



**THE POLICE AND CRIME
COMMISSIONER FOR BEDFORDSHIRE /
THE CHIEF CONSTABLE FOR
BEDFORDSHIRE POLICE**

Annual Audit Letter

Year ended 31 March 2020

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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 (“CC”) 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 CC

It is the responsibility of the PCC and CC 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 CC have made proper arrangements for securing economy, efficiency and effectiveness in their use of resources.

BDO LLP

19 February 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 £19.939 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 gross expenditure. For the CC this materiality was £3.060 million. The PCC had a specific materiality of £1.380 million, based on 1.75% of gross assets.

Material misstatements

We identified one material misstatement in relation to the police pension liability needing to be updated for the latest developments in the McCloud case.

Unadjusted audit differences

We identified unadjusted audit differences that, if adjusted, would decrease the deficit on the provision of services by £93,000.

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	19,939,000	995,000	3,229,000	161,000
Police and Crime Commissioner for Bedfordshire	-	-	1,380,000	69,000
The Chief Constable of Bedfordshire Police	19,935,000	995,000	3,060,000	153,000

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>Management override of controls</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"> 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 Reviewed estimates and judgements applied by management in the financial statements to assess their appropriateness and the existence of any systematic bias Reviewed unadjusted audit differences for indications of bias or deliberate misstatement. 	<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"> - Depreciation/Amortisation - Accruals and accrued income - Valuation of land and buildings - Pension liability - Going concern assumptions <p>We found no evidence of management override in these estimates.</p>
<p>Expenditure cut-off</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>Valuation of non-current assets</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"> 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 Confirmed that the basis of valuation for assets valued in year is appropriate based on their usage Reviewed the accuracy and completeness of information provided to the valuer, such as floor areas Reviewed assumptions used by the valuer and movements against relevant indices for similar classes of assets Followed up on valuation movements that appear unusual Confirmed that assets not specifically valued in the year have been assessed to ensure their reported values remained materially correct. 	<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>As part of our testing in this area, we noted that the property, plant and equipment note did not agree to the fixed asset register, due to misclassifications between lines in the disclosure. This did not impact the overall net book value presented in the draft accounts. Management updated the disclosure note appropriately.</p> <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>Valuation of Pension Liability</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"> • Agreed the disclosures to the information provided by the pension fund actuary • Reviewed the competence of the management expert (actuary) • Reviewed the reasonableness of the assumptions used in the calculation against other local government actuaries and other observable data • Reviewed the controls in place for providing accurate membership data to the actuary • 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 • Checked that any significant changes in membership data had been communicated to the actuary. 	<p>We requested that a revised actuary report be obtained that takes into consideration the proposed remedy for the McCloud Judgement. This led to a £12.470 million reduction in the police pension liability with £12.240 million of this being adjusted through the comprehensive income and expenditure statement.</p> <p>We also identified misclassification issues where the figures disclosed for LGPS did not agree directly to the IAS 19 report. Management amended the disclosures.</p> <p>From our assessment of the expertise of the actuaries, we are satisfied that we can rely on their work.</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>The auditor of the Bedfordshire Pension Scheme (LGPS) provided their assurance letter and 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 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.

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
<p>Sustainable finances</p> <p>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.</p>	<p>We carried out the following planned audit procedures:</p> <ul style="list-style-type: none"> Reviewed the Force’s in year budget monitoring processes, and the completeness and accuracy of management information reported for decision making purposes. 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. 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. Considered the impact of COVID-19 on financial plans. 	<p>For 2019/20 the Force reported an underspend of £1.097 million against a revenue budget of £113.421 million. The underspend was primarily achieved through the receipt of a special police grant of £2.975 million.</p> <p>At 31 March 2020, the usable reserves of the Group were £9.947 million. During 2019/20 a transfer of £1.079 million was made into the budget reserve, made possible by the underspend achieved in the year.</p> <p>The Force faces a challenging financial position in the medium term, however arrangements in 2019/20 have enabled it to achieve an underlying trend of improvement (even when excluding additional special grant funding).</p> <p>Increased uncertainty now exists in financial planning as a result of coronavirus. The Force has responded well to this by fully stress testing its plans.</p> <p>Significant savings are still required over the medium term, therefore a significant risk still exists that the plan for a balanced budget over the next two years may not be achieved, or that reserves could be depleted fully in the short to medium term. As the Force recognise, the special grant is not a sustainable way to achieve financial balance when the original budget can not be met with the initial funding allocations. The level of reserves looks unsustainable over the longer term and there will be a need to replenish them from any underspend achieved in 2020/21 and beyond.</p>

REPORTS ISSUED AND FEES

Fees summary

	2019/20	2018/19
	£	£
Audit fee	£50,443	£34,104
Police and Crime Commissioner for Bedfordshire	£22,554	£22,554
The Chief Constable for Bedfordshire Police	£11,550	£11,550
Proposed Amendment	£16,329 ¹	-
Non-audit assurance services	-	-
Total fees	£50,443	£34,104

¹ The PSAA scale fee is largely based on the historical position and so, it does not reflect any of the changes in audit scope and depth linked to current audit requirements for property, plant and equipment or pensions liability valuation work. An additional fee has been proposed for 2019/20 to cover the costs associated with increased regulatory requirements. This fee is still being agreed with management.

Communication

Communication	Date (to be) communicated	To whom
Audit Planning Report	March 2020	Joint Audit Committee
Final Audit Completion report	November 2020	Joint Audit Committee
Annual Audit Letter	March 2021	Joint Audit Committee



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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.

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