NOT PROTECTIVELY MARKED – for public release **Agenda Item No.**

JOINT INDEPENDENT AUDIT COMMITTEE
7 SEPTEMBER 2022

5

SUBJECT	**FINANCIAL STATEMENTS OF ACCOUNTS 2019/20**
REPORT BY	**JULIE FLINT, PCC CHIEF FINANCIAL OFFICER AND SHARON CLARK, DIRECTOR OF FINANCE & CORPORATE SERVICES**
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SUMMARY AND PURPOSE OF REPORT Following the audit of 2019/20 accounts the Committee is requested to review: • the responses to the report produced by the auditors; • the final version of the Accounts including the Annual Governance Statement; and • Letters or Representation	
RECOMMENDATIONS	That the Committee: 1. Reviews the responses to the Report to those charged with Governance (ISA260) on the 2019/20 Accounts. 2. Reviews the Accounts and Annual Governance Statement for publication (Appendices A1 and A2). 3. Reviews the Letters of Representation (Appendices B1 and B2).

A. SUPPORTING INFORMATION

1. Introduction

1.1 At the May 2020 workshop of this Committee, in accordance with good practice, the 2019/20 draft accounts for both the Police and Crime Commissioner (PCC) Group and the Chief Constable were presented. Following the meeting the Chief Financial Officers (CFOs) for the PCC and Chief Constable, in accordance with the Accounts and Audit Regulations 2015 (regulation 9), signed and dated their respective accounts and certified that they presented a true and fair view of the financial position of the Group at the end of financial year to which they related, and of its income and expenditure for that year.

1.2 Copies of the accounts were published on the PCC and CC's websites, along with a declaration that the accounts were unaudited and may be subject to change. The accounts were open for public inspection between 31 May 2020 and 11 July 2020. During this period, a local government elector for any area to which the accounts relate, or their representative, may question the auditor about the accounts, or make an objection to the accounts as set out in section 26 and 27 of the Local Audit and Accountability Act 2014. Any objections must be provided in writing; at the date of submission of this report no objections have been notified.

1.3 The planned date for completion and audit certificate issue was 31 July 2020. Unfortunately resourcing pressures experienced by the external auditor, Ernst & Young LLP (EY), resulted in delays in the external audit work and it was not completed in the expected timeframe. This delay is allowed for by Regulation 10, paragraph (2a) of the Accounts and Audit Regulations 2015.

1.4 Revised accounts are now submitted to this Committee following audit for review prior to the final signing by the PCC and CC and their Statutory Officers.

1.5 The external auditor, EY, is required by the statutory Code of Audit Practice for Local Government bodies (the Code) to issue a report to those charged with governance (PCC & CC) summarising the conclusion of the audit work. This report, an ISA260, has been provided to the Committee for review on this agenda.

1.6 EY is also required to report on certain matters before it can give its opinion on the financial statements. These include significant risks, qualitative aspects of the accounts and the audit's independence. These are all included within the report.

1.7 The ISA260 covering the audit will be presented by EY. The principal purposes of the report are to:

- Reach a mutual understanding of the scope of the audit and respective responsibilities of the auditor and those charged with governance;
- Share information to assist both the auditor and those charged with governance to fulfil their respective responsibilities; and
- Provide recommendations for improvements from the audit process.

1.8 An important part of this report is the Letter of Representation which is discussed at Section 6.

1.9 The report is positive, EY has indicated that they intend to issue an unqualified audit opinion on both sets of accounts and that the Annual Governance Statements comply with the guidance issued by CIPFA/LASAAC for 2019/20. Importantly, the report also concludes that the PCC and CC have made proper arrangements to ensure they took properly informed decisions and deployed resources to achieved planned and sustainable outcomes for the taxpayers and local people. EY have concluded that there are no matters to report on the PCC and CC's arrangements to sure economy, efficiency and effectiveness in its use of resources. It is therefore anticipated that an unqualified value for money conclusion will be issued.

2. Accounting practice and financial reporting

2.1. Section 4 of the EY ISA260 report details the audit differences which have been identified in the draft 2019/20 financial statements.

2.2. The key difference identified in the PCC and Group statements (page 26 of EY ISA260) was an understatement in the valuation of the South Park campus when brought into operational use. This identified difference has been adjusted in the final version of the financial statements.

2.3. There were three smaller judgemental differences identified in the PCC/Group financial statements (detailed on page 27 of EY ISA260), the net impact of which is a net credit of £38k to "Other Comprehensive Income" and a credit of £200k to "Surplus or Deficit on Provision of Services". Due to their value the PCC decided not to adjust the financial statements on the grounds of materiality.

2.4. EY also noted a series of observations on disclosures on page 26 which have all been corrected.

3. Key issues and recommendations

3.1 EY once again engaged their pension specialists to review the provision for the McCloud impact in respect of the police pension scheme. EY audit procedures confirmed that for 2020, Hymans followed the same approach as they originally did for 2019 (i.e. they had not made explicit allowance for the full impact of the salary increase assumption of CPI + 1%, and no allowance had been made for the membership profile underlying the scheme). EY specialists recognised that McCloud/Sergeant impact are highly sensitive to a number of factors, and so it is highly unlikely that they would replicate the actuary's estimate exactly. Thus, EY's specialists estimated a potential variation in the McCloud impact on the Group's pension liability by approximately £5m. This is below 1% of the total Group pension liability, which EY considered to be a reasonable variance range and did not propose an audit adjustment. Furthermore, the valuation of the pension liability was disclosed in the financial statements as a major source of estimation uncertainty, key assumptions used in the valuation were disclosed along with sensitivity analyses. The accounts also disclose a key non-adjusting event subsequent to the balance sheet date in relation to McCloud and the impact that event had on the pension liability in the subsequent financial reporting. EY considered the disclosures to be sufficient and appropriate.

A number of value for money risks were considered during the audit. The most significant of these related to a Whistleblowing event in respect of a procurement process. The work undertaken is set out on pages 31 to 32 of the ISA260. EY's forensics team produced a report with their assessment results and conclusions and arrived at their preliminary judgment that the matter is inconsequential to the financial statements and value for money arrangements.

4. Statement of Accounts

4.1 Revised PCC and Chief Constable Accounts are included in the papers for this Committee. These include all the changes noted above from the accounts reviewed in June 2020.

5. Post Balance Sheet Events

5.1 Accounting standards require that relevant Post Balance Sheet Events be recognised in the Financial Statements up to the formal signing of the accounts. If events arise after the Committee but prior to the signing of the accounts appropriate disclosures will be made in the accounts and the Committee notified at the next meeting.

6. Letter of Representation

6.1 As part of the finalisation of the audit, a letter of representation must be provided to the auditor for the PCC and CC. A draft letter is included in Appendix B1 and B2. This

letter will be signed by both the PCC and Chief Constable by the relevant body's CFO. It includes declarations regarding the financial statements and governance arrangements which have been employed.

B. FINANCIAL CONSIDERATIONS

The Financial Statements show the PCC's and CC's stewardship for the year 2019/20.

C. LEGAL AND HUMAN RIGHTS CONSIDERATIONS

The statements are prepared so as to comply with all relevant accounting requirements and audited in accordance with those requirements.

D. PERSONNEL, EQUAL OPPORTUNITIES AND DIVERSITY ISSUES (including any impact or issues relating to Children and Young People.)

None specific

E. REVIEW ARRANGEMENTS

The accounts are complete and are scheduled to be formally signed shortly after the date of this meeting. The addition of any post Balance Sheet events required during the period between this meeting and formal sign off will be reported to the next meeting of the Committee.

F. RISK MANAGEMENT

There are risks associated with ensuring that the disclosures made in the accounts are in accordance with the legislation and codes of practice. External Auditors have highlighted issues as part of their reporting which have been corrected in the accounts. There are however residual risks of non-compliance which have been mitigated by the checks undertaken.

G. PUBLIC ACCESS TO INFORMATION

Information in this report, along with any supporting material, is subject to the Freedom of Information Act 2000 and other legislation.