Report to the Joint Audit Committee

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

Audit Completion: year ended 31 March 2021

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WELCOME

We have pleasure in presenting our Audit Completion Report to the Joint Audit Committee of the Police and Crime Commissioner for Bedfordshire (the "PCC") and the Chief Constable for Bedfordshire Police (the "CC").

This report is an integral part of our communication strategy with you, a strategy which is designed to ensure effective two way communication throughout the audit process with those charged with governance.

It summarises the results of completing the planned audit approach for the year ended 31 March 2021, specific audit findings and areas requiring further discussion and/or the attention of the Joint Audit Committee. At the completion stage of the audit it is essential that we engage with the Joint Audit Committee on the results of our audit of the financial statements comprising: audit work on key risk areas, including significant estimates and judgements made by management, critical accounting policies, any significant deficiencies in internal controls, and the presentation and disclosure in the financial statements.

We discussed these matters with you at the Joint Audit Committee meeting on 2 December 2021. This report provides an updated position to completion.

We would also like to take this opportunity to thank the management and staff of the Police and Crime Commissioner and Chief Constable for the co-operation and assistance provided during the audit.

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24 March 2023

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OVERVIEW

Executive summary

This summary provides an overview of the audit matters that we believe are important to the Joint Audit Committee in reviewing the results of the audit of the financial statements of the PCC Group and of the Chief Constable for the year ended 31 March 2021.

It is also intended to promote effective communication and discussion and to ensure that the results of the audit appropriately incorporate input from those charged with governance. This report is an update to the report discussed with those charged with governance at the Joint Audit Committee on 2 December 2021.

Overview

Our audit work on the financial statements is complete.

Nothing has come to our attention from the work we have completed that would result in a modification of our audit opinion.

We presented our Audit Planning Report to the Joint Audit Committee in February 2021. There have been no significant changes to the planned audit approach set out in that report, however additional work was undertaken to review the PCC's response to the identification of a suspected fraud. No additional significant audit risks have been identified.

Our work on the PCC and CC's value for money arrangements is in progress. We will report the results of our work to those charged with governance in our Auditor's Annual Report.

No restrictions were placed on our work.

Audit report

Nothing has come to our attention from the work completed that would result in modification of the audit opinion on the consolidated Group financial statements, or the PCC's and CC's single entity financial statements. We anticipate issuing an unmodified audit opinion on the financial statements.

We have reported a significant weakness in the PCC's use of resources. Following an internal investigation and additional Internal Audit work, undertaken in response to suspected fraudulent transactions that were identified by management, a number of weaknesses in the PCC's processes for commissioning grants to service providers have been identified. Further details are set out on page 22 of our report.

Our audit certificate will be issued when we have completed our work on value for money arrangements and completed the required procedures for the Whole of Government accounts (WGA).

THE NUMBERS

Executive summary

Final materiality

Materiality for the group and the Chief Constable, used to audit the pension fund only, was determined based on 2% of the police pension fund liability.

Specific materiality for income and expenditure and other balance sheet items was determined based on 2.25% of net cost of services expenditure.

Our materiality for the PCC was determined based on 2% of gross assets.

Since our audit planning report was issued in February 2021, our materiality levels have been updated to reflect the pension fund liability, net cost of services expenditure and gross assets reported in the draft financial statements presented for audit.

Material misstatements

We did not identify any material misstatements.

Immaterial classification misstatements were identified, and adjustments have been made to the financial statements which have no impact on the deficit on the provision of services for the PCC Group. Further analysis of these misstatements is provided on page 27.

Unadjusted audit differences

We identified misclassifications that would reduce the deficit on the provision of services by £874,000. These are detailed on page 24.

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
Police and Crime Commissioner for Bedfordshire Group	24,840,000	1,240,000	4,160,000	208,000
Police and Crime Commissioner for Bedfordshire	-	-	1,740,000	85,000
The Chief Constable for Bedfordshire Police	24,830,000	1,240,000	3,950,000	195,000

OTHER MATTERS
Executive summary

Financial reporting

- We have not identified any non-compliance with Group accounting policies or the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21
- No significant accounting policy changes have been identified impacting the current year
- Going concern disclosures are deemed sufficient
- The Narrative Report is consistent with the financial statements and our knowledge acquired in the course of the audit
- The Annual Governance Statement complies with relevant guidance and is not inconsistent or misleading with other information we are aware of.

Other matters that require discussion or confirmation

- Confirmation on fraud, contingent liabilities and subsequent events
- Letter of representation

Independence

We confirm that the firm and its partners and staff involved in the audit remain independent of the PCC and the CC in accordance with the Financial Reporting Council's (FRC's) Ethical Standard.

AUDIT RISKS OVERVIEW

As identified in our Audit Planning Report dated 19 February 2021 we assessed the following matters as being the most significant risks of material misstatement in the financial statements. These include those risks which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit and the direction of the efforts of the engagement team.

Audit Risk	Risk Rating	Significant Management Judgement Involved	Use of Experts Required	Error Identified	Control Findings to be reported	Discussion points / Letter of Representation
Management override of controls	Significant	Yes	No	No	Yes	Yes
Expenditure cut-off	Significant	Yes	No	Yes, unadjusted	No	No
Valuation of non-current assets	Significant	Yes	Yes	No	No	Yes
Valuation of pension liability	Significant	Yes	Yes	Yes, adjusted and unadjusted	No	Yes
Related party transactions	Normal	No	No	No	No	Yes

Areas requiring your attention

MANAGEMENT OVERRIDE OF CONTROLS

ISA (UK) 240 notes that management is in a unique position to perpetrate fraud.

Significant risk	■
Normal risk	
Significant management judgement	■
Use of experts	
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant control findings to be reported	
Letter of representation point	■

Risk description

Management has the ability to manipulate accounting records and override controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur, we are required to consider this as a significant risk of material misstatement due to fraud.

Work performed

We carried out the following planned audit procedures:

- Verified journal entries made in the year, by agreeing the journals to supporting documentation. We determined key risk characteristics to filter the population of journals and use our IT team to assist with the journal extraction
- Evaluated estimates and judgements applied by management in the financial statements to assess their appropriateness and the existence of any systematic bias
- Assessed unadjusted audit differences for indications of bias or deliberate misstatement.

Results

We used our data analytics tool, BDO Advantage, to analyse journals processed throughout the year and as part of the financial reporting.

We identified several journal entries that we considered to be high risk.

We agreed all high risk journals to supporting documentation and no evidence of management override was identified.

Our journals testing did find and include a trivial fraudulent purchase card transaction which had already been identified through the purchase card control process and resolved by management with the card issuer. We have assessed the controls in place and considered managements response to the fraud. The entities internal controls identified this transaction and we did not consider it necessary to amend our audit strategy in response to the fraud identified.

We were also made aware of one instance of suspected fraud by management. Our specialist forensic team reviewed the details of the suspected fraud and reports produced by internal audit to assess the relevant controls in place. We are satisfied that this instance is not material to the financial statements and that we do not need to amend our audit strategy in response to the findings. Further information is on page 22.

We have assessed and corroborated significant management estimates and judgements in the following key areas:

- Depreciation/Amortisation
- Accruals and accrued income
- Valuation of land and buildings
- Pension liability
- Going concern assumptions

We found no evidence of management override in these estimates.

EXPENDITURE CUT-OFF

For public sector bodies the risk of fraud is relevant to expenditure recognition.

Significant risk	■
Normal risk	
Significant management judgement	■
Use of experts	
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant control findings to be reported	
Letter of representation point	

Risk description

Under International Standard on Auditing 240 "The Auditor's responsibility is to consider fraud in an audit of financial statements". In the public sector, the risk of fraud is modified by Practice Note 10 (PN10), issued by the Financial Reporting Council. PN10 states that auditors should also consider the risk that material misstatements may occur through the manipulation of expenditure recognition.

For net-spending bodies in the public sector there is increased risk of fraud related to expenditure. For the Force, we consider the risk of fraud to be in respect of the cut-off of non-payroll expenditure at year-end.

Work performed

We confirmed that expenditure was recognised in the correct accounting period by substantively testing a sample of expenditure items around year-end.

A financial threshold was set to determine the samples to be selected for this testing. A lower threshold was used to reflect our assessment as a significant risk.

Results

Our audit work on expenditure cut off has tested a sample of items around the year-end, by agreeing them to supporting documentation, and confirming that the expenditure has been recognised in the correct year, with accruals/creditors or prepayments recognised where necessary. No issues were identified.

As part of our sample testing of expenditure transactions to date, we identified one sampled item where legal fees of £46,000 were recognised in the current year, despite relating to fees that had been disputed from 2017. As the error was identified as part of a sample, we have extrapolated it over the population tested to a value of £404,000. This has been reported as an unadjusted error on page 24.

VALUATION OF NON-CURRENT ASSETS

The valuation of non-current assets is a significant risk as it involves a high degree of estimation uncertainty.

Significant risk	■
Normal risk	
Significant management judgement	■
Use of experts	■
Unadjusted error	
Adjusted error	
Additional disclosure required	■
Significant control findings to be reported	
Letter of representation point	■

Risk description

Police and Crime Commissioners are required to ensure that the carrying value of land and buildings is not materially different to the current value (operational assets) or fair value (surplus assets, assets held for sale and investment properties) at the balance sheet date.

There is a risk over the valuation of these assets due to the high degree of estimation uncertainty and where updated valuations have not been provided for a class of assets at the year-end.

Work performed

We carried out the following planned audit procedures:

- 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 and tested the accuracy and completeness of information provided to the valuer, such as rental agreements and sizes
- Reviewed and challenged 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 remain materially correct.

Results

From our review of the instructions provided to both the internal and external valuers, and our assessment of the expertise of the valuers, we are satisfied that we can rely on their work.

We are satisfied that the basis of the valuation for each asset is appropriate. Our review of the reasonableness of valuation assumptions applied is discussed on pages 11 and 12.

We are satisfied that the value of assets not valued in year are primarily works in progress and would not result in a material error to the financial statements.

The audit has not identified any issues with the valuation of the assets.

Additional disclosures should be made in the "Assumptions Made about the Future & Other Estimation Uncertainties" note regarding the valuation of non-current assets, in line with the requirements of IAS 1. These disclosures (e.g., a sensitivity analysis) are required where a material adjustment to the carrying amount of assets may be required as a result of changes in assumptions or estimates, in the next period. These disclosures have not been made in the final version of the financial statements and a recommendation has been raised on page 34.

VALUATION OF NON-CURRENT ASSETS

Significant accounting estimates: Land and Buildings Valuation

Discussion

The PCC used an external valuer to value all land, building and the non-operational asset. This year, an interim desktop valuation was performed by the external valuer and as such, no inspections were made.

We assessed the valuer's competence, independence and objectivity and determined we could rely on the management expert.

We reviewed the valuations provided and the valuation methodology applied and, in all cases, confirmed that the basis of valuation for assets valued in year is appropriate based on Code requirements for all assets. These remain in line with the full valuation performed in the prior year. Assets with specialised facilities are valued using depreciated replacement cost (DRC). Non-operational assets and investment properties are valued at Fair Value. All other assets have been valued using Existing Use Value (EUV) methodology.

Specialised Assets (DRC) - £30.785 million

Specialised assets are primarily police stations which have custody and other facilities, which the valuer consider to be specialised. It was determined that the specialised element of each asset represented a majority of the total usage of the asset, and therefore it was deemed appropriate to use DRC methodology.

The valuations are based on the floor area of the asset, a BCIS build cost, a location factor and other assumptions made for additional fees and the assets useful remaining life.

We have agreed all floor and land areas to supporting plans, these remain in line with the inputs used as the basis for the valuation in the prior year.

As this is a desktop review, the prior year adopted cost has been adjusted by an indexation factor for the current year. The indexation factor is based on the year-on-year movement in the TPI (all-in) build cost index, and a location factor. This input in isolation results in a 1% decrease in value for each asset, which is considered reasonable in the current climate.

We have obtained justification and challenged the valuer on the other assumptions that have been used in the calculation and concluded these to be reasonable.

Non Operational Surplus Assets - £0.730 million

In 2019/20, the surplus asset was valued using the residual method, which takes into account the development potential of the site. In 2020/21, the valuers have increased the valuation in line with the land registry house price index. The house price index has been used, as the residual valuation method is based on the assumption that flats would be built on the surplus site.

We used external sources to verify the house price index movement and confirmed that the movement would result in a trivial increase to the value of the property.

VALUATION OF NON-CURRENT ASSETS

Significant accounting estimates: Land and Buildings Valuation

Investment Property (MV) - £0.315 million

The PCC has one investment property which is valued at Market value. The valuation is based on the rent and a rental yield. We have agreed the rent used in the calculation to the lease and have obtained comparative information from external sources to justify the yield value used.

The valuer has concluded that there is no movement in the market value of the asset this year. We used external data to corroborate the valuers assertion that prices have not moved materially from the prior year.

Non Specialised Assets (EUV) - £4.982 million

Existing use assets include the two joint assets, for which Bedfordshire recognises only its share of the year end valuation movement. Both assets are office buildings for which there is comparable market evidence. In the current year, the rental value per square foot has been updated to reflect more recent comparative figures available.

The other EUV assets are valued based on a notional rental value, and a rental yield. The valuer considers there to be insufficient evidence to amend the prior year valuations, which were agreed to comparatives as part of the audit in the prior year. We used external data to corroborate the valuers assertion that prices have not moved materially from the prior year.

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VALUATION OF PENSION LIABILITY

The valuation of the pension assets and liability is a significant risk as it involves a high degree of estimation uncertainty.

Significant risk	■
Normal risk	
Significant management judgement	■
Use of experts	■
Unadjusted error	■
Adjusted error	■
Additional disclosure required	
Significant control findings to be reported	
Letter of representation point	■

Risk description

The valuation of the defined benefit obligation is a complex calculation involving a number of significant judgements and assumptions. The actuarial estimate of the pension fund liability uses information on current, deferred and retired member data and applies various actuarial assumptions over pension increases, salary increases, mortality, commutation take up and discount rates to calculate the net present value of the liability.

There is a risk that the membership data and cash flows provided to the actuary at year end may not be accurate, and that the actuary uses inappropriate assumptions to value the liability. Relatively small adjustments to assumptions used can have a material impact on the Force's liability.

The risk is applicable to both the Local Government Pension Scheme (LGPS) and the Police Pension Scheme liability.

Additionally, the valuation of LGPS assets may be subject to a significant level of assumption and estimation, and may not be based on observable market data. Due to significance of these valuations, a small change in assumptions and estimates could have a material impact on the financial statements. There is a risk that investments in the LGPS may not be appropriately valued.

Work performed

We carried out the following planned audit procedures:

- Agreed the disclosures to the information provided by the pension fund actuary
- Assessed the competence of the management expert (actuary) and used an auditor's expert to assess approach adopted by the actuary
- Checked the reasonableness of the assumptions used in the calculation against other local government actuaries and other observable data
- Assessed the controls in place for providing accurate membership data to the actuary
- Contacted the pension fund auditor and 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 have been communicated to the actuary.

Results

No issues were found in assessing the competency of managements experts, or in the agreement of disclosures to information provided by the actuary.

A revised IAS19 report was provided by the LGPS pension fund to account for the actual return on plan assets, after a material variance was reported by the pension fund auditor.

Our consideration of the assumptions used in the valuation are detailed on the following pages.

VALUATION OF PENSION LIABILITY

Significant accounting estimates: LGPS Pension Valuation

The pension fund auditor reported the following issues that have impacted the financial statements:

- The actuary estimated the value of assets of the fund as at 31/03/21 using a forecast investment return of 17.84% for 2020/21. The actual investment return of the fund was 21.2% for 2020/21. This was corroborated to the Fund's custodian and investment manager reports.

  The Pension fund auditor estimated the impact between an investment return of 21.2% and 17.84% for Chief Constable for Police Bedfordshire to be a £4.279 million understatement of investment valuation as of 31 March 2021. As this was above our specific materiality threshold, revised IAS19 reports were provided to take account of the actual return on the assets.

  Revised IAS19 reports were provided and the actual return on plan assets increased by £3.540 million in the Chief Constables accounts and £29,000 in the police and crime commissioners accounts. These have been reported as adjusted misstatements on page 27.

- Additionally, the pension fund auditor identified audit differences in relation to the valuation of investments as of 31 March 2021. In total they identified an understatement in investment assets of £8.630 million, arising from audit procedures performed on the valuation of level 3 assets.

  The pension fund auditor estimated Chief Constable for Police Bedfordshire's share of these misstatements to be £543,000. As this remains uncorrected in the revised IAS19 report, the estimated share of the error has been reported as an unadjusted misstatement on page 24.

Other matters

Additionally, we noted that there is a £252,000 difference between employer pension contributions disclosed, and the actual figure. The difference is trivial to the two individual entity accounts but reportable in the group accounts. As such, this is disclosed as an unadjusted misstatement on page 24.

VALUATION OF PENSION LIABILITY

Significant accounting estimates: LGPS Pension Valuation

We have compared the key financial and demographic assumptions used to an acceptable range provided by a consulting actuary commissioned for local public auditors by the National Audit Office (NAO).

LGPS = Barnett Waddingham

	Actual Used CC	Actual Used PCC	Expected actuary	Expected all actuaries	Comments
Financial					
Discount Rate	2.05%	2.05%	1.95 - 2.05%	1.95 - 2.20%	Actual is within range
Pension Increase (and CPI)	2.85%	2.85%	Dependent on duration. 2.85 - 2.80% for most employers	2.40 - 2.85%	Pension increase is within range
Salary Increase	3.85%	3.85%	CPI + 1%	Variable long term and short term assumptions and based on a % above CPI assumptions	Salary increase is expected to be the same as CPI +1%. This is as expected.
Duration of Liabilities	25 years	28 years	15 - 22 years for most employers	15 - 30 years for most employers	Most employers have a duration of liabilities between 15 - 20 years although there will be exceptions for employers with a particularly young or old average age. The active duration for this employer is 38.8 years, which is a result of the low average age (weighted by liability) of the active members of 39.6 years. Since the average age of the active members is low, this implies a higher average time to payment and thus a higher overall duration. We are therefore comfortable that the employers duration of 25 and 28 years is correct.
Mortality					
Mortality improvements (normal health)	CMI_2020 Model, allowing for a long- term rate of improvement of 1.25% p.a., smoothing parameter of 7.5, an initial addition to improvements of 0.5% p.a. and a 2020 weighting of 25%.	CMI_2020 Model, allowing for a long- term rate of improvement of 1.25% p.a., smoothing parameter of 7.5, an initial addition to improvements of 0.5% p.a. and a 2020 weighting of 25%.	CMI 2020, 2020 weight parameter of 25%, 7 - 7.5 smoothing factor, additional 0 - 0.5%, long term 1.25% - 1.50%	CMI 2020 2020 weight parameter of 0 - 25% 7.0 - 7.5 smoothing factor additional 0 - 0.5% long term 1.25% - 1.75%	Actual is within range
Life Expectancies					
Retiring Today MALES	21.9	21.9	20.5 - 23.1	20.4 - 23.2	Actual is within range
Retiring Today FEMALES	24.3	24.3	23.3 - 25.0	23.2 - 25.8	Actual is within range
Retiring in 20 years MALES	22.8	22.8	21.9 - 24.4	21.8 - 24.7	Actual is within range
Retiring in 20 years FEMALES	26.0	26.0	24.8 - 26.4	24.8 - 27.7	Actual is within range

We note that the consulting actuary has stated that the assumptions used by Barnet Waddingham could result in a liability being between 95.2% and 100.8% of the average liabilities of all actuaries. The consulting actuary has concluded this is within a reasonable range.

We consider that the assumptions and methodology used by the Pension Fund actuary are appropriate, and will result in an estimate of the net pension liability which falls within a reasonable range.

VALUATION OF PENSION LIABILITY

Significant accounting estimates: Police Pension Valuation

We have compared the key financial and demographic assumptions used to an acceptable range provided by a consulting actuary commissioned for local public auditors by the NAO.

Police - GAD **Assumptions**	**Actual Used**	**Expected GAD**	**Range for all Actuaries**	**Comments**
Financial				
Rate of increase in Salaries	4.15%	4.15%	Variable long term and short term assumptions and based on a % above CPI assumptions	Actual is within range
CPI and Pension Increases	2.40%	2.40%	2.50 - 2.85%	GADs use of 2.4% is lower than the expected range. See comments below.
Discount rate	2.00%	2.00%	1.95 - 2.20%	Actual is within range
CARE revaluation rate	3.65%	CPI + 1.25%	For Police 2015 Scheme CPI + 1.25%	Actual is within range
Mortality				
Normal health pensioners	104% of S2NA	104% S2NA Normal	For Police 100% - 115% S2NA 100% S2PA 103 - 110% S1NA	As expected
Mortality Improvements	Population actual then ONS 2018 based principal population projection	GAD have updated the future improvement model for the police and Fire fund using 2018 based ONS projection	Considered to be reasonable	
Life Expectancies				
65 year old current normal health pensioner (MALE)	22	21.4 - 22.0	20.5 - 22.6	Actual is within range
65 year old current normal health pensioner (FEMALE)	23.7	21.4 - 23.7	21.4 - 24.7	Actual is within range
Non Pensioner (MALE)	23.7	23.1 - 23.7	21.7 - 24.3	Actual is within range
Non Pensioner (FEMALE)	25.3	23.1 - 25.3	23.1 - 26.5	Actual is within range

VALUATION OF PENSION LIABILITY

Significant accounting estimates: Police Pension Valuation

We consider that the assumptions and methodology used by the Pension Fund actuary are appropriate, and will result in an estimate of the net pension liability which falls within a reasonable range.

We note that the consulting actuary has stated that the assumptions used by the Governments Actuary Department (GAD) tend to produce slightly lower liability calculations than the other actuaries, and the relative liability compared to assumptions used by others could result in a liability being 92.3% of the average liabilities of all actuaries. The consulting actuary has concluded this is within a reasonable range.

This lower liability calculation is driven primarily through GAD's use of a lower Consumer Price Index (CPI) inflation rate.

GAD have used a CPI inflation rate of 2.4% and this is 0.1% lower than the consulting actuaries expected range. This is an optimistic assumption. However, this single assumption cannot be considered in isolation, and overall, the liability estimate is expected to be within a reasonable range.

RELATED PARTY TRANSACTIONS

There is a risk that related party disclosures are not complete and accurate.

Significant risk	
Normal risk	■
Significant management judgement	
Use of experts	
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant control findings to be reported	
Letter of representation point	■

Risk description

Whilst management are responsible for the completeness of the disclosure of related party transactions in the financial statements, we are also required to consider related party transactions in the context of fraud as they may present greater risk for management override or concealment of fraud. Our audit approach includes the consideration of related party transactions throughout the audit including making enquiries of management and the Joint Audit Committee.

There is a risk that related party disclosures are not complete or accurate.

Work performed

We carried out the following planned audit procedures:

- Searched for senior management on Companies House in order to identify any related parties not included in the Statement of Accounts
- For any additional related parties identified, searched in the ledger to identify transactions
- For related parties already identified, checked to ensure that the relationship and figures disclosed match those included in the ledger.

Results

No issues were identified in our audit of related parties.

GOING CONCERN

We are required to highlight any judgements about events or conditions that may cast significant doubt over the entity's ability to continue as a going concern

Management's assessment of going concern

Management has performed a going concern assessment. The conclusion of which is: *"Having considered the foregoing information it is our professional opinion, based on the information currently available to us, that the organisation will remain financially viable over the period under review."*

Judgements noted

The medium-term financial plan (MTFP) is used as the basis for the going concern assessment. The February 2021 MTFP forecasts a cumulative shortfall over the period 2021/22 to 2024/25 of £8.063 million, of which £6.469 million of this will need to be met by identifying savings. There is planned use of the budget reserve in 2023/24 and 2024/25. This would leave the budget reserve with a balance of £1.659 million by 31 March 2025 and other usable reserves of £12.336 million.

Key judgements assumed in the MTFP were set out as follows over the period under review:

- An increase in Core Police Grant to fund 2021/22 Uplift Officers
- 2% increase in the tax base
- 1.99% precept increase in-line with cap.

Management have also produced worst case scenario forecast based on the following assumptions, for 2021/22 and 2022/23:

- An Increase in Core Police Grant to fund 2021/22 Uplift Officers
- No precept increase
- No savings
- 2% increase in the tax base.

In this scenario, total reserves are depleted to £9.453 million by 31 March 2023. This position will be reduced by £1.300 million should no income loss recovery grant be awarded. Even in this worst-case scenario, the PCC would still hold a stock of reserves at the end of 2022/23.

Summary of support measures taken into account

In order to mitigate the need to access the organisation's reserves there are other possible responses the PCC can take. These include but are not limited to; maximisation of precept flexibility, further Special Grant Claim in 2022/23, electing to undertake a referendum to increase the precept beyond the Government cap, suspension the Police Uplift Programme (PUP) if funding was not forthcoming, identification of savings above those already required, deferral or curtailment of capital programme and lobbying of ministers/Government for additional funding.

Material uncertainty

No material uncertainty with respect to going concern has been noted. We have considered management's assessment and consider the conclusion reached by management appropriate.

OTHER MATTERS

The following are additional other matters arising during the audit which we want to bring to your attention.

Issue	Comment
Payroll disclosures	When agreeing the exit packages note back to supporting documentation, it was identified that the pension strain element of the exit packages for two individuals had been based on estimates and did not reflect the final payment. Correction of this error would reduce the total disclosed in the exit packages disclosure by £12,000. When agreeing the senior officers remuneration note to payroll reports, it was identified that one individuals expenses were incorrect by £12. As we do not apply materiality levels to these disclosures, we have requested that management make these adjustments in the financial statements.
Debtors and creditors classification	When testing a sample of creditor accruals recognised in the Chief Constable accounts, we identified a transaction for £195,000 that should have been recognised in the PCC accounts. In order to avoid an extrapolation of this error, management agreed to perform a full review on the entity classification of creditors, in order to identify if any further errors exist within the population. No other errors were identified in the creditors population. Similarly, when testing a sample of debtors recognised in the Chief constable accounts, we identified a transaction for £202,000 that related to grant funding and should have been recognised in the PCC accounts. Again, in order to avoid an extrapolation of this error, management agreed to perform a full review on the entity classification of debtors, in order to identify if any further errors exist within the population. One further error of £20,000 was identified, relating to PCC grant income. These errors have been adjusted by management and reported on page 27.
Pension grant reclassification	As part of the main funding package, the Home Office provide a pension grant of £1.116 million. In the prior year, this was recognised in non-specific grant income. We agree that this classification was appropriate as there are no conditions attached to this funding and no requirements to spend this grant on specific services. However, in the current year, the grant has been reclassified as a specific cost of services grant, and a restatement note has been added to the accounts to restate the prior year classification. We have requested that management reverse this restatement, remove the note and classify the grant as non-specific in line with the prior year. This has been shown as an adjusted misstatement on page 27.

OTHER MATTERS

The following are additional other matters arising during the audit which we want to bring to your attention.

Issue	Comment
Grant Income	In our sample testing of grant income, errors totalling £453,000 were identified. This was primarily due to - £197,000 over accrual of grant income in 2019/20 that is not impacting on the 2020/21 figure recognised in the accounts. This error is therefore between the two financial years. - £97,000 under accrual of current year grant income. The amount recognised in the accounts is based on what the entity expected to claim. The actual claim was higher. - £141,000 variance between the amounts claimed for income loss and the amounts recorded in the accounts. Other smaller errors were also noted. As these items were part of sample, the error has been extrapolated over the tested population and an overall £470,000 under recognition of grant income has been recorded on page 24 as an unadjusted misstatement.
Net/Gross Accounting	In our sample of income we identified a transaction relating to an arrangement which requires both the NHS and the police force to contribute to the provision of the services. In the Chief Constable accounts, the NHS contribution has been recognised as gross income, despite the force passing this cost on to a third party provider and effectively acting as an agent. In such circumstances, the contribution should be net off against expenditure. We identified total income of £389,000 that had been incorrectly recognised in this way. This has been listed as an unadjusted misstatement on page 24.

MATTERS REQUIRING ADDITIONAL CONSIDERATION

Prevention and Detection of Fraud

While officers have ultimate responsibility for prevention and detection of fraud, we are required to obtain reasonable assurance that the financial statements are free from material misstatement, including those arising as a result of fraud. Our audit procedures did not identify any material fraud, but management have made us aware of two instances of suspected fraud.

Our journals testing identified and included a trivial fraudulent purchase card transaction which had already been identified through the purchase card control process and resolved by management with the card issuer. We have assessed the controls in place and considered managements response to the fraud. The entities internal controls identified this transaction. We did not consider it necessary to amend our audit strategy in response to the fraud identified and we did not find any evidence of a weakness in controls at the entity.

Management of OPCC also made us aware of an instance of suspected fraud. When the matter was identified by management, the issue was passed to the police, and the police investigation is ongoing. A full investigation was also performed by an independent consultant, and in addition, Internal Audit also performed a review of commissioning arrangements which received a 'Partial Assurance' Opinion. Key findings included:

- There was no documentation in place with regards to commissioning guidance prior to December 2021, and there was limited documented reporting through the governance structure
- A number of grant applications did not undergo a formal scoring process at any stage and there was no evidence of formal review
- Where scoring was performed, insufficient documentation was held to evidence scoring by all members of the commissioning panel
- There was not a clear selection process or specific explanation of why the winning applications were deemed more suitable than their competitors
- There was no process required for declarations of interests to be obtained as part of the grant-making process
- There was no evidence to confirm that the grant receiving organisations has achieved the intended objectives and delivered their agreed benefits.

Through the investigations, five suspected fraudulent payments have been identified totalling £236k, between April 2020 and October 2021. No further irregular transactions have been identified and the matter was found to relate to just one grant-receiving body.

In response to the findings from internal audit and the independent consultant, the PCC has implemented a number of actions to improve the processes and controls for commissioning arrangements. This includes:

- Revising the documentation used in the commissioning panel process
- Releasing a new commissioning strategy
- Implementing the recommendations raised in the internal audit report.

Our BDO specialist forensic team reviewed the details of the suspected fraud and the reports produced, to assess the investigations undertaken and the risk of further irregular transactions affecting the financial statements. We are satisfied that this issue is not material to the financial statements and that we do not need to amend our audit strategy in response to the findings. We requested that the Annual Governance Statement in the PCC's accounts was updated to include this matter.

However, we have considered these matters as part of our work on the PCC's value for money arrangements and have raised a significant weakness in respect of this.

We will seek confirmation from you whether you are aware of any known, suspected or alleged frauds since we last enquired when presenting the Audit Planning Report.

MATTERS REQUIRING ADDITIONAL CONSIDERATION

Laws and regulations

The most significant considerations for your organisation are the:

- The Police Reform and Social Responsibility Act 2011
- Local Government Acts of 1972 and 2003
- Local Government Finance Acts of 1988, 1992 and 2012
- International accounting standards as interpreted and adapted by the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21
- Local Audit and Accountability Act 2014
- Accounts and Audit Regulations 2015
- VAT legislation
- PAYE legislation.

We did not identify any non-compliance with laws and regulations that could have a material impact on the financial statements.

Related parties

While you are responsible for the completeness of the disclosure of related party transactions in the financial statements, we are also required to consider related party transactions in the context of fraud as they may present greater risk for management override or concealment or fraud.

We did not identify and significant matters in connection with related parties.

UNADJUSTED AUDIT DIFFERENCES: SUMMARY

Summary for the current year

We are required to bring to your attention unadjusted differences and we request that you correct them.

There are five unadjusted audit differences identified by our audit work which would reduce the group deficit on the provision of services for the year by £874,000.

One error is only reportable in the group accounts, as it is above the group triviality level.

There are three unadjusted audit differences identified by our audit work which would reduce the chief constable's deficit on the provision of services for the year by £404,000.

There is one unadjusted audit difference identified by our audit work which would increase the police and crime commissioner's' surplus on the provision of services for the year by £470,000.

These are immaterial in respect of the group and the single entities.

UNADJUSTED AUDIT DIFFERENCES: DETAIL

Details for the current year

	Income and expenditure			Balance Sheet	
Unadjusted audit differences	NET DR/(CR) £'000	DR £'000	(CR) £'000	DR £'000	(CR) £'000
Group deficit on the provision of services for the year before adjustments	34,982				
Adjustment 1: Group: LGPS difference between ER's contributions used in the IAS 19 report and actuals. Difference also exists on other experience gains and losses.					
DR Present Value of the Scheme Liability (net liability)				252	
CR Present Value of the Scheme Assets (net liability)					(252)
Adjustment 2: CC: LGPS understatement in valuation of pension fund investment assets.					
DR Present Value of the Scheme Assets (net liability)				543	
CR Present Value of the Scheme Liability (net liability)					(543)
Adjustment 3: CC: Extrapolated expenditure error relating to prior years					
DR Opening Balances				404	
CR CIES Expenditure			(404)		

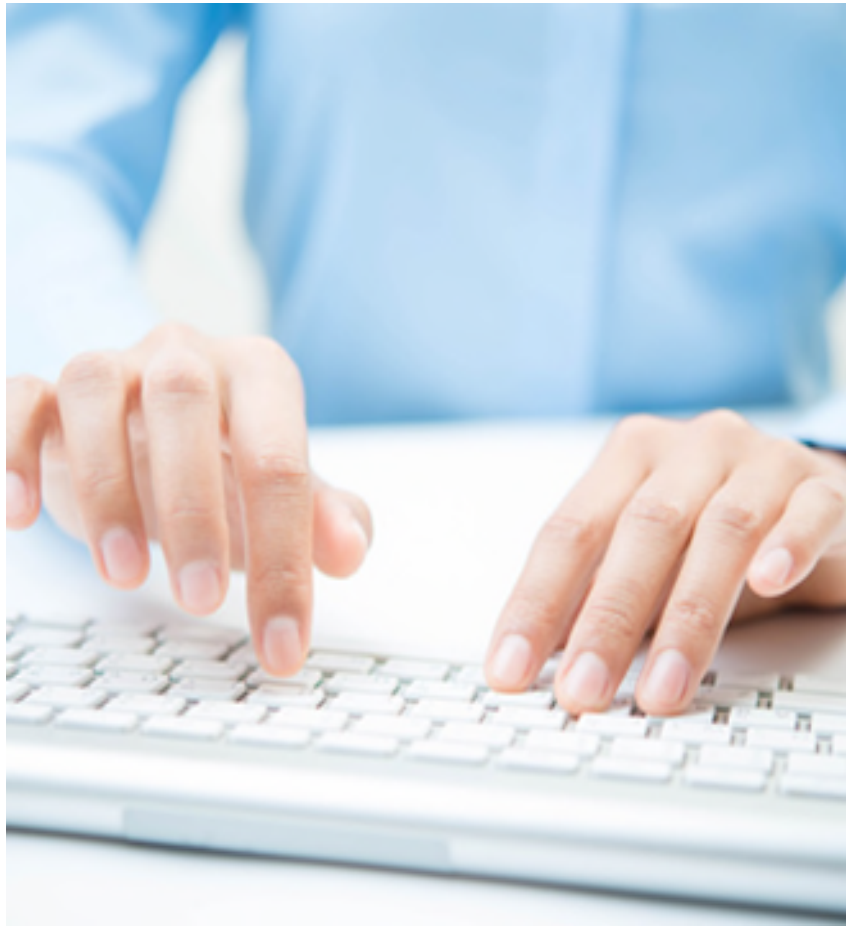
UNADJUSTED AUDIT DIFFERENCES: DETAIL

Details for the current year

		Income and expenditure		Balance Sheet	
Unadjusted audit differences	NET DR/(CR) £'000	DR £'000	(CR) £'000	DR £'000	(CR) £'000
Adjustment 4: CC: Incorrect gross treatment of income					
DR CIES Income (Policing)		389			
CR CIES Expenditure (Policing)			(389)		
Adjustment 5: PCC: Extrapolated Grant income error					
DR Opening balances/Debtors				470	
CR Grant Income in CIES			(470)		
Total unadjusted audit differences	**(874)**	**389**	**(1,263)**	**1,669**	**(795)**
PCC: Cumulative effect of prior period uncorrected misstatements brought forward	93				
Deficit on the provision of services for the year if above issues adjusted	34,201				

ADJUSTED AUDIT DIFFERENCES: SUMMARY

Summary for the current year



There were five audit differences identified by our audit work that were adjusted by management. These do not impact the single entity or group draft deficit on the provision of services.

ADJUSTED AUDIT DIFFERENCES: DETAIL

Details for the current year

	Income and expenditure			Balance Sheet	
Adjusted audit differences	NET DR/(CR) £'000	DR £'000	(CR) £'000	DR £'000	(CR) £'000
Group deficit on the provision of services for the year before adjustments	34,982				
Adjustment 1: CC LGPS: Differences between IAS-19 V1 and reissued IAS-19 V2 on return on plan assets					
DR Present Value of the Scheme Assets (net liability)				3,540	
CR OCI via Pension reserve					(3,540)
Adjustment 2: PCC LGPS: Differences between IAS-19 V1 and reissued IAS-19 V2 on return on plan assets					
DR Present Value of the Scheme Assets (net liability)				29	
CR OCI via Pension reserve					(29)
Adjustment 3: PCC: Reclassification of police pension grant					
DR CIES Income		1,116			
CR Non-specific grant income			(1,116)		

ADJUSTED AUDIT DIFFERENCES: DETAIL

Details for the current year

	Income and expenditure			Balance Sheet	
Adjusted audit differences	NET DR/(CR) £'000	DR £'000	(CR) £'000	DR £'000	(CR) £'000
Adjustment 4: Reclassification of creditors (from 100% review)					
DR CC Creditors				195	
CR PCC Creditors					(195)
Adjustment 5: Reclassification of debtors (from 100% review)					
DR PCC Debtors				222	
CR CC Debtors					(222)
Total adjusted audit differences	**-**	**1,116**	**(1,116)**	**3,986**	**(3,986)**
Adjusted deficit on the provision of services for the year	34,983				

ADJUSTED DISCLOSURE OMISSIONS AND IMPROVEMENTS

Disclosure omissions and improvements

We are required to bring to your attention other financial reporting matters that the Joint Audit Committee is required to consider.

The following adjusted disclosure matters were noted. Management has adjusted these in the final statement of accounts:

- typographical errors in the Narrative Report and Annual Governance Statement
- Correction of some quoted figures in the Narrative Report to make these consistent with the financial statements
- Correction of casting errors, including those resulting from rounding
- Correction of note reference in the cash flow statement
- Correction of prior year comparatives in the notes to the cash flow
- Correction of column headings
- Typographical errors in the notes to the accounts
- Typographical errors in the BCH collaboration note and its casting
- Correction of signage in the ERSOU collaboration note
- Correction of taxation and non-specific grant income figure in the PCC CIES
- Correction of a number of figures in the EFA and the note to the EFA so that this note is consistent with the rest of the financial statements
- Correction of a number of capital adjustments disclosed in the “adjustments between accounting and funding basis” note
- Amendment of the capital commitments figure, following review of supporting documentation
- Reclassification of the expected credit loss as expenditure, from income, in the “income and expenditure analysed by nature” note
- Minor updates to financial instrument disclosures so that they properly reconcile to balance sheet figures
- Removal of the prior period adjustment note in both sets of accounts
- Removal of contingent liability
- Addition of the agreed 19/20 audit fee amendment to the audit fees note
- Addition of a footnote to disclose Bedfordshire's share of costs in relation to exit packages
- Removal of the Chiltern transport consortium note, as there is no requirement to disclose these figures
- Removal of the “council tax income” note so that this break down can be included in the “taxation and non-specific grant income” note instead.

REPORTING ON OTHER INFORMATION

We comment below on other reporting required to be considered in arriving at the final content of our audit report:

Matter	Comment
We are required to report on whether the financial and non-financial information in the Narrative Report within the Statement of Accounts is consistent with the financial statements and the knowledge acquired by us in the course of our audit.	We are satisfied that the other information in the Narrative Report is consistent with the financial statements and our knowledge. Some narrative improvements have been suggested and amended by management. These are included on page 30.
We are required to report by exception if the Annual Governance Statement is inconsistent or misleading with other information we are aware of from our audit of the financial statements, the evidence provided in the PCC's and CC's review of effectiveness and our knowledge of the group.	We have no matters to report in relation to the consistency of the Annual Governance Statement with the financial statements and our knowledge.

WHOLE OF GOVERNMENT ACCOUNTS

The PCC is required to prepare a Data Collection Tool (DCT) return for use by the Department for Levelling Up, Housing and Communities (DLUHC) for the consolidation of local government accounts, and by HM Treasury at Whole of Government Accounts level.

Auditors are required to review Whole of Government Accounts (WGA) information prepared by component bodies that are over a prescribed threshold in any of: assets (excluding property, plant and equipment); liabilities (excluding pension liabilities); income or expenditure.

For 2020-21, HM Treasury have elected to raise the threshold for compliance with full group audit instructions, for Local Government, to £2 billion. While all entities above the minor bodies threshold (£30 million) will continue to have to complete and submit a WGA return, only those above the threshold as set by HM Treasury will be required to have their return subject to audit.

The group falls under the threshold for review.

USE OF RESOURCES OVERVIEW

New Code of Audit Practice ("Code")

The Comptroller & Auditor General has determined through a new Code and guidance that the key output from local audit work in respect of value for money (VFM) arrangements is a commentary as reported in the Auditor's Annual Report, not a VFM arrangements 'conclusion' or 'opinion'. There may be matters referred to in the auditor's commentary that do not represent significant weaknesses in arrangements and where significant weaknesses are reported we are required to also report recommendations.

As auditors we need to gather sufficient evidence and document our evaluation of arrangements to enable us to draft our commentary under three reporting criteria. These criteria are:

- **Financial sustainability** - How the group plans and manages its resources to ensure it can continue to deliver its services
- **Governance** - How the group ensures that it makes informed decisions and properly manages its risks
- **Improving economy, efficiency and effectiveness** ('Improving 3Es') - How the group uses information about its costs and performance to improve the way it manages and delivers its services.

Risk of Significant Weakness

As identified in our Audit Planning Report we assessed the following matters as being the most significant risks regarding use of resources.

Audit Risk	Criterion	Risk Rating	Findings
Financial Sustainability	Financial sustainability	Significant	No identified significant weaknesses to date, work is still in progress.
Collaboration	Improving Economy, efficiency & effectiveness and Governance	Significant	No identified significant weaknesses to date, work is still in progress.

We have identified one significant weakness in the PCC's arrangements and control processes, in response to the suspected fraud that is discussed on page 22, relating to commissioning arrangements. The control weaknesses identified by Internal Audit indicate that the PCC does not have effective arrangements in place to prevent and detect fraud in the commissioning process, or to ensure that value for money is achieved from parties commissioned to provide services. We have reported this significant weakness in the value for money section of the PCC's audit opinion.

We have not yet completed our work on the group's value for money arrangements. To comply with requirements of the Code of Audit Practice 2020/21 we have reported to you that this work has not been completed, in a separate letter addressed to the chair of the Joint Audit Committee.

SIGNIFICANT DEFICIENCIES

We are required to report to you, in writing, significant deficiencies in internal control that we have identified during the audit. These matters are limited to those which we have concluded are of sufficient importance to merit being reported to the Joint Audit Committee.

As the purpose of the audit is for us to express an opinion on the PCC, CC and Group's financial statements, you will appreciate that our audit cannot necessarily be expected to disclose all matters that may be of interest to you and, as a result, the matters reported may not be the only ones which exist.

As part of our work, we considered internal control relevant to the preparation of the financial statements such that we were able to design appropriate audit procedures. This work was not for the purpose of expressing an opinion on the effectiveness of internal control.

Area	Observation & implication	Recommendation	Management response
Significant Deficiency			
Commissioning arrangements	Internal audit performed a review of commissioning arrangements in place at the OPCC. A 'partial assurance' opinion was given. The key findings from this report describe the control failures that allowed irregular expenditure transactions to occur. These are described in more detail on page 22.	Respond to the key findings from the internal audit report to improve the control environment supporting the commissioning process.	The internal control process for the commissioning arrangements has been completely overhauled following the internal audit report and a follow up audit will be undertaken to ensure the changes have strengthened the control environment.
Other Deficiencies			
E-financials IT General controls.	Of the 11 samples tested, we noted two instances where leavers were not deactivated in a timely manner. These individuals left in 2019 but were not deactivated until 2020 and 2021. Although they had not logged onto the system since they had left, leavers should be deactivated on a timely basis.	Deactivate leavers from all IT systems in a timely manner to reduce the risk of unauthorised postings.	The systems review was a BCH review as the finance system is a BCH system - this issue did not affect users with access to the Bedfordshire Entity on the system. The issue has been raised for all 3 forces as a reminder to management to ensure that the deactivation of leavers process is reviewed.
Journal Authorisation	Three journals relating to ERSOU and posted by the relevant team, were identified as having the same creator and approver.	Review the process for journal approvals to ensure that all postings are appropriately authorised before posting.	Accepted - we will review the process annually.

OTHER DEFICIENCIES 2

Area	Observation & implication	Recommendation	Management response
Land Registry Updates	One asset had appeared on the land registry report acquired by BDO for the last 2 years, and yet no asset exists in the Fixed Asset Register. The explanation is that the land registry needs to be updated.	Action the amendment so that the land registry information is accurate.	This asset is for nil value but the Estates team have agreed to ask Land Registry to update records.
Airport contract	The most recent contract between Bedfordshire police and Luton Airport covers the period 1/10/17 to 31/3/19. Disputes have arisen in 2020/21 as a result of covid and these are not covered by a formal agreement	Formalise a contract for the provision of special police services with the airport.	A PSA with the airport is now in place and signed by both parties
Estimate disclosures	In order to comply with the requirements of IAS 1, disclosures are required to explain the nature of the key estimates in the accounts and how they may impact balances in the financial statements. These disclosures are not included in the financial statements for PPE valuations, which is material estimate.	Perform a sensitivity analysis of the key valuation inputs, to explain how changes in key estimates may impact the carrying value of assets.	Agreed to request this is done as part of the building valuation work, it is done for the pension valuation by the actuaries.

AUDIT REPORT OVERVIEW

Opinion on financial statements

Nothing has come to our attention from work completed to date that would result in modification of the audit opinion.

There are no matters that we wish to draw attention to by way of 'emphasis of matter'.

Conclusion on use of resources

We have one significant weakness to report at this stage, in relation to the PCC's commissioning arrangements.

We have not yet completed our work on value for money arrangements. We will report a commentary on value for money arrangements in our Auditor's Annual Report and include exception reporting in respect of any identified significant weaknesses in our audit certificate.

Conclusion relating to going concern

We have nothing to report in respect of the applicability of the going concern basis of accounting or the Group's ability to continue as a going concern for a period of at least twelve months from the date of approval of the financial statements.

There are no material uncertainties in relation to going concern disclosed in the financial statements of which we are aware that we need to draw attention to in our report.

Irregularities, including fraud

Our report contains an explanation as to what extent the audit was considered capable of detecting irregularities, including fraud. Irregularities in this context means non-compliance with laws or regulations.

Other information

We have not identified any material inconsistencies that would need to be referred to in our report.

Annual Governance Statement

We have no matters to report in relation to the Annual Governance Statement as it is not inconsistent or misleading with other information we are aware of.

INDEPENDENCE

Under ISAs (UK) and the FRC's Ethical Standard we are required, as auditors, to confirm our independence.

Under ISAs (UK) and the FRC's Ethical Standard, we are required as auditors to confirm our independence.

We have embedded the requirements of the Standards in our methodologies, tools and internal training programmes. Our internal procedures require that audit engagement partners are made aware of any matters which may reasonably be thought to bear on the integrity, objectivity or independence of the firm, the members of the engagement team or others who are in a position to influence the outcome of the engagement. This document considers such matters in the context of our audit for the year ended 31 March 2021.

Details of rotation arrangements for key members of the audit team and others involved in the engagement were provided in our Audit Planning Report.

We have not identified any relationships or threats that may reasonably be thought to bear on our objectivity and independence.

We confirm that the firm, the engagement team and other partners, directors, senior managers and managers conducting the audit comply with relevant ethical requirements including the FRC's Ethical Standard or the IESBA Code of Ethics as appropriate and are independent of the PCC and the Group.

We also confirm that we have obtained confirmation of independence from non BDO auditors and external audit experts involved in the audit comply with relevant ethical requirements including the FRC's Ethical Standard and are independent of the PCC and the Group.

Should you have any comments or queries regarding any independence matters we would welcome their discussion in more detail.

FEES

Fees summary

	2020/21	2019/20
Police and Crime Commissioner for Bedfordshire	£22,554	£22,554
The Chief Constable for Bedfordshire Police	£11,550	£11,550
Additional audit fee: recurring[1]	£14,000	£14,000
Additional audit fee: use of resources[2]	£8,500	-
Additional audit fee: forensic review[3]	£15,000	
Total audit fees	**£71,604**	**£48,104**
Fees for non-audit services	-	-
Total non-audit services fees	**-**	**-**
Total fees	**£71,604**	**£48,104**

[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, and subsequent years, to cover the costs associated with increased regulatory requirements. This fee has now been agreed with management and is awaiting approval by PSAA Ltd.

[2] Following the completion of our work, we will propose an updated additional fee for our work on the group's value for money arrangements. This arises from the increased scope of this work as a result of the new Code of Audit Practice. We will report our proposed fee increase to the Joint Audit Committee. For combined police bodies PSAA estimate the cost of this work to fall in the range of £6,000 - £11,000. The figure included in the table above is for indicative purposes only and is the mid-point of this range.

[3] The identification of suspected fraud required that we engage BDO specialist forensic experts. The experts reviewed the details of the fraud and reports produced, to assess the investigations undertaken and the risk of further irregular transactions affecting the financial statements.

APPENDICES CONTENTS

RESTORING TRUST IN AUDIT AND CORPORATE GOVERNANCE

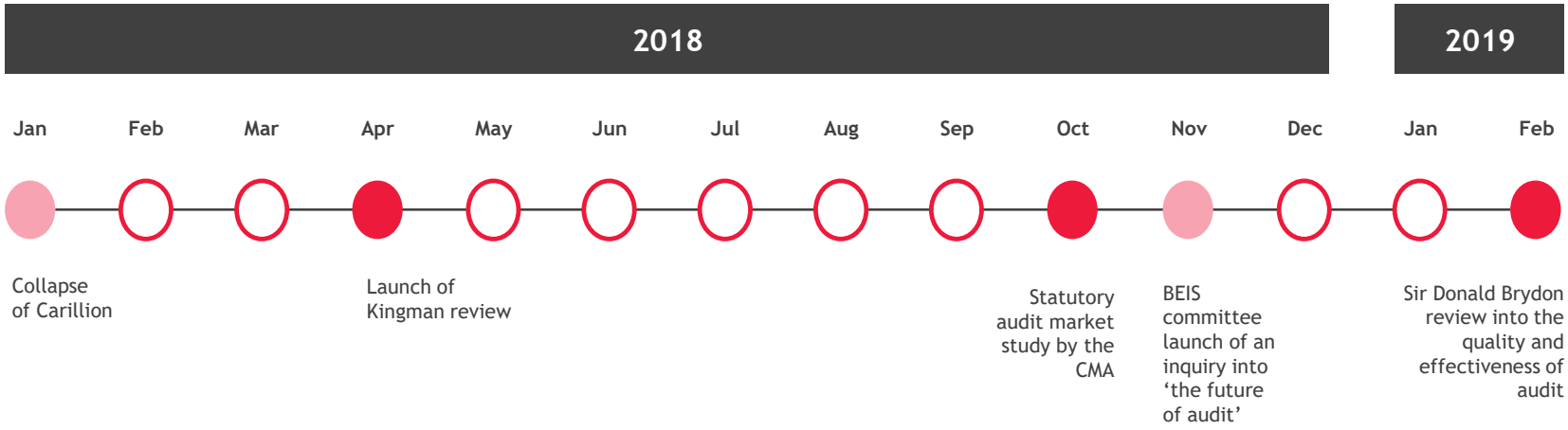
BEIS consultation issued March 2021

The collapse of Carillion at the beginning of 2018 precipitated a root and branch review of how the audit market works with three main components, all reporting to the Secretary of State for Business Energy and Industrial Strategy. The latest BEIS consultation as published in March 21 outlines proposals to increase choice and quality in the audit market, establish clearer responsibilities for the detection and prevention of fraud, and ensure the audit product and audit profession are fit for the future. The consultation aims to present measures that balance the need for meaningful reform with proportionate impacts on business, both now and for the future. The next pages aim to summarise the key areas of the consultation but for more information please refer to the consultation directly.

Although the consultation only closed in July 2021, changes have already begun: There are already a number of changes being made by the market participants themselves such as increased operational separation of audit from consulting and voluntary restriction of non-audit services. At BDO we support the aims of operational separation of audit practices. Without being complacent we do not have a large consulting practice like some of our rivals and we have always run our audit business to be independently and sustainably profitable, therefore the main causes of concern that this seeks to address namely cultural contamination and cross subsidisation are less relevant for us. We do however recognise that the profession needs to restore the confidence of users and operational separation or ring fencing is an important step on that journey. We have drawn up plans for how we would implement this and are currently consulting with stakeholders. Whilst full compliance is not required until 2024 we are likely to implement a number of aspects particularly around governance and financial transparency by July 2021.

Whilst there is some uncertainty regarding the timeline post the close of the consultation it is our understanding that the implementation of the Audit, Reporting and Governance Authority (ARGA) is likely to be in 2023.

HISTORIC CONSULTATIONS TIMELINE



BEIS CONSULTATION AT A GLANCE

Issued March 21

Key Area of the BEIS consultation	Summary
1. Resetting the scope of regulation by expanding the definition of Public Interest Entities to include large private companies and "large" AIM quoted companies.	The government proposes two possible tests to extend the scope of PIES: To adopt the test used to identify companies already required to include a corporate Annual Governance Statement in their directors' report, or adopt a narrower test which incorporates the threshold for additional non-financial reporting requirements for existing PIEs. This would cover companies with both: Over 500 employees and a turnover of more than £500 million as their consolidated position. The Government is also proposing that any new definition of PIE should also include companies on the exchange-regulated AIM market with market capitalisations above €200m.
2. Increasing the accountability of directors	The consultation sets out a couple of options relating to directors accountability for internal controls and then indicates a tentative preferred option which would require a directors' statement about the effectiveness of the internal controls. Unlike the US's approach to internal controls which mandates external auditor attestation in most cases this option would leave the decision on whether the statement should be assured by an external auditor to the directors, audit committee and shareholders. This section of the consultation also includes proposals to require companies to report on their distributable reserves and for directors to be required to make a formal statement about the legality and affordability of proposed dividends.
3. New corporate reporting requirements	Introducing a requirement for PIEs to produce an annual Resilience Statement. This new statement consolidates and builds upon the existing going concern and viability statements and would apply initially to Premium Listed companies. Introducing an Audit and Assurance Policy where directors have to describe their approach to seeking assurance. For publicly quoted entities, this would be subject to an advisory shareholder vote at the time of its publication,
4. Strengthening the supervision of corporate reporting	Giving the Audit, Reporting and Governance Authority (ARGA) (which replaces the Financial Reporting Council) more power to direct changes to company reports and accounts. Creating increased transparency for the Corporate Reporting Review (CRR) process and an extension of the CRR process to the whole of the annual report and accounts. The Government proposes to broaden the regulator's review powers so that it can scrutinise the entire contents of a company's Annual Report and Accounts.

BEIS CONSULTATION AT A GLANCE

Key Area of the BEIS consultation	Summary
5. Provisions concerning company directors	Giving the regulator investigation and enforcement powers in relation to wrongdoing by all directors of Public Interest Entities. Due to the principles of collective responsibility and a unitary board, all directors of Public Interest Entities would be in scope. Strengthening malus and clawback provisions within executive director remuneration.
6. Changes to audit purpose and scope	The Government will seek to introduce a regulatory framework to cover both audits of financial statements (statutory audit) and other types of information which companies decide to have audited through the Audit and Assurance Policy process. It also proposes to legislate to require directors of Public Interest Entities to report on the steps they have taken to prevent and detect material fraud.
7. Changes to audit committee oversight and engagement with shareholders	ARGA to establish a standards and supervision regime. ARGA will write the standards by which Audit Committees will need to operate and they will monitor compliance against these standards. Initially this will only apply to FTSE 350 Audit Committees. Additional requirements for audit committees in the appointment and oversight of auditors, which is intended to ensure the committee acts effectively as an independent body responsible for safeguarding the interests of shareholders. Increased engagement between a company and its shareholders. The Government agrees with Brydon's recommendation that the audit committee's annual report should set out which shareholder suggestions put forward for consideration had been accepted or rejected by the auditor.
8. Improved competition, choice and resilience in the audit market	The implementation of a managed shared audit regime for companies audited by the Big Four. The operational separation of certain accountancy firms. Statutory powers for the regulator to monitor the resilience of the audit market.
9. Greater supervision of audit quality	Making the regulator responsible for approving the auditors of PIEs and improving the transparency of Audit Quality Review reports by allowing AQR reports on individual audits to be published without consent.
10. A new and strengthened regulator; the Audit, Reporting and Governance Authority	The regulator will be given the power to make rules requiring market participants to pay a levy to meet the regulator's costs of carrying out its regulatory functions.
11. Additional changes to the regulator's responsibilities	The regulator will have the power to require an expert review where it has identified significant concern regarding a PIEs corporate reporting and auditing.

FRC ETHICAL STANDARD

Issued in December 2019

In December 2019 the FRC published the Revised Ethical Standard 2019 ('ES'), which is applicable from 15 March 2020. There are some transitionary provisions for services and arrangements that are not currently prohibited under the existing Standard. The ES aims to further strengthen auditor independence and enhance confidence in the profession. The table below provides a high level summary of the key headlines.

Key headlines	Impact
The objective, reasonable & informed third party test	Reinforcement that ethical principles take priority over rules. A need to take care where particular facts and circumstances are either not addressed directly by the rules or might appear to 'work around' the rules, or result in an outcome that is inconsistent with the general principles.
Extra-territorial impact	For group audits where the audited entity has overseas operations, the ES will require all BDO Member firms to be independent of the UK audited entity and its UK and overseas affiliates in accordance with the UK Ethical Standard, irrespective of if their audit work is relied upon.
Contingent fees	Non-audit services with contingent or success-based fee arrangements will be prohibited for audited entities.
Secondments	All secondments/loan staff to audited entities are prohibited with the exception of secondments to public sector entities.
Recruitment and remuneration services	Prohibition on providing remuneration services to audited entities such as advising on the quantum of the remuneration package or the measurement criteria for calculation of the package. In addition, the prohibition on providing recruitment services to an audited entity that would involve the firm taking responsibility for, or advising on the appointment of, any director or employee of the entity.
Non-audit services to a public interest entity (PIE)	Moving to a "white-list" of permitted non-audit services for PIEs. The white-list largely consists of services which are either audit-related or required by law and/or regulation. The provision of services not on the white-list are prohibited. The ES separates those permitted services which are exempt from the 70% fee cap and those services which are subject to the fee cap.
Other entities of public interest ('OEPI')	OEPI is a new term in the Ethical Standard. The FRC have imposed the 'white-list' applicable to PIE audited entities to also apply to OEPIs. OEPIs are entities which, according to the FRC, do not meet the definition of a PIE but nevertheless are of significant public interest to stakeholders. They include AIM listed entities which exceed the threshold to be an *SME listed entity* - generally those with a market cap of more than €200m; Lloyd's syndicates; Private sector pension schemes with more than 10,000 members and more than £1billion of assets; Entities that are subject to the governance requirements of The Companies (Miscellaneous Reporting) Regulations 2018 (SI/2018/860), excluding fund management entities which are included within a private equity or venture capital limited partnership fund structure. These would be entities which: – Have more than 2000 employees; and / or – Have a turnover of more than £200 million and a balance sheet total of more than £2 billion. The FRC have noted that the rules applicable to OEPIs will apply from periods commencing on or after 15 December 2020.

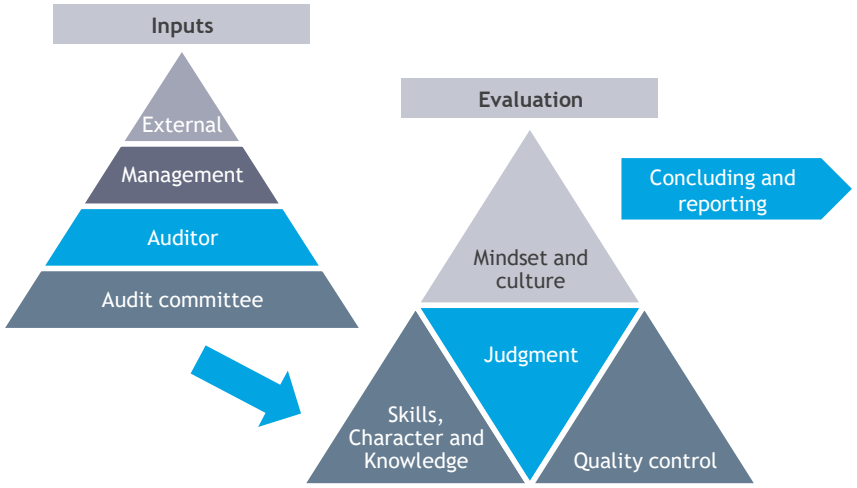
FRC PRACTICE AID FOR AUDIT COMMITTEES

The Financial Reporting Council (FRC) issued an updated practice aid for audit committees in December 2019 and a full copy can be found on the FRC website. In their practice aid the FRC note: 'The directors of a company (the Board as a whole) are responsible for ensuring its financial statements are prepared in accordance with the applicable financial reporting framework and for overseeing the company's internal control framework. A high-quality audit provides investors and other stakeholders with a high level of assurance that the financial statements of an entity give a true and fair view and provide a reliable and trustworthy basis for taking decisions.'

The practice aid then discusses how the role of audit committees in serving the interests of investors and other stakeholders is through their independent oversight of the annual corporate reporting process including the audit. The FRC highlight that the responsibility for appointing the external auditor, approving their remuneration and any non audit services work, ensuring their independence and challenging them over the quality of their work falls to the audit committee and can play a key role in facilitating a high quality audit (see note below).

It gives guidance for Audit Committees in the following areas:

- Audit tenders and the tender process including audit fee negotiations and auditor independence
- A model for use by audit committees in making an overall assessment of an external auditor including inputs, evaluations and concluding



- Transparency - reporting to the Board on how the audit committee has discharged these responsibilities
- Some guidance on key areas of audit judgement

The provision of high quality audits are a key focus of FRC and the new Executive Director of Supervision, David Rule, sent a letter to all audit firms in November 2019 explaining the factors he would expect to see in place in order to facilitate the delivery of high quality audits. A copy of the letter can be found on the FRC website

OUR RESPONSIBILITIES

Responsibilities and reporting

Our responsibilities and reporting

We are responsible for performing our audit under International Standards on Auditing (UK) to form and express an opinion on your consolidated and single-entity financial statements. We report our opinion on the financial statements to the officers of the Police and Crime Commissioner and Chief Constable.

We read and consider the 'other information' contained in the Statement of Accounts such as the Narrative Report. We will consider whether there is a material inconsistency between the other information and the financial statements or other information and our knowledge obtained during the audit.

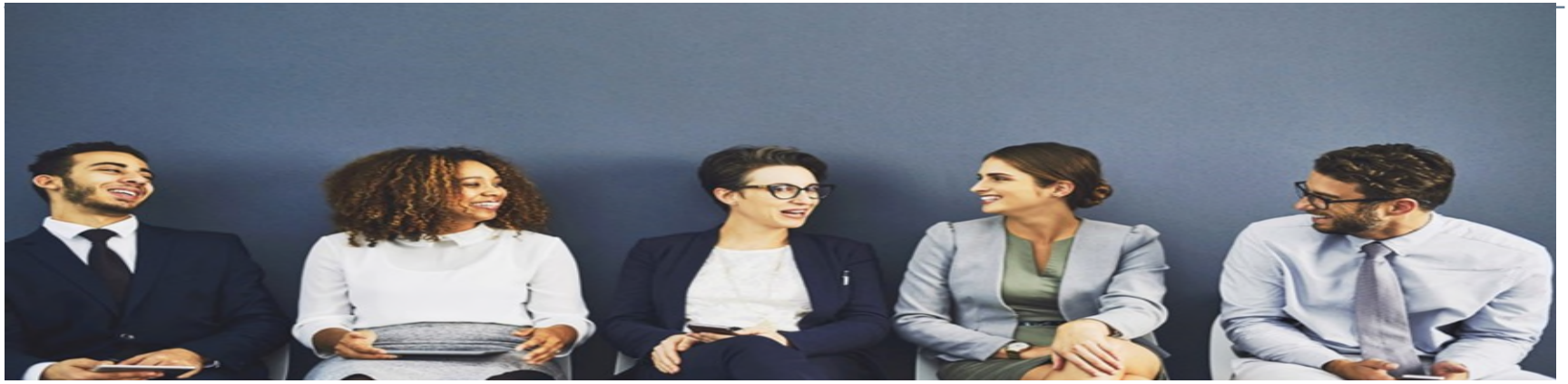
We report by exception any significant weaknesses identified by our work on the group's value for money arrangements and a summary of associated recommendations made.

What we don't report

Our audit is not designed to identify all matters that may be relevant to the Joint Audit Committee and cannot be expected to identify all matters that may be of interest to you and, as a result, the matters reported may not be the only ones which exist.

ADDITIONAL MATTERS WE ARE REQUIRED TO REPORT

	Issue	Comments
1	Significant difficulties encountered during the audit.	No exceptions to note.
2	Written representations which we seek.	We enclose a copy of our draft representation letter.
3	Any fraud or suspected fraud issues.	Our testing identified a trivial fraudulent purchase card transaction that had already been identified and resolved by management, with the card issuer. We were also informed of a further instance of suspected fraud, that our specialist team were engaged to assess. This is discussed on page 22. We have considered managements response to the suspected fraud and assessed the controls in place. We did not consider it necessary to amend our audit approach or testing strategy in response to the issue identified. We have reported this as a significant weakness in our Use of Resources risk assessment.
4	Any suspected non-compliance with laws or regulations.	No exceptions to note.
5	Significant matters in connection with related parties.	No exceptions to note.



COMMUNICATION WITH YOU

Those Charged with Governance (TCWG)

References in this report to Those Charged With Governance (TCWG) are to the PCC and CC group as a whole. For the purposes of our communication with those charged with governance you have agreed we will communicate primarily with the Joint Audit Committee.

Communication, meetings and feedback

We request feedback from you on our planning and completion report to promote two way communication throughout the audit process and to ensure that all risks are identified and considered; and at completion that the results of the audit are appropriately considered.

We have met with management throughout the audit process. We have issued regular updates driving the audit process with clear and timely communication, bringing in the right resource and experience to ensure efficient and timely resolution of issues.

Communication	Date (to be) communicated	To whom
Audit Planning Report	February 2021	Joint Audit Committee
Audit Completion Report	December 2021 (this report)	Joint Audit Committee
Audit Completion Report	March 2022	Joint Audit Committee Chair (via email)
Final Audit Completion Report (this report)	March 2023	Joint Audit Committee Chair (via email)
Auditor's Annual Report	June 2022 (must be issued within three months of audit opinion date)	Joint Audit Committee

DRAFT LETTER OF REPRESENTATION

Client name
Address
Address
Address

BDO LLP
55 Baker Street
London
WIU 7EU

Dear Sirs

Financial statements of The Police and Crime Commissioner for Bedfordshire Group for the year ended 31 March 2021

We confirm that the following representations given to you in connection with your audit of the Group and the Police and Crime Commissioner's financial statements for the year ended 31 March 2021 are made to the best of our knowledge and belief, and after having made appropriate enquiries of other officers and members of the of the Police and Crime Commissioner (PCC) and other Group entities.

The Chief Finance Officer has fulfilled his responsibilities for the preparation and presentation of the Group and the PCC financial statements as set out in the Accounts and Audit Regulations 2015 and in particular that the financial statements give a true and fair view of the financial position of the Group and the PCC as of 31 March 2021 and of its income and expenditure and cash flows for the year then ended in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

We have fulfilled our responsibilities on behalf of the PCC, as set out in the Accounts and Audit Regulations 2015, to make arrangements for the proper administration of the PCC's financial affairs, to conduct a review at least once in a year of the effectiveness of the system of internal control and approve the Annual Governance Statement, to approve the Statement of Accounts (which include the financial statements), and for making accurate representations to you.

We have provided you with unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence. In addition, all the accounting records of the PCC and group have been made available to you for the purpose of your audit and all the transactions undertaken by the PCC have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of management and other meetings have been made available to you.

Going concern

We have made an assessment of the Group and the PCC's ability to continue as a going concern for a period of at least twelve months from the date on which the financial statements were approved for release. As a result of our assessment we consider that the Group and the PCC is able to continue to operate as a going concern and that it is appropriate to prepare the financial statements on a going concern basis. Furthermore, we confirm that the disclosures included the financial statements are sufficient.

In making our assessment we did not consider there to be any material uncertainty relating to events or conditions that individually or collectively may cast significant doubt on the Group and the PCC's ability to continue as a going concern.

Laws and regulations

In relation to those laws and regulations which provide the legal framework within which the PCC's business is conducted and which are central to our ability to conduct our business, we have disclosed to you all instances of possible non-compliance of which we are aware and all actual or contingent consequences arising from such instances of non-compliance.

Post balance sheet events

There have been no events since the balance sheet date which either require changes to be made to the figures included in the financial statements or to be disclosed by way of a note. Should any material events of this type occur, we will advise you accordingly.

DRAFT LETTER OF REPRESENTATION

Fraud and error

We are responsible for adopting sound accounting policies, designing, implementing and maintaining internal control, to, among other things, help assure the preparation of the financial statements in conformity with generally accepted accounting principles and preventing and detecting fraud and error.

We have considered the risk that the financial statements may be materially misstated due to fraud and have identified no significant risks.

To the best of our knowledge we are not aware of any fraud or suspected fraud involving management or employees that could have a material effect on the financial statements. Additionally, we are not aware of any fraud or suspected fraud involving any other party that could materially affect the financial statements.

We have disclosed to you all allegations of fraud or suspected fraud affecting the financial statements that have been communicated by employees, former employees, analysts, regulators or any other party.

Misstatements

We attach a schedule showing uncorrected misstatements that you have identified, which we acknowledge that you request we correct. Where appropriate we have explained our reasons for not correcting such misstatements below. In our opinion, the effects of not recording such identified financial statement misstatements are, both individually and in the aggregate, immaterial to the financial statements as a whole.

Related party transactions

We have disclosed to you the identity of all related parties and all the related party relationships and transactions of which we are aware. We have appropriately accounted for and disclosed such relationships and transactions in accordance with the applicable financial reporting framework.

Other than as disclosed in note xx to the financial statements, there were no loans, transactions or arrangements between any Group entity and PCC senior management or their connected persons at any time in the year which were required to be disclosed.

Carrying value and classification of assets and liabilities

We have no plans or intentions that may materially affect the carrying value or classification of assets or liabilities reflected in the consolidated Group and PCC financial statements.

Accounting estimates

a) Pension fund assumptions

We confirm that the actuarial assumptions underlying the valuation of the Local Government Pension Scheme (LGPS) liabilities, as applied by the scheme actuary, are reasonable and consistent with our knowledge of the business. We also confirm that the actuary has applied up-to-date mortality tables for life expectancy of scheme members in calculating scheme liabilities.

We confirm that the actuarial assumptions underlying the valuation of the Police Pension Fund liabilities, as applied by the scheme actuary, are reasonable and consistent with our knowledge of the business. We also confirm that the actuary has applied up-to-date mortality tables for life expectancy of scheme members in calculating scheme liabilities.

The key financial assumptions used are as follows:

Assumption	LGPS	Police
Pension increase Rate	2.85%	2.40%
Salary increase rate	3.85%	4.15%
Discount rate	2.05%	2.00%
CARE revaluation rate	-	3.65%

DRAFT LETTER OF REPRESENTATION

b) Valuation of Land and Buildings

We are satisfied that the useful economic lives of land and buildings, and their constituent components, used in the valuation of land and buildings, and the calculation of the depreciation charge for the year, are reasonable.

We confirm that the valuations applied to land and buildings revalued in the year, as provided by the valuer and accounted for in the financial statements, are reasonable and consistent with our knowledge of the business and current market prices.

Litigation and claims

We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements and these have been accounted for and disclosed in accordance with the requirements of accounting standards.

Confirmation

We confirm that the above representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, of inspection of supporting documentation) sufficient to satisfy ourselves that we can properly make each of the above representations to you.

We confirm that the financial statements are free of material misstatements, including omissions.

We acknowledge our legal responsibilities regarding disclosure of information to you as auditors and confirm that so far as we are aware, there is no relevant audit information needed by you in connection with preparing your audit report of which you are unaware. Each director and member has taken all the steps that they ought to have taken as a director or member of the PCC in order to make themselves aware of any relevant audit information and to establish that you are aware of that information.

Yours faithfully

Philip Wells

Chief Finance Officer

[date]

Festus Akinbusoye

The Police and Crime Commissioner for Bedfordshire

[date]

A letter of representation will also need to be signed by the Chief Constable and the CC's Chief Finance Officer. An additional template will be provided.

AUDIT QUALITY

BDO is totally committed to audit quality

It is a standing item on the agenda of BDO's Leadership Team who, in conjunction with the Audit Stream Executive (which works to implement strategy and deliver on the audit stream's objectives), monitor the actions required to maintain a high level of audit quality within the audit stream and address findings from external and internal inspections.

BDO welcomes feedback from external bodies and is committed to implementing a necessary actions to address their findings.

We recognise the importance of continually seeking to improve audit quality and enhancing certain areas. Alongside reviews from a number of external reviewers, the AQR (the Financial Reporting Council's Audit Quality Review team), QAD (the ICAEW Quality Assurance Department) and the PCAOB (Public Company Accounting Oversight Board who oversee the audits of US companies), the firm undertakes a thorough annual internal Audit Quality Assurance Review and as member firm of the BDO International network we are also subject to a quality review visit every three years.

We have also implemented additional quality control review processes for all listed and public interest audits.

More details can be found in our Transparency Report at www.bdo.co.uk

FOR MORE INFORMATION:

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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 audited body and may not be quoted nor copied without our prior written consent. No responsibility to any third party is accepted.

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