The Police and Crime Commissioner for Bedfordshire/The Chief Constable of Bedfordshire

Annual Audit Letter for the year ended 31 March 2018

August 2018

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Building a better working world

Contents

Public Sector Audit Appointments Ltd (PSAA) have issued a 'Statement of responsibilities of auditors and audited bodies'. It is available from the Chief Executive of each audited body and via the PSAA website (www.psaa.co.uk)

The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The 'Terms of Appointment (updated 23 February 2017)' issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Annual Audit Letter is prepared in the context of the Statement of responsibilities. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

01 Executive Summary

Executive Summary

We are required to issue an annual audit letter to The Police and Crime Commissioner for Bedfordshire/The Chief Constable of Bedfordshire [Group, PCC and CC] following completion of our audit procedures for the year ended 31 March 2018. Below are the results and conclusions on the significant areas of the audit process.

Area of Work	Conclusion
Opinion on the Group, PCC and CC's: ► Financial statements	Unqualified – the financial statements give a true and fair view of the financial position of the Group, PCC and CC as at 31 March 2018 and of its expenditure and income for the year then ended
► Consistency of other information published with the financial statements	Other information published with the financial statements was consistent with the Annual Accounts.
Concluding on the body's arrangements for securing economy, efficiency and effectiveness	We concluded that you have put in place proper arrangements to secure value for money in your use of resources

Area of Work	Conclusion
Reports by exception:	
► Consistency of Governance Statement	The Governance Statement was consistent with our understanding of the Group, PCC and CC.
► Public interest report	We had no matters to report in the public interest.
► Written recommendations to the Group, PCC and CC which should be copied to the Secretary of State	We had no matters to report.
► Other actions taken in relation to our responsibilities under the Local Audit and Accountability Act 2014	We had no matters to report.

Area of Work	Conclusion
Reporting to the National Audit Office (NAO) on our review of the Group, PCC and CC's Whole of Government Accounts return (WGA).	The Group, PCC and CC is below the specified audit threshold of £500mn. Therefore, we did not perform any audit procedures on the consolidation pack.

Executive Summary (cont'd)

As a result of the above we have also:

Area of Work	Conclusion
Issued a report to those charged with governance of the Group, PCC and CC communicating significant findings resulting from our audit.	Our Audit Results Report was issued on 20 July 2018.
Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2015 Code of Audit Practice.	Our certificate was issued on 31 July 2018.

2017/18 is the final year where we will be your external auditor. We would like to express our thanks to officers of the PCC, CC, the Joint Audit Committee for all the co-operation and assistance I and my team have received throughout our time as your external auditor. We wish the PCC and CC well for the future.

Neil Harris

Associate Partner

For and on behalf of Ernst & Young LLP

02 Purpose and Responsibilities

Purpose and Responsibilities

The Purpose of this Letter

The purpose of this annual audit letter is to communicate to Members and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to the attention of the Group, PCC and CC.

We have already reported the detailed findings from our audit work in our 2017/18 Audit Results Report to the 24 July 2018 Joint Audit Committee, representing those charged with governance. We do not repeat those detailed findings in this letter. The matters reported here are the most significant for the Group, PCC and CC.

Responsibilities of the Appointed Auditor

Our 2017/18 audit work has been undertaken in accordance with the Audit Plan that we presented at the 2 March 2018 Joint Audit Committee and is conducted in accordance with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office.

As auditors we are responsible for:

- Expressing an opinion:
  - On the 2017/18 financial statements, and
  - On the consistency of other information published with the financial statements.
- Forming a conclusion on the arrangements the Group, PCC and CC has to secure economy, efficiency and effectiveness in its use of resources.
- Reporting by exception:
  - If the annual governance statement is misleading or not consistent with our understanding of the Group, PCC and CC;
  - Any significant matters that are in the public interest;
  - Any written recommendations to the Group, PCC and CC, which should be copied to the Secretary of State; and
  - If we have discharged our duties and responsibilities as established by thy Local Audit and Accountability Act 2014 and Code of Audit Practice.

Alongside our work on the financial statements, we also review and report to the National Audit Office (NAO) on you Whole of Government Accounts return. The Group, PCC and CC is below the specified audit threshold of £500mn. Therefore, we did not perform any audit procedures on the return.

Responsibilities of the Group, PCC and CC

The Group, PCC and CC is responsible for preparing and publishing its statement of accounts accompanied by an Annual Governance Statement. In the AGS, the Group, PCC and CC reports publicly each year on how far it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in year, and any changes planned in the coming period.

The Group, PCC and CC is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

03 Financial Statement Audit

Financial Statement Audit

Key Issues

The Group, PCC and CC's Statement of Accounts is an important tool for the Group, PCC and CC to show how it has used public money and how it can demonstrate its financial management and financial health.

We audited the Group, PCC and CC's Statement of Accounts in line with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office and issued an unqualified audit report on 31 July 2018.

Our detailed findings were reported to the 24 July Joint Audit Committee.

The key issues identified as part of our audit were as follows:

Significant Risk	Conclusion
Misstatements due to fraud or error The financial statements as a whole are not free of material misstatements whether caused by fraud or error. As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.	We undertook a range of procedures in relation to collaboration transactions across Bedfordshire, Cambridgeshire and Hertfordshire (BCH) Police, including: • Obtained an understanding of how transactions for each collaborative unit are recorded and coded in the ledger system; and allocated to each partner police force; • Checked consistency with the general ledger; • Examined a sample of journal entries to confirm that the allocation between the participating authorities is in accordance with the agreements in place. In addition to the specific audit work above to address the risk associated with collaboration income and expenditure, to address the residual risk of management override we performed specific procedures which include: • Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements • Assessed accounting estimates for evidence of management bias, and • Evaluated the business rationale for significant unusual transactions. We have not identified any material weaknesses in controls or evidence of material management override. We have not identified any instances of inappropriate judgements being applied. We did not identify any other transactions during our audit which appeared unusual or outside the normal course of business

Financial Statement Audit (cont'd)

The key issues identified as part of our audit were as follows: (cont'd)

Significant Risk	Conclusion
Implementation of eFinancials Bedfordshire Constabulary implemented a new general ledger system, Advanced Financials v5.0 in April 2018. We consider the change of the main financial systems, mid-year, as a significant risk, as any errors in the transfer or input of data or in the calculations performed by the new system could result in a material misstatement in the financial statements.	We obtained sufficient and appropriate evidence to provide assurance that the accounts are not materially misstated. Our IT team identified weaknesses in the approach to documenting the work done to support the transfer of data to the new system. The conclusions from this work have been reported separately to the Joint Audit Committee. We undertook additional work using the analytics data supplied to us to provide assurance that the data had been transferred completely and accurately to the new system.

Other Key Findings	Conclusion
Property, Plant and Equipment The fair value of Property, Plant and Equipment (PPE) represent significant balances in the accounts of The Police and Crime Commissioner for Bedfordshire and the Group and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.	We designed audit procedures to address this key are of audit focus, including considering the work of the valuer and challenging the assumptions used comparing, where possible, to observable data. We had no matters to report.
Pension Liability Valuation The pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the balance sheet. At 31 March 2018 this totalled £1.187 billion. The information disclosed is based on the IAS 19 report issued to the Police by the actuary to Bedford Borough Council and the Police Pension Scheme. Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf.	We designed audit procedures to address this key are of audit focus, including considering the work of the pension fund auditor. The pension fund auditor reported a difference in the assets of the pension fund linked to improved market conditions. As a result, the pension liability reported in the statements reduced by £1.7mn. We had no other matters to report.
Earlier deadline for production and audit of the financial statements from 2017/18 The Accounts and Audit Regulations 2015 introduced a significant change in statutory deadlines from the 2017/18 financial year. The timetable for the preparation and approval of accounts will be brought forward with draft accounts needing to be prepared by 31 May and the publication of the accounts by 31 July. These changes provide risks for both the preparers and the auditors of the financial statements.	The Force has been well placed to meet the demands of the earlier deadline, having produced their financial statements in good time in previous years. There are areas where the Force can look to strengthen its arrangements in terms of: • Leveraging the benefits of the common systems with Cambridgeshire and Hertfordshire to look for efficiencies and consistency in the way information is produced for the audit; and • Working together to identify best practice that can be applied to each of the 3 Forces.

Financial Statement Audit (cont'd)

When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole.

Our application of materiality

Item	Thresholds applied
Planning materiality	We determined planning materiality and the level at which we would reported audit differences as indicated in the table below. We consider the materiality bases as described below to be the ones of the principal considerations for stakeholders in assessing the financial performance of the Group, PCC and CC.

Entity	Basis of materiality	Planning materiality	Reporting of audit differences
Group	Gross revenue expenditure	£3.56m	£0.18m
PCC	Gross assets	£1.45m	£0.07m
CC	Gross revenue expenditure	£3.66m	£0.18m
Pension Fund	Benefits payable	£0.58m	£0.03m

We also identified the following areas where misstatement at a level lower than our overall materiality level might influence the reader. For these areas we developed an audit strategy specific to these areas. The areas identified and audit strategy applied include:

- Remuneration disclosures including any severance payments, exit packages and termination benefits
- Related party transactions.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations.

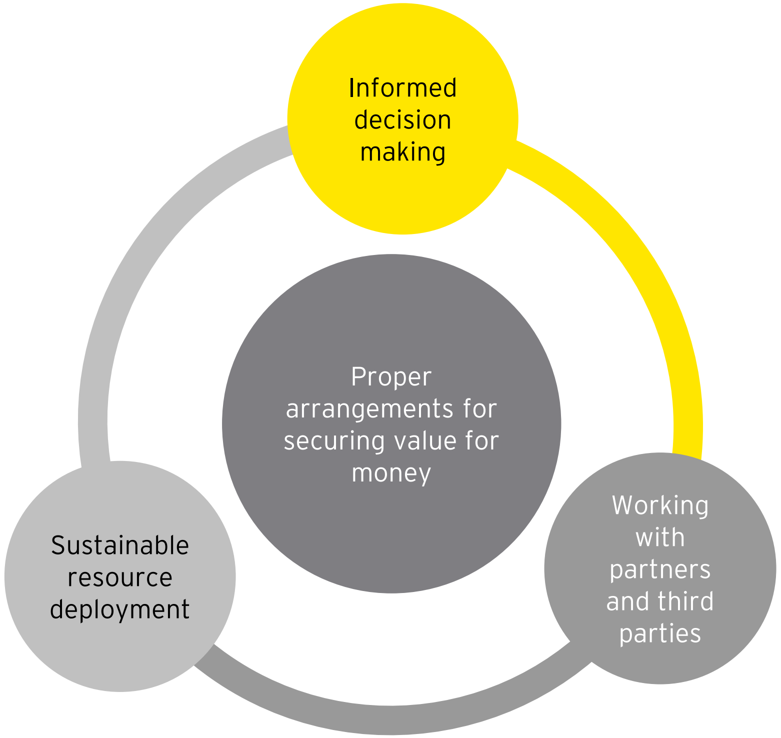
04 Value for Money

Value for Money

We are required to consider whether the Group, PCC and CC has put in place ‘proper arrangements’ to secure economy, efficiency and effectiveness on its use of resources. This is known as our value for money conclusion.

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- Take informed decisions;
- Deploy resources in a sustainable manner; and
- Work with partners and other third parties.



We identified one significant risk in relation to these arrangements. The table below present the findings of our work in response to the risks identified.

We did not identify any significant weaknesses in the Group, PCC and CC’s arrangements.

Value for Money (cont'd)

We therefore issued an unqualified value for money conclusion on 31 July 2018.

Significant Risk	Conclusion
We did not include a significant risk related to the value for money conclusion in our Audit Plan. However, we continued to monitor the financial position of the Force, taking into account its outturn reported for 2017/18 and the impact on its medium term financial planning. The outturn reported was on overspend of £500k against the revenue budget and there was also an indication that the level of reserves held by the Force would be reducing over the life of the medium term financial plan. We therefore determined that we should raise a significant risk related to the financial resilience of the Force and undertake further work to satisfy ourselves that proper arrangements are in place, given the financial challenges, to enable the Force to deploy resources in a sustainable manner.	At present that there are sufficient levels of reserves and the medium term financial plan includes the maintenance of general fund balance at £3m. However, earmarked reserves are at £8 million at 31 March 2018 and set to reduce to approximately £2m by 2021. This does represent a risk for to the Force's ability to respond to unforeseen events. The use of reserves is being reviewed as part of the MTFP update and in conjunction with the reserves strategy. The Force is considering setting a target of replenishing reserves by £1m per annum within the MTP, which can only be done by increasing the current savings plan or reducing growth plans. To assist in this area, the Force is intending to implement priority based budgeting with the support of external consultants. To further strengthen arrangements, we recommend that the PCC/CC: ▪ Risk assess savings for 2018/19, and monitor and report delivery against each plan on a monthly basis; ▪ Utilise the recently implemented structured approach to collaboration to enable realisation of planned savings and the identification of further opportunities for savings through collaborative working; ▪ Continue its review to identify other recurrent savings and efficiency savings, given the planned reductions in overall reserves through the life of the MTFP; and ▪ Within this context understand current and future demand and how the Force can prioritise its use of resources whilst managing its finances in a sustainable manner.

05 Other Reporting Issues

Other Reporting Issues

Whole of Government Accounts
The Group, PCC and CC is below the specified audit threshold of £500mn. Therefore, we did not perform any audit procedures on the consolidation pack.

Annual Governance Statement
We are required to consider the completeness of disclosures in the Group, PCC and CC's annual governance statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it is misleading. We completed this work and did not identify any areas of concern.

Report in the Public Interest
We have a duty under the Local Audit and Accountability Act 2014 to consider whether, in the public interest, to report on any matter that comes to our attention in the course of the audit in order for it to be considered by the Group, PCC and CC or brought to the attention of the public. We did not identify any issues which required us to issue a report in the public interest.

Written Recommendations
We have a duty under the Local Audit and Accountability Act 2014 to designate any audit recommendation as one that requires the Group, PCC and CC to consider it at a public meeting and to decide what action to take in response. We did not identify any issues which required us to issue a written recommendation.

Other Reporting Issues (cont'd)

Objections Received

We did not receive any objections to the 2017/18 financial statements from members of the public.

Other Powers and Duties

We identified no issues during our audit that required us to use our additional powers under the Local Audit and Accountability Act 2014.

Independence

We communicated our assessment of independence in our Audit Results Report to the Joint Audit Committee on 24 July 2018. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning regulatory and professional requirements.

Control Themes and Observations

As part of our work, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control, we are required to communicate to you significant deficiencies in internal control identified during our audit.

We have adopted a fully substantive approach and have therefore not tested the operation of controls.

06 Focused on your future

Focused on your future

The Code of Practice on Local Authority Accounting in the United Kingdom introduces the application of new accounting standards in future years. The impact on the Group, PCC and CC is summarised in the table below.

Standard	Issue	Impact
IFRS 9 Financial Instruments	Applicable for local authority accounts from the 2018/19 financial year and will change: ▸ How financial assets are classified and measured; ▸ How the impairment of financial assets are calculated; and ▸ The disclosure requirements for financial assets. There are transitional arrangements within the standard and the 2018/19 Accounting Code of Practice for Local Authorities has now been issued, providing guidance on the application of IFRS 9. In advance of the Guidance Notes being issued, CIPFA have issued some provisional information providing detail on the impact on local authority accounting of IFRS 9, however the key outstanding issue is whether any accounting statutory overrides will be introduced to mitigate any impact.	Although the Code has now been issued, providing guidance on the application of the standard, along with other provisional information issued by CIPFA on the approach to adopting IFRS 9, until the Guidance Notes are issued and any statutory overrides are confirmed there remains some uncertainty. However, what is clear is that the Group, PCC and CC will have to: ▸ Reclassify existing financial instrument assets ▸ Re-measure and recalculate potential impairments of those assets; and ▸ Prepare additional disclosure notes for material items.
IFRS 15 Revenue from Contracts with Customers	Applicable for local authority accounts from the 2018/19 financial year. This new standard deals with accounting for all contracts with customers except: ▸ Leases; ▸ Financial instruments; and ▸ Insurance contracts The key requirements of the standard cover the identification of performance obligations under customer contracts and the linking of income to the meeting of those performance obligations. Now that the 2018/19 Accounting Code of Practice for Local Authorities has been issued it is becoming clear what the impact on local authority accounting will be. As the vast majority of revenue streams of Local Authorities fall outside the scope of IFRS 15, the impact of this standard is likely to be limited.	As with IFRS 9, some provisional information on the approach to adopting IFRS 15 has been issued by CIPFA in advance of the Guidance Notes. Now that the Code has been issued, initial views have been confirmed; that due to the revenue streams of Local Authorities the impact of this standard is likely to be limited. The standard is far more likely to impact on Local Authority Trading Companies who will have material revenue streams arising from contracts with customers. The Group, PCC and CC will need to consider the impact of this on their own group accounts when that trading company is consolidated.

Focused on your future (cont'd)

Standard	Issue	Impact
IFRS 16 Leases	It is currently proposed that IFRS 16 will be applicable for local authority accounts from the 2019/20 financial year. Whilst the definition of a lease remains similar to the current leasing standard; IAS 17, for local authorities who lease a large number of assets the new standard will have a significant impact, with nearly all current leases being included on the balance sheet. There are transitional arrangements within the standard and although the 2019/20 Accounting Code of Practice for Local Authorities has yet to be issued, CIPFA have issued some limited provisional information which begins to clarify what the impact on local authority accounting will be. Whether any accounting statutory overrides will be introduced to mitigate any impact remains an outstanding issue.	Until the 2019/20 Accounting Code is issued and any statutory overrides are confirmed there remains some uncertainty in this area. However, what is clear is that the Group, PCC and CC will need to undertake a detailed exercise to identify all of its leases and capture the relevant information for them. The Group, PCC and CC must therefore ensure that all lease arrangements are fully documented.

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