interaction of actuarial assumptions. This results in an increased risk of material misstatement.</p>	<p>We addressed this risk by discussing with key contacts any significant changes to the pension estimates prior to the preparation of the financial statements. In addition to our standard programme of work, we also:</p> <ul style="list-style-type: none"> evaluated the management controls in place to assess the reasonableness of the figures provided by the actuaries; and considered the reasonableness of the actuaries' outputs, referring to an expert's report on all actuaries nationally which is commissioned annually by the National Audit Office. 	<p>The material amendments relating to the impact of national legal cases on the pension liabilities have been amended by the PCC and Group and Chief Constable. Our audit work has not identified any further material issues to report.</p>
<p>Property, plant and equipment valuation (PCC and Group)</p> <p>The CIPFA Code requires that where assets are subject to revaluation, their year end carrying value should reflect the appropriate fair value at that date.</p> <p>Although the PCC employs an external valuation expert to provide information on valuations, there remains a high degree of estimation uncertainty associated with the revaluation of PPE due to the significant judgements and number of variables involved.</p>	<p>We addressed this risk by undertaking the following:</p> <ul style="list-style-type: none"> considering the PCC's arrangements for ensuring that PPE values are reasonable and we engaged our own expert to provide data to enable us to assess the reasonableness of the valuations provided by the PCC's valuer. We also assessed the competence, skills and experience of the valuer. performing further audit procedures on individual assets to ensure that the basis and level of valuation was appropriate. 	<p>Our work has provided us with the assurance we sought and has not highlighted any material issues to bring to your attention.</p>

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Our response to significant risks (continued)

Identified significant risk	Our response	Our findings and conclusions
<p>Revenue Recognition (PCC and Group and Chief Constable)</p> <p>In accordance with ISA 240 we presume there is a risk of fraud in respect of the recognition of revenue because of the potential for inappropriate recording of transactions in the wrong period. ISA 240 allows the presumption to be rebutted but, given the organisation's range of revenue sources and their volatility we have concluded that there are insufficient grounds for rebuttal in 2018/19. This does not imply that we suspect actual or intended manipulation but that we continue to deliver our audit work with appropriate professional scepticism.</p>	<p>We addressed this risk by evaluating the design and implementation of controls to mitigate the risk of income being recognised in the wrong period. In addition, we undertook a range of substantive procedures including:</p> <ul style="list-style-type: none"> • testing receipts in March, April and May 2019 to ensure they have been recognised in the right year; • testing any material reductions in income categories against budget and the previous year; and • testing adjustment journals as above for management override with particular focus on journals moving revenue between years. 	<p>Our audit work has provided the assurance we sought and has not identified any significant issues to bring to your attention. There is no indication of revenue being recognised in the wrong year.</p>
<p>Production of the Financial Statements (PCC and Group and Chief Constable)</p> <p>The PCC and CC are required to produce a set of financial statements by 31 May 2019. There were difficulties experienced in producing the 2017/18 financial statements to the deadline, and management has recognised the need to strengthen its arrangements in 2018/19. In order to meet the challenging deadline, significant resource will be required from the finance team. There remains a risk that this deadline is not met, or in meeting the deadline, the financial statements are not produced to the required standard.</p>	<p>We worked with the PCC and CC finance teams in advance of our audit to ensure the newly introduced closedown timetable was being followed, and any potential issues were identified and addressed at an early stage.</p>	<p>The financial statements were produced and published by 31 May 2019. Although some issues were identified as part of the audit the financial statements were generally of a reasonable standard.</p>

2. AUDIT OF THE FINANCIAL STATEMENTS

Internal control recommendations

The purpose of our audit is to express an opinion on the financial statements. As part of our audit we have considered the internal controls in place relevant to the preparation of the financial statements. We do this in order to design audit procedures to allow us to express an opinion on the financial statements and not for the purpose of expressing an opinion on the effectiveness of internal control, nor to identify any significant deficiencies in their design or operation.

The matters reported are limited to those deficiencies and other control recommendations that we have identified during our normal audit procedures and that we consider to be of sufficient importance to merit being reported. If we had performed more extensive procedures on internal control we might have identified more deficiencies to be reported or concluded that some of the reported deficiencies need not in fact have been reported. Our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.

Our findings and recommendations are set out below. We have assigned priority rankings to each of them to reflect the importance that we consider each poses to your organisation and, hence, our recommendation in terms of the urgency of required action. In summary, the matters arising fall into the following categories:

Priority ranking	Description	Number of issues
1 (high)	In our view, there is potential for financial loss, damage to reputation or loss of information. This may have implications for the achievement of business strategic objectives. The recommendation should be taken into consideration by management immediately.	2
2 (medium)	In our view, there is a need to strengthen internal control or enhance business efficiency. The recommendations should be actioned in the near future.	2
3 (low)	In our view, internal control should be strengthened in these additional areas when practicable.	1

2. AUDIT OF THE FINANCIAL STATEMENTS

Other deficiencies in internal control – Level 1

Payroll reconciliations

Description of deficiency

Treasury Management check that the value of payroll leaving the bank via BACS agrees to payroll totals as per Oracle however the values do not agree. The actual value paid out is journaled into the ledger by Treasury Management with the difference between the original payroll ledger figure and the actual BACS payment being held in a control account. The value of the control account as of March 2019 is £40,039.44. Whilst an investigation is performed each month on why there is a discrepancy, this is not rectified by payroll.

Potential effects

The amount paid to employees via the payroll is incorrect as it does not agree to payroll records.

Recommendation

The payroll control account is reconciled each month and differences rectified before the BACS payment is made.

Management response

Work has commenced on reviewing the processes in place to ensure that the account is cleared on a monthly basis. Initial efforts to address the balance have reduced the value to £14,477.10 and the remainder will be cleared during 2019/20.

Payment errors

Description of deficiency

During the year there were two significant instances where errors were made in relations to payments.

The first was a duplicate payment that was made to a building contractor. The full amount of the payment was recovered. This followed a significant issue in the previous financial year where a BACS payment run was paid twice.

The second was in relation to payroll. A payment was made to officers and police staff for accrued rest days and time off in lieu (TOIL). There was an error in the calculation resulting in an overpayment of £288,000 affecting 692 police officers and 301 police staff.

Potential effects

Reputational damage. Potential loss of police funds.

Recommendation

Processes and controls in relation to payments should be reviewed to prevent similar errors occurring in the future.

Management response

The reason for the duplicate contract payment was identified immediately and revised arrangements have been put in place to avoid a repetition. The payroll issue was the subject of a detailed internal audit report. This specific issue and other payroll concerns are being addressed as part of a fundamental review of the department and its senior leadership. An external company has been brought in to work with the Force to review processes and IT functionality. A draft report setting out proposed guidance and checklist information has been produced which will form the basis of a procedure manual and an early peer review of the new process by another force is planned.

2. AUDIT OF THE FINANCIAL STATEMENTS

Other deficiencies in internal control – Level 2

Journal approvals

Description of deficiency

There is no review or authorisation process of journals posted to the ledger.

Potential effects

Incorrect entries are posted to the ledger.

Recommendation

Journals posted to the ledger should be reviewed.

Management response

A revised process for the authorisation of journals has been developed with approval limits and approval groups agreed. All adjustment journals will use ORACLE workflow. Workflow has been tested and the revised procedure using this will be in place with effect from 1 August 2019.

Manual payroll processes

Description of deficiency

It was noted during our testing that payroll calculations for starters, leavers and amendments are completed manually. Although batch reviews are completed, not all calculations are reviewed.

Potential effects

Manual calculations increase the possibility of human error and therein the possibility that employees will be paid an incorrect amount.

Recommendation

Where possible, calculations should be automated. Increased review of manual calculations should be implemented.

Management response

As indicated above, a review of payroll processes is underway and revised procedures are in the process of being implemented. These procedures include revised arrangements for dealing with starters and leavers together with oversight as part of performance management proposals.

2. AUDIT OF THE FINANCIAL STATEMENTS

Other deficiencies in internal control – Level 3

Payroll controls

Description of deficiency

When testing payroll it was noted that hard copy documentation for new starter forms, leaver forms and change of circumstance forms are retained for two months prior to being batched for scanning. They are reviewed but evidence of the review is not scanned.

Potential effects

There is no audit trail to evidence the checks have occurred.

Recommendation

Evidence of the check and review process should be maintained.

Management response

The scanning process will be amended so that evidence of the review action will also be scanned.

5. VALUE FOR MONEY CONCLUSION

Value for Money conclusion

Unqualified

Our approach to Value for Money

We are required to form a conclusion as to whether the PCC and CC has made proper arrangements for securing economy, efficiency and effectiveness in their use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out in order to form our conclusion, and sets out the criterion and sub-criteria that we are required to consider.

The overall criterion is 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.' To assist auditors in reaching a conclusion on this overall criterion, the following sub-criteria are set out by the NAO:

- Informed decision making
- Sustainable resource deployment
- Working with partners and other third parties

Our auditor's report, issued to the PCC and Chief Constable on 30 July 2019, stated that, in all significant respects, the PCC and Chief Constable put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31st March 2019.

Sub-criteria	Commentary	Arrangements in place?
Informed decision making	<p>The governance framework has remained unchanged during the year. A Joint Independent Audit Committee (JIAC) has met during the year and made recommendations to the Commissioner and Chief Constable. Senior management attend the JIAC. Internal Audit plan is in place and Internal Audit have reported to the JIAC throughout the year. Internal Audit progress and findings are monitored by the JIAC.</p> <p>Financial performance has been reported throughout the financial year. There is no evidence of financial or performance data not being reliable and therefore impacting on the decision making of either the Commissioner or the Chief Constable. The Medium Term Resources Strategy (MTRS) was approved which sets a balanced 2019/20 budget.</p> <p>In previous years HMICFRS Crime Data review rated the Force as 'inadequate'. The Force has continued to implement an Action Plan in response to the inspection findings. Progress has been reported to the JIAC.</p> <p>In June 2019, the 2018/19 HMICFRS PEEL inspection was published. This report rated the Force as 'good' for efficiency, effectiveness and legitimacy this was an improvement since the previous report which rated the Force as 'requires improvement' for efficiency and effectiveness.</p> <p>Risk register and risk management arrangements in place. Risks have been reported during the year. Annual Governance Statement prepared, reviewed and approved.</p>	Yes

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5. VALUE FOR MONEY CONCLUSION

Sub-criteria	Commentary	Arrangements in place?
Sustainable resource deployment	<p>In 2018/19 the Commissioner and Chief Constable delivered an underspend against the approved budget. The MTRS for Commissioner and Chief Constable has been updated to reflect the outturn in 18/19. The MTRS is clear and reflects the expected pressures the Commissioner and Chief Constable will face. Savings are required to deliver the MTRS but plans are in place to achieve these.</p> <p>Capital investment links to the delivery against the Police and Crime Plan.</p> <p>Workforce levels monitored and reported on a regular basis and aligned to strategic plans.</p>	Yes
Working with partners and other third parties	The joint Emergency Service Fleet Management workshop and Estates Department with Humberside Fire and Rescue Authority illustrates the PCC and CC's commitment to increase collaboration and build on long-established partnership arrangements to improve community safety.	Yes

Significant Value for Money risks

The NAO's guidance requires us to carry out work to identify whether or not a risk to the Value for Money conclusion exists. Risk, in the context of our Value for Money work, is the risk that we come to an incorrect conclusion rather than the risk of the arrangements in place at the Authority being inadequate. In our Audit Strategy Memorandum, we reported that we had not identified any significant Value for Money risks.



4. OTHER REPORTING RESPONSIBILITIES

Exercise of statutory reporting powers	No matters to report
Completion of group audit reporting requirements	Below testing threshold
Other information published alongside the audited financial statements	Consistent

The NAO's Code of Audit Practice and the 2014 Act place wider reporting responsibilities on us, as the PCC and Group and Chief Constable's external auditor. We set out below, the context of these reporting responsibilities and our findings for each.

Matters on which we report by exception

The 2014 Act provides us with specific powers where matters come to our attention that, in our judgement, require reporting action to be taken. We have the power to:

- Issue a report in the public interest;
- Make a referral to the Secretary of State where we believe that a decision has led to, or would lead to, unlawful expenditure, or an action has been, or would be unlawful and likely to cause a loss or deficiency; and
- Make written recommendations to the PCC and Group and Chief Constable which must be responded to publicly.

We have not exercised any of these statutory reporting powers.

Reporting to the NAO in respect of Whole of Government Accounts consolidation data

The NAO, as group auditor, requires us to complete the WGA Assurance Statement in respect of its consolidation data. We submitted this information to the NAO on 30 July 2019.

Other information published alongside the financial statements

The Code of Audit Practice requires us to consider whether information published alongside the financial statements is consistent with those statements and our knowledge and understanding of the PCC and Group and Chief Constable. In our opinion, the other information in the Statement of Accounts is consistent with the audited financial statements.

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5. OUR FEES

Fees for our work as the PCC and Chief Constable's auditor

We reported our proposed fees for the delivery of our work in the Audit Strategy Memorandum, presented to the PCC and Chief Constable in February 2019.

We have completed our work for the 2018/19 financial year, but at the time of producing this report, we have not yet finalised our audit fees for the year. If the final fee varies from that in the table below, we will write to the Chief Financial Officer setting out the proposed variation and any reasons for the variation, and seeking agreement to it. Any variations to the final fee will also require the approval of Public Sector Audit Appointments Limited, which manages the contracts for our work.

Area of work	2018/19 proposed fee	2018/19 final fee***
Delivery of audit work under the NAO Code of Audit Practice – Office of the Police and Crime Commissioner for Humberside	£26,045	£26,045
Delivery of audit work under the NAO Code of Audit Practice – Chief Constable for Humberside	11,550	11,550

*** Please note that at the time of producing this report, the audit fees have not yet been finalised.

Fees for other work

We confirm that we have not undertaken any non-audit services for the PCC and Chief Constable in the year.

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6. FORWARD LOOK

Financial outlook

As noted in our Value for Money Conclusion, there are balanced budgets in place for the next four years but this is challenging and does rely on the delivery of efficiency savings as in previous years. However, the PCC and Chief Constable have a good record of delivering on efficiency targets and have sufficient reserves in place to manage any shortfall over the MTRS.

Operational challenges

Whilst the outcome of the Integrated PEEL Assessment issued by HMICFRS in May 2019 demonstrated an improvement in performance, the Chief Constable and the Chief Officer team recognise further challenges remain.

Other operational challenges identified as requiring continued focus in the Annual Governance Statements include:

- Review of the Force Finance structure, including the s151 arrangements;
- Improvement in the operation of the key financial systems, in particularly the payroll system;
- Implementation of new technology.

How we will work with the PCC and Chief Constable

We will focus our work on the risks that your challenges present to your financial statements and your ability to maintain proper arrangements for securing value for money. In the coming year we will continue to support the PCC and Chief Constable by:

- continued liaison with your Internal Auditors to minimise duplication of work;
- attending Joint Independent Audit Committee meetings and presenting an Audit Progress Report including updates on regional and national developments; and
- hosting events for staff, such as our accounts workshop.

We will also meet with officers to identify any learning from the 2018/19 audit and will continue to share our insights from across your sector and relevant knowledge from the wider public and private sector.

In terms of the technical challenges that officers face around the production of the statement of accounts, we will continue to work with them to share our knowledge of new accounting developments and we will be on hand to discuss any issues as and when they arise.

The PCC and Chief Constable has taken a positive and constructive approach to our audit and we wish to thank Members and officers for their support and co-operation during our audit.

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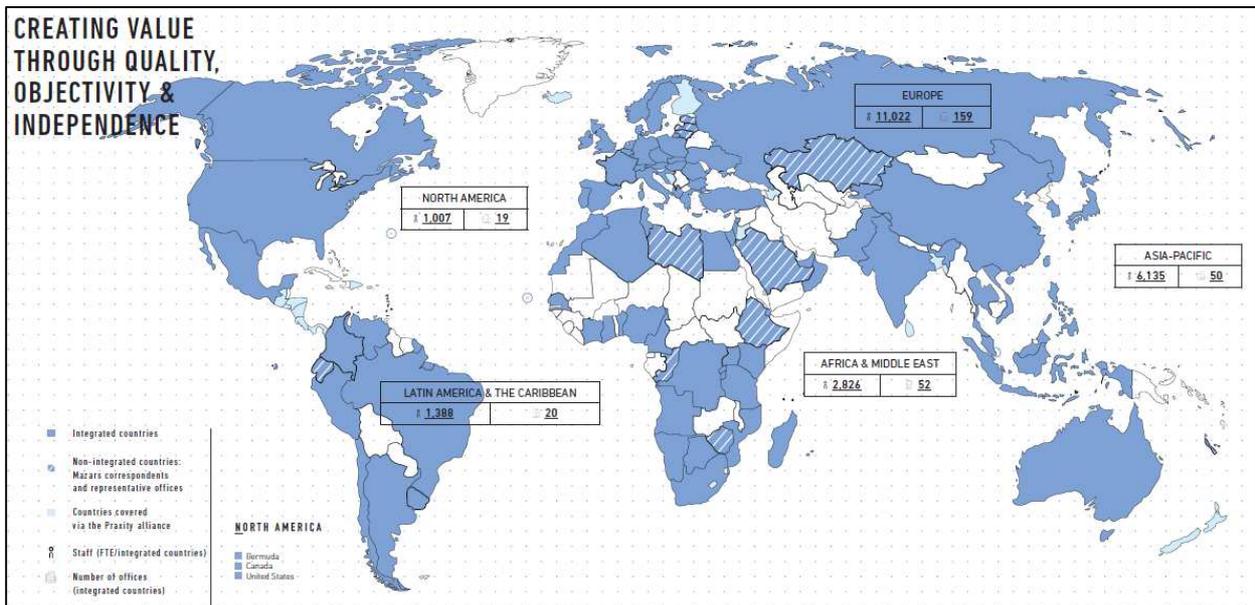
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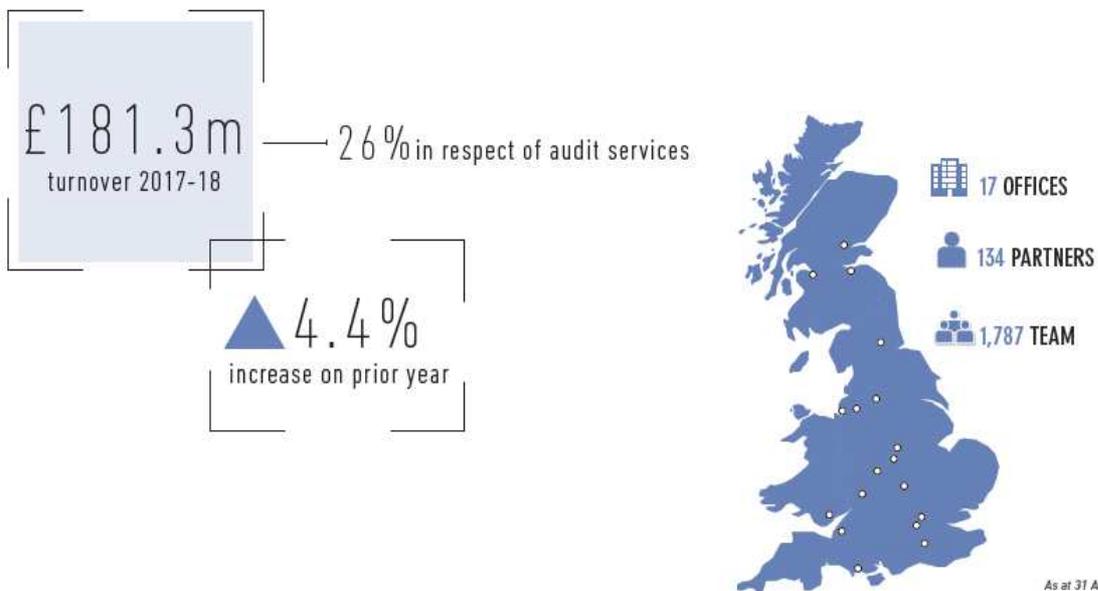
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- Fee income €1.6 billion
- Over 86 countries and territories
- Over 300 locations
- Over 20,000 professionals
- International and integrated partnership with global methodologies, strategy and global brand

Mazars Internationally



Mazars in the UK



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