



External Audit ISA260 Report 2017/18

**The Office of the Police and Crime
Commissioner for Devon & Cornwall
&
Chief Constable for Devon & Cornwall**

July 2018

Summary for Independent Audit Committee

This document summarises the key findings in relation to our 2017-18 external audit at the Office of the Police and Crime Commissioner for Devon & Cornwall ('the PCC') and Chief Constable for Devon & Cornwall ('the CC' or when referred to together 'the Force')

This report covers both our on-site work which was completed primarily in February and June 2018 on the Force's significant risk areas, as well as other areas of your financial statements, and the control environment in place to support the production of timely and accurate financial statements.

Organisational control environment	We have identified no significant issues with the Force's organisational control environment and consider that the overall arrangements that have been put in place are reasonable.
Controls over key financial systems	The controls over the majority of the key financial systems are sound. Work to implement the recommendations we raised in our 2016/17 ISA260 report is still ongoing. We have reiterated the outstanding recommendations in Appendix 2.
Review of internal audit	Following our assessment of Internal Audit, we were able to place reliance on their work on the key financial systems.
Accounts production	<p>Audit standards (ISA 260) require us to communicate our views on the significant qualitative aspects of the Authority's accounting practices and financial reporting.</p> <p>We also assessed the Authority's process for preparing the accounts and its support for an efficient audit. We noted that there has been significant alignment of Financial Statement templates and supporting workbooks this year and further work is planned.</p> <p>The Authority has prepared the accounts to a faster timetable in the current period, whilst maintaining the quality of the financial statements and working papers. This has taken significant effort from the finance team and we would like to thank the team for their support during this period.</p>
Financial statements	<p>Subject to all outstanding queries being resolved to our satisfaction we anticipate issuing an unqualified audit opinion on the Force's financial statements before the deadline of 31 July 2018.</p> <p>Based upon our initial assessment of risks to the financial statements (as reporting to you in our <i>External Audit Plan 2017/18</i> and updated during our audit) we identified the following significant risks (excluding those mandated by International Standards on Auditing – see Page 11):</p> <ul style="list-style-type: none"> — Valuation of PPE – a full revaluation was performed in the year by the external valuer, Vickery Holman. We reviewed the external valuer's report and ensured that all revalued assets are correctly valued in the year end accounts and the fixed asset register. We also ensured there were no material changes in valuation occurring from the date of the valuation (January 2018) until the balance sheet date;

Summary for Independent Audit Committee (cont.)

Financial statements (continued)

- **Pensions Liabilities** – the valuation of the Local Government Pension Scheme and Police Pension Scheme pension liabilities, as calculated by the Actuary, is dependent upon both the accuracy and completeness of the data provided and the assumptions adopted. We reviewed the processes in place to ensure accuracy of data provided to the Actuary and considered the assumptions used in determining the valuation;
- **Faster Close** – the timetable for the production of the financial statements has been significantly advanced with draft accounts having to be prepared by 31 May (2016/17: 30 June) and the final accounts signed by 31 July (2016/17: 30 September). We worked with the Finance team in advance of our audit to understand the steps being taken to meet these deadlines and the impact on our work; and
- **Strategic Alliance cost allocation** – As in previous years, the methodology for apportioning cost and savings between Dorset and Devon & Cornwall is important to the outturn for both forces. There is a risk that the process is not appropriate or applied consistently, leading to a distortion in financial performance. We used our knowledge of the organisation and prior year work to review the methodology being used to apportion costs and savings and ensure it is appropriate and applied consistently. This work also responds to the presumed risk of management override of controls.

We have identified one audit adjustments, relating to double-counting of assets in the asset register. Based on our work, we have raised one recommendation, details of which can be found in Appendix 1.

Our work is substantially complete, however at the time of drafting this report, we are in the process of resolving our final queries on the valuation of land and buildings, payroll, pensions and Strategic Alliance cost allocation. We are also awaiting assurances from the auditor of the Local Government Pension Scheme on the programme of work we have requested be undertaken.

Our work is substantially complete and, subject to receiving assurances from the auditor of the Local Government Pension Scheme on the programme of work we have requested be undertaken, the final checks of the updated financial statements and receipt of the letter of management representations. We anticipate issuing our completion certificate and Annual Audit Letter by 31 July.

Value for money arrangements

We have completed our risk-based work to consider whether in all significant respects the Force has proper arrangements to ensure has taken properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. We have concluded that the Force has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

We therefore anticipate issuing an unqualified value for money opinion.

We set out our assessment of those areas requiring additional risk based work in our *External Audit Plan 2017/18* and have updated this assessment during our interim visit.

Summary for Independent Audit Committee (cont.)

Value for money arrangements (continued)

As a result of this we have identified the following significant VFM audit risks:

- **Medium Term Financial Planning** – The PCC is responsible for delivering a balanced budget. The robustness of the Medium Term Financial Plan (MTFP) is critical to the effective identification of any required savings and consequently any actions that the Force needs to take to secure those savings.

See further details on page 23.

Exercising of audit powers

We have a duty to consider whether to issue a report in the public interest about something we believe the Force should consider, or if the public should know about.

We have not identified any matters that would require us to issue a public interest report.

In addition, we have not had to exercise any other audit powers under the Local Audit & Accountability Act 2014.

Acknowledgements

We would like to take this opportunity to thank Officers and Members for their continuing help.

Section one

Control Environment



Organisational control environment

We have identified no significant issues with the Force's organisational control environment and consider that the overall arrangements that have been put in place are reasonable.

Work completed

Controls operated at an organisational level often have an impact on controls at an operational level and if there were weaknesses this would have implications for our audit. We obtain an understanding of the Force’s overall control environment and determine if appropriate controls have been implemented. We do not complete detailed testing of these controls.

Key findings

We consider that your organisational controls are effective overall.

Aspect of controls	Assessment
Organisational controls:	
Management’s philosophy and operating style	3
Culture of honesty and ethical behaviour	3
Oversight by those charged with governance	3
Risk assessment process	3
Communications	3
Monitoring of controls	3
Split of alliance costs across Dorset and Devon & Cornwall	3

Key	
1	Significant gaps in the control environment.
2	Deficiencies in respect of individual controls
3	Generally sound control environment.

Review of internal audit

Following our assessment of Internal Audit, we were able to place reliance on their work on the key financial systems.

Background

United Kingdom Public Sector Internal Audit Standards (PSIAS) apply across the whole of the public sector, including local government. These standards are intended to promote further improvement in the professionalism, quality, consistency and effectiveness of internal audit across the public sector. Additional guidance for local authorities is included in the Local Government Application Note on the PSIAS.

Work completed

The scope of the work of your internal auditors and their findings informs our audit risk assessment.

We work with your internal auditors to assess the control framework for certain key financial systems and seek to rely on relevant work they have completed to minimise unnecessary duplication of work. Our audit fee is set on the assumption that we can place full reliance on their work.

Where we intend to rely on internal audit's work in respect of the Force's key financial systems, auditing standards (ISA610) require us to complete an overall assessment of the internal audit function and to evaluate and test aspects of their work.

We reviewed internal audit's work on the key financial systems and re-performed a sample of tests completed by them. We only review internal audit work that has relevance to our audit responsibilities, to effectively scope out other internal audit work from our findings. Our review of internal audit work does not represent an external review against PSIAS, as required at least every five years.

Key findings

Based on the self-assessment performed by internal audit, our assessment of their files, attendance at Independent Audit Committee and regular meetings during the course of the year, we have not identified any significant issues which would prevent us from relying on internal audit's work for 2017/18.

We did not identify any significant issues with internal audit's work and are pleased to report that we are again able to place full reliance on internal audit's work on the key financial systems.

Controls over key financial systems

The controls over the majority of the key financial systems are sound.

Work completed

We review the outcome of internal audit’s work on the financial systems to influence our assessment of the overall control environment, which is a key factor when determining the external audit strategy.

Where we have determined that this is the most efficient audit approach to take, we evaluate the design and implementation of the control and then test selected controls that address key risks within these systems. The strength of the control framework informs the substantive testing we complete during our final accounts visit.

Our assessment of a system will not always be in line with your internal auditors’ opinion on that system. This is because we are solely interested in whether our audit risks are mitigated through effective controls, i.e. whether the system is likely to produce materially reliable figures for inclusion in the financial statements.

Key findings

Based on our work, and the work of your internal auditors, we have determined that the controls over the majority of the key financial systems are sound. We have raised one low priority recommendation as a result of our work, which is included in Appendix 1

Aspect of controls	Assessment	Key	
Property, Plant and Equipment	3	1	Significant gaps in the control environment
Cash and Cash Equivalents	3	2	Deficiencies in respect of individual controls
Pension Assets and Liabilities	3	3	Generally sound control environment
Non pay expenditure	3		
Payroll	3		
Journal entries	3		
Financial reporting process	3		

An overhead photograph of four business professionals (three women and one man) seated around a white conference table. They are dressed in business attire (white shirts, light blue shirts, and a grey top). The table has two laptops and a black folder. The scene is brightly lit with natural light from windows on the right, creating strong shadows. A blue horizontal band is overlaid across the middle of the image, containing the text.

Section two

Financial Statements

Accounts production and audit process

Audit standards (ISA 260) require us to communicate our views on the significant qualitative aspects of the Force's accounting practices and financial reporting.

We also assessed the Force's process for preparing the accounts and its support for an efficient audit. The efficient production of the financial statements and good-quality working papers are critical to meeting the tighter deadlines.

The Force's overall process for the preparation of the financial statements is adequate.

The Force has implemented most of the recommendations in our *ISA 260 Report 2016/17*.

Accounts practices and production process

The Force incorporated a number of measures into its closedown plan to further improve the project management of this complex process. This includes aligning the financial statement templates and accounting policies between Dorset and Devon & Cornwall early in the year to avoid delays and standardisation of working papers between the Forces by agreeing the most efficient way of arriving at the draft accounts. Specifically, the Force recognised the additional pressures which the earlier closedown brought and we engaged with officers in the period leading up to the year end in order to proactively address issues as they emerge.

We did experience some delays in the provision of information in relation to payroll testing, following a change in approach and information requirements compared to prior year. However the process did ultimately result in a satisfactory outcome with all records being reconciled from the payroll through to the general ledger and the bank. We have raised a recommendation in respect of this to improve the audit trail in this area in future years.

We consider that the overall process for the preparation of your financial statements is adequate and working papers supporting the draft accounts were sufficiently detailed. We also consider the Force's accounting practices to be appropriate.

Going concern

The financial statements of both the PCC and the CC have been prepared on a going concern basis. We confirm that we have identified no significant matters which would, in our view, affect the ability of the Force to continue as a going concern.

Further commentary on the Force's arrangements in place to secure the effective delivery of budgets is included as part of our value for money assessment at page 23.

Implementation of recommendations

We raised three recommendations in our ISA 260 Report 2016/17. Whilst the Force has taken steps to address these points, work remains ongoing to fully address the recommendations. Further details are included in Appendix 2.

Accounts production and audit process (cont.)

Completeness of draft accounts

We received a complete set of draft accounts on 31 May 2018, which is the statutory deadline. We made some comments on the completeness of notes to the financial statements and presentational points but these were not major issues and have been addressed. The accounts however had some minor changes and additional disclosures so redrafting was required.

Quality of supporting working papers

We have discussed approaches to audit testing in the current period during planning meetings in January 2018 and issued our detailed "Prepared by Client" ("PBC") request in April 2018 which outlines our documentation requests and also summarises the working papers and other evidence we require the Force to provide to support our audit work. This helps the Force to provide audit evidence in line with our expectations and performing tasks at closedown for the audit to avoid duplication.

Response to audit queries

As communicated in the 2016/17 ISA 260 report, for the current year audit we have brought in KPMG Central, a cloud-based document storage system to facilitate the secure transfer of large amounts of data between the Force and the audit team. We are pleased to confirm that the system was used during the audit and helped with secure data transfers although teething problems initially resulted in client files being rejected. Amendments were made by KPMG which subsequently resolved the issue.

We however noted that even though the system was set up during interim audit visit, no working papers were uploaded until first day of fieldwork which caused delays in the flow of information. While we understand that some working papers were not available until year end, our Prepared by Client request included also other documentation that could have been uploaded earlier in the process for efficiency.

On the whole, Officers dealt with our audit queries promptly. On a regular basis we met with the main contact to go through the outstanding PBC list and list of follow up queries to address those and minimise delays. This was particularly acute when queries were fielded to officers outside of the core finance team and so help in obtaining responses was appreciated. In the current year we took a more substantive approach to testing which resulted in larger sample sizes. We would like to thank the team for their assistance in collating the required documentation. The only area where we experienced delays was with receiving payroll data, where additional time was required to reconcile the amounts to the trial balance.

Specific audit areas

We anticipate issuing an unqualified audit opinion on the PCC's and CC's 2017-18 financial statements by 31 July 2018. We will also report that your Annual Governance Statement complies with the guidance issued by CIPFA/SOLACE ('Delivering Good Governance in Local Government') published in April 2016.

For the year ending 31 March 2018, the PCC Group has reported a deficit of £120.8 million. On a funding basis this deficit is £11.2 million, meaning that useable reserves have decreased by £11.2 million from the previous year.

Auditing standards require us to consider two standard risks for all organisations. We consider these as a matter of course in our audit and will have set out the findings arising from our work in our ISA 260 Report below.

01

Management override of controls

Professional standards require us to communicate the fraud risk from management override of controls as significant because management is typically in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

Our audit methodology incorporates the risk of management override as a default significant risk. We have not identified any specific additional risks of management override relating to this audit.

In line with our methodology, we carried out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual.

There are no matters arising from this work that we need to bring to your attention.

02

Fraudulent revenue recognition

Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk.

In our *External Audit Plan 2017-18* we reported that we do not consider this to be a significant risk for Local Authorities as there is unlikely to be an incentive to fraudulently recognise revenue.

This is still the case. Since we have rebutted this presumed risk, there has been no impact on our audit work.

Over the following pages we have set out our assessment of the specific significant risks and areas of audit focus we identified in relation to the audit of the Force's financial statements.

Specific audit areas

Significant Audit Risks

Those risks requiring specific audit attention and procedures to address the likelihood of a material financial statement error in relation to the Force.

Risk:	<p>Valuation of land and buildings</p> <p>The Code requires that, where assets are subject to revaluation, their year end carrying value should reflect the appropriate fair value at that date. Devon & Cornwall Police adopt a rolling revaluation cycle model which sees all land and buildings revalued every three years.</p> <p>As a result of this, individual assets may not be revalued for two years. This creates a risk that the carrying value of those assets not revalued in year differs materially from the year end value. There has been a full revaluation in the year performed as at 31 January 2018 and so not the balance sheet date and there may be further movements not captured by the valuation.</p>
Our assessment and work undertaken:	<p>We reviewed the report of your external valuers, Vickery Holman, and reconciled the asset values per the report to the Fixes Asset register. We also ensured that all assets in the category of land and buildings as well as surplus assets and assets held for sale have been included in the report.</p> <p>We obtained a letter from the valuer confirming that there were no material changes in asset values since the valuation date (31 January 2018) until the balance sheet date.</p> <p>In addition, we considered movements in market indices per the Gerald Eve report commissioned by the NAO and RICS local indices to corroborate the overall movement in asset values year on year.</p> <p>In relation to those assets which have been revalued during the year we reviewed the accounting entries made to record the results of the revaluation in order to ensure that they were appropriate.</p> <p>We also assessed the valuer’s qualifications, objectivity and independence to carry out such valuations and reviewed the methodology used (including testing the underlying data and assumptions).</p> <p>We did not identify any issues as a result of this work.</p> <p>We have set out our view of the assumptions used in relation to accounting for Property, Plant & Equipment at page 16.</p>

Specific audit areas (cont.)

Significant Audit Risks (cont.)

Risk:	<p>Pension Liabilities</p> <p>The Authorities participate in the Local Government Pension Scheme and the Police Pension Scheme. The pension liability represents a material element of the PCC and CC balance sheets.</p> <p>The valuation of the pension liability relies on a number of assumptions, most notably around the actuarial assumptions, and actuarial methodology which results in the overall valuation.</p> <p>There are financial assumptions and demographic assumptions used in the calculation of the valuation, such as the discount rate, inflation rates, mortality rates etc. The assumptions should also reflect the profile of the PCC and CC employees, and should be based on appropriate data. During the year, the Police Pension Scheme has undergone a triennial valuation, effective as at 1 April 2017. This actuarial valuation is then rolled forward to arrive at the pension liability at year end.</p> <p>There is a risk that the assumptions and methodology used in the valuation of the Police and Crime Commissioner and Chief Constable’s pension obligations at year end are not reasonable, or that the data used by the actuary is inaccurate. This could have a material impact to net pension liabilities accounted for in the financial statements.</p>
Our assessment and work undertaken:	<p>As part of our work we reviewed the controls that the Force has in place over the information sent directly to the Scheme Actuary. We also liaised with the auditors of the Devon County Pension Fund (LGPS) in order to gain an understanding of the effectiveness of those controls operated by the Pension Fund. This included consideration of the process and controls with respect to the assumptions used in the valuation. We also evaluated the competency, objectivity and independence of Barnett Waddingham LLP.</p> <p>We reviewed the appropriateness of the key assumptions included within the valuation of both the Police and Local Government Pension Schemes and compared them to expected ranges and involved a KPMG Actuary to provide a specialist assessment of those assumptions. We also reviewed the methodology applied in the valuation by Barnett Waddingham LLP.</p> <p>In addition, we reviewed the overall Actuarial valuation and considered the disclosure implications in the financial statements.</p> <p>We have set out our view of the assumptions used in valuing pension assets and liabilities at page 17.</p>

Specific audit areas (cont.)

Significant Audit Risks (cont.)

Risk:	<p>Faster Close</p> <p>In prior years, the PCC and CC have been required to prepare draft financial statements by 30 June and then final signed accounts by 30 September. For years ending on and after 31 March 2018 however, revised deadlines apply which require draft accounts by 31 May and final signed accounts by 31 July.</p> <p>In order to meet the revised deadlines, the PCC and CC may need to make greater use of accounting estimates. In doing so, consideration will need to be given to ensuring that these estimates remain valid at the point of finalising the financial statements. In addition, there are a number of logistical challenges that will need to be managed. These include:</p> <ul style="list-style-type: none">— Ensuring that any third parties involved in the production of the accounts (including valuers, actuaries) are aware of the revised deadlines and have made arrangements to provide the output of their work in accordance with this;— Revising the closedown and accounts production timetables in order to ensure that all working papers and other supporting documentation are available at the start of the audit process;— Ensuring that the Independent Audit Committee meeting schedules have been updated to permit signing in July; and— Applying a shorter paper deadline to the July meeting of the Independent Audit Committee meeting in order to accommodate the production of the final versions of the accounts and our ISA 260 report. <p>In the event that the above areas are not effectively managed there is a significant risk that the audits will not be completed by the 31 July deadline.</p> <p>There is also an increased likelihood that the Audit Certificates (which confirms that all audit work for the year has been completed) may be issued separately at a later date if work is still on-going in relation to the Police and Crime Commissioner’s Whole of Government Accounts return. This is not a matter of concern and is not seen as a breach of deadlines.</p>
Our assessment and work undertaken:	<p>We liaised with officers in preparation for our audit in order to understand the steps that the Force was taking in order to ensure it met the revised deadlines. We also advanced audit work into the interim visit in order to streamline the year end audit work.</p> <p>We received draft financial statements on the statutory deadline of 31 May 2018. The quality of this draft was consistent with that of prior years though the account templates have been updated considerably to align the reporting for both Dorset and Devon & Cornwall Police. A small number of presentational adjustments were identified.</p> <p>In a number of areas the Force made increased use of estimates, for instance accruals. In these areas we considered the assumptions used and challenged the robustness of those estimates.</p> <p>We have noted no significant issues in this area.</p>

Specific audit areas (cont.)

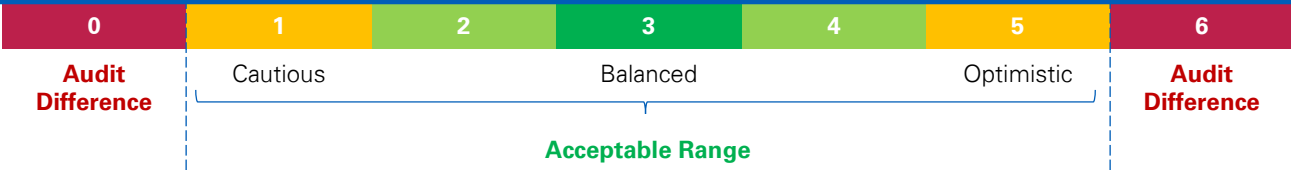
Significant Audit Risks (cont.)

Risk:	<p>Strategic Alliance Cost Allocation</p> <p>As in previous years, the methodology for apportioning cost and savings between Dorset and Devon & Cornwall is important to the outturn for both forces. There is a risk that the process is not appropriate or applied consistently, leading to a distortion in financial performance.</p>
Our assessment and work undertaken:	<p>As we audit both forces, we have performed an analysis for the purposes of both the audits. This has ensured that the total costs related to the Strategic Alliance have been captured, and correctly split based on the Section 22 agreement for the relevant business case.</p> <p>At the time of drafting this report, we are in the process of completing our work in this area, but have not identified any errors to date in how the costs had been apportioned and have seen that the costs have been allocated consistently with the Section 22 agreements. However we note that the process used to allocate the costs is complex, and would benefit from simplification. This was raised as a recommendation in the prior year.</p>

Judgements

We have considered the level of prudence within key judgements in your 2017-18 financial statements and accounting estimates. We have set out our view below across the following range of judgements.

Level of prudence



Subjective area	2017-18	2016-17	Commentary
Provisions £1.6m (16/17: £1.9m)	3	3	Though we have not performed detailed testing over provisions due to the balance not being material to the financial statements, we performed a review of the amounts recorded against the prior year. The provisions approach is consistent with prior year, notably the process of dealing with small claims against the Force. Contingent Liabilities have also been assessed in accordance with IAS 37 and have also been monitored regularly to see whether the circumstances changed post year end and indicated they should be recognised at the year end. This process involves the legal team and provides a balanced judgement.
Property Plant & Equipment: Valuation £146.7m (16/17: £152.3m)	2	3	The Force has utilised Vickery Holman as an external valuation expert to provide valuation of Land and Buildings at year end. We have reviewed the instructions provided and deem that the valuation exercise is in line with the instructions. We have compared the valuation movements with regional indices provided by Gerald Eve, the valuation firm engaged by the NAO to provide supporting valuation information, and liaised with Vickery Holman to understand the specific assumptions and local factors applied in the valuation.

Judgements (cont.)

Subjective area	2017-18	2016-17	Commentary
Valuation of pension assets and liabilities	3	3	The Force continues to use Barnett Waddingham LLP to provide actuarial valuations in relation to the assets and liabilities recognised as a result of participation in the Local Government Pension Scheme and the Police Officers Schemes. Due to the overall value of the pension assets and liabilities, small movements in the assumptions can have a significant impact on the overall valuation. The actual assumptions adopted by the actuary fell within our expected ranges as set out below:

Evaluation of assumptions

Assumption – Police Pension Schemes	Actuary Value	KPMG Value	Assessment
Discount rate	2.55%	2.50%	3
Pension Increase rate	2.35%	2.16%	1
Net discount rate	0.20%	0.34%	2
Salary Growth	CPI until 2020, plus 1.5% thereafter	CPI plus 0% to 2.0%	3
Life expectancy Current male / female Future male/female	23.7/ 21.9 26.1 / 24.2	23.5/ 22.1 25.4/ 23.9	2

Discount rate is considered to be balanced and within our normally acceptable range.

Pension increase rates proposed assumption is considered to be cautious but within our normally acceptable range.

We would typically expect salary increases to fall in the range of CPI plus 0% to 2%. The margin above CPI for the long-term salary increase assumption has been reduced from 2.2% p.a. last year. In addition, the short-term salary increases are assumed to be in line with CPI until 31 March 2020. We would consider the updated approach to be reasonable.

A consistent mortality base table has been adopted by the Employer. The long-term improvement model has been updated to reflect more recent market data. The resulting life expectancies are within our normally acceptable range.

Assumption - Devon County Pension Fund	Actuary Value	KPMG Range	Assessment
Discount rate	2.55%	2.51%	3
CPI inflation	2.30%	2.15%	1
Net discount rate	0.25%	0.35%	2
Salary Growth	CPI until 2020, plus 1.5% thereafter	CPI plus 0% to 2%	3
Life expectancy Current male / female Future male/female	25.7/ 23.5 27.9/ 25.6	23.5/ 22.1 25.4/ 23.9	2

Changes since 2016-17 approach

Last year, the discount rate was based upon the annualised spot rate at the relevant duration on the Merrill Lynch AA-rate corporate bond yield curve. This year, the discount rate is based on a single equivalent, cashflow-weighted discount rate approach, using Merrill Lynch AA-rate corporate bond yield curve at the appropriate duration. Last year, the RPI increase assumption was set based on the difference between conventional gilt yields and index-linked gilt yields based on data published by the Bank of England (spot rate approach). This year, the RPI increase assumption is set using the single equivalent, cashflow-weighted inflation rate approach using the BoE implied inflation curve at the appropriate duration. An RPI-CPI wedge of 1% p.a. is applied this year compared to 0.9% p.a. last year. We consider the change in the methodology used to set this assumption to be acceptable.

Proposed opinion and audit differences

Subject to all outstanding queries being resolved to our satisfaction, we anticipate issuing an unqualified audit opinion on the Force's 2017-18 financial statements following review of the Statement of Accounts by the Independent Audit Committee on 17 July 2018.

Audit differences

In accordance with ISA 260 we are required to report uncorrected audit differences to you. We also report any material misstatements which have been corrected and which we believe should be communicated to you to help you meet your governance responsibilities.

The final materiality (see Appendix 4) for this year's audit was set at £4.0 million for PCC and £3.0 million for CC. Audit differences below £200k are not considered significant.

We did not identify any material misstatements. However, we identified a small number of presentational adjustments required to ensure that the accounts are compliant with the Code of Practice on Local Authority Accounting in the United Kingdom 2017-18 ('the Code'). We have set out details of the presentational adjustments in Appendix 3. We understand that the Force will be addressing these where significant.

Annual governance statement

We have reviewed the Force's 2017-18 Annual Governance Statement and confirmed that:

- It complies with Delivering Good Governance in Local Government: A Framework published by CIPFA/SOLACE; and
- It is not misleading and is consistent with other information we are aware of from our audit of the financial statements.

Narrative report

We have reviewed the Force's 2017-18 narrative report and have confirmed that it is consistent with the financial statements and our understanding of the Force.

Completion

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the PCC's and CC's 2017/18 financial statements.

Before we can issue our opinion we require a signed management representation letter.

Once we have finalised our opinions and conclusions we will prepare our Annual Audit Letter and close our audit.

Declaration of independence and objectivity

As part of the finalisation process we are required to provide you with representations concerning our independence.

In relation to the audit of the financial statements of Devon & Cornwall PCC and CC for Devon & Cornwall for the year ending 31 March 2018, we confirm that there were no relationships between KPMG LLP and Devon & Cornwall PCC or CC for Devon & Cornwall, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

We have provided a detailed declaration in Appendix 5 in accordance with ISA 260.

Management representations

You are required to provide us with representations on specific matters such as your financial standing and whether the transactions within the accounts are legal and unaffected by fraud. We have provided a template to the Responsible Finance Officer for presentation to the Independent Audit Committee. We require a signed copy of your management representations before we issue our audit opinion.

Other matters

ISA 260 requires us to communicate to you by exception 'audit matters of governance interest that arise from the audit of the financial statements' which include:

- Significant difficulties encountered during the audit;
- Significant matters arising from the audit that were discussed, or subject to correspondence with management;
- Other matters, if arising from the audit that, in the auditor's professional judgment, are significant to the oversight of the financial reporting process; and
- Matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. significant deficiencies in internal control; issues relating to fraud, compliance with laws and regulations, subsequent events, non disclosure, related party, public interest reporting, questions/objections, opening balances etc.).

There are no others matters which we wish to draw to your attention in addition to those highlighted in this report or our previous reports relating to the audit of the PCC's and CC's 2017-18 financial statements.

Value for Money Arrangements



Specific value for money risk areas

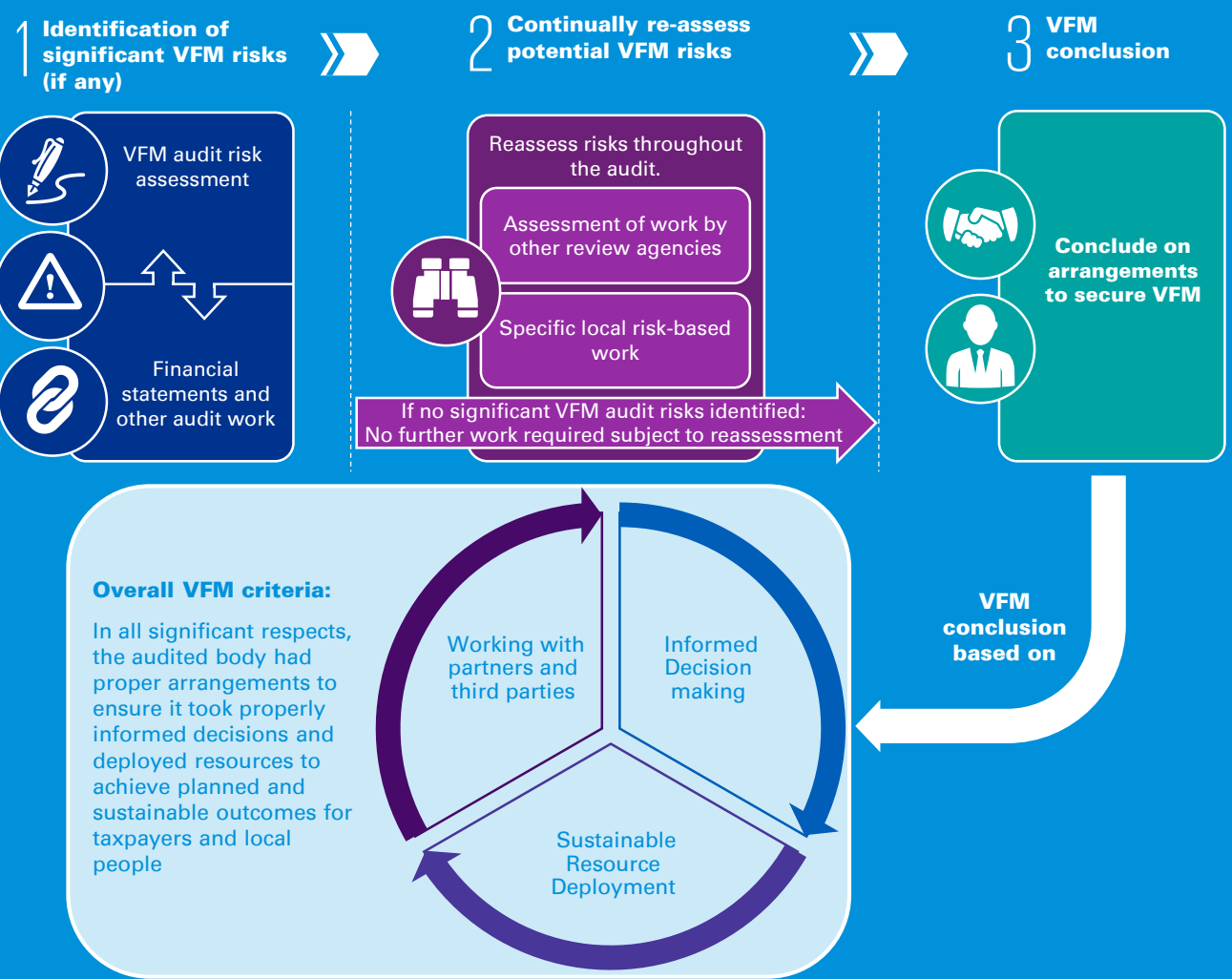
Our 2017-18 VFM conclusion considers whether the Force had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

We have concluded that the Force has made proper arrangements to ensure it took properly-informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

The Local Audit and Accountability Act 2014 requires auditors of local government bodies to be satisfied that the Force ‘has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources’.

This is supported by the Code of Audit Practice, published by the NAO in April 2015, which requires auditors to ‘take into account their knowledge of the relevant local sector as a whole, and the audited body specifically, to identify any risks that, in the auditor’s judgement, have the potential to cause the auditor to reach an inappropriate conclusion on the audited body’s arrangements.’

We follow a risk based approach to target audit effort on the areas of greatest audit risk.



Specific value for money risk areas (cont.)

The table below summarises our assessment of the individual VFM risk identified against the three sub-criteria. This directly feeds into the overall VFM criteria and our value for money opinion.

Applicability of VFM Risks to VFM sub-criteria

VFM Risk	Informed decision making	Sustainable resource deployment	Working with partner and third parties
Medium Term Financial Planning		✓	

In consideration of the above, we have concluded that in 2017-18, the Force has made proper arrangements to ensure it took properly-informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

Further details on the work done and our assessment are provided on the following pages.



Specific value for money risk areas (cont.)

As communicated to you in our *External Audit Plan 2017-18*, we have identified one risk requiring specific audit attention and procedures to address the likelihood that proper arrangements are not in place to deliver value for money.

To conclude on the risk it is necessary for us to review the revised MTFS updated for the 2017-18 year end actuals. In most cases we are satisfied that external or internal scrutiny provides sufficient assurance that the Force’s current arrangements in relation to these risk areas are adequate.

We have provided below a summary of the risk areas identified, our work undertaken and the conclusions reached.

Risk:	<p>Medium Term Financial Planning</p> <p>The Police and Crime Commissioner is responsible for delivering a balanced budget. The robustness of the Medium Term Financial Strategy (MTFS) is critical to the effective identification of any required savings and consequently any actions that the Force needs to take to secure those savings..</p> <p>The budget and MTFS for 2018/19-2021/22 was approved at the Police and Crime Panel meeting on 2 February 2018 and recognised a need for £9.6 million in savings by 2021/22. The approved budget includes individual proposals to support the delivery of the overall savings requirement. Further savings will be required over the period to 2021/22 to principally address future reductions to local Force funding alongside service cost and demand pressures. As a result, the need for savings will continue to have a significant impact on the Force’s financial resilience.</p>
Our assessment and work undertaken:	<p>Like most of local government, the Force faces a challenging future driven by funding reductions and an increase in demand for services. The budget is therefore designed to drive efficiencies through regional cooperation and work with Dorset Police and the Strategic Alliance.</p> <p>The Force reported an overall breakeven position on its net expenditure budget for 2017/18 after the net contribution of £0.2 million from the General Fund and earmarked reserve. This enabled the General Fund balance to remain at £11.7 million as of 31 March 2018.</p> <p>The MTFS details a balanced budget for 2018/19 including savings of £3.4 million in year, all of which have been identified. However, the MTFS details the increasingly difficult financial challenges faced each year, resulting in the need for ever rising savings, up to £9.6 million by 2021/22. We carried out a review of the draft year end outturn reports in conjunction with the budgets.</p> <p>We have considered the assumptions that feed into the MTFS and consider that these are reasonable, although we note that potential pressures on wage inflation could lead to increased difficulty in balancing the budget in future years. Continued working with Dorset Police and other partners to improve efficiency and economy will be critical to achieving a sustainable financial position in the future.</p>

Appendices



Key issues and recommendations

Our audit work on the Force’s 2017-18 financial statements has identified one minor issue. This is listed below together with our recommendations which we have agreed with Management. We have also included Management’s responses to these recommendations.

The Force should closely monitor progress in addressing the risks, including the implementation of our recommendations.

We have given each recommendation a risk rating and agreed what action management will need to take.

Priority Rating for Recommendations

1	Priority One: Issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.	2	Priority Two: Issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.	3	Priority Three: Issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.
Recommendations Raised: 0		Recommendations Raised: 0		Recommendations Raised: 1	

No.	Risk	Issue & Recommendation	Management Response
1	3	Payroll information During the audit, we had difficulty reconciling payroll costs recorded in the ledger, the payroll reports from the payroll system and the payments made out of the bank account. Whilst we noted that there are timing differences and supplemental payroll runs which increase the complexity of the reconciliation, such a reconciliation would increase the controls around staff costs, the largest outflow for the force. We appreciate that monthly payroll control reconciliations are performed on account level, and hence payroll is appropriately reconciled, however a year end reconciliation to support the figure in the accounts would improve the audit trail. Recommendation We recommend that a year end reconciliation is performed to show the total staff costs actually incurred in the year, reconciled to cashflow and supporting the employee expense balance disclosed in the draft statements of accounts. This would improve the audit trail and also improve management oversight of the costs and help identify potential discrepancies.	Full reconciliations will be prepared at the end of 2018/19, which will reconcile the bank account transactions to the amounts shown in the statements of accounts. Responsible Officer Neal Butterworth – Head of Finance Implementation Deadline 31 May 2019

Follow-up of prior year recommendations

The Force has not fully implemented the recommendations raised through our previous audit work. We re-iterate the importance of the outstanding recommendations and recommend that these are implemented as a matter of urgency.

This appendix summarises the progress made to implement the recommendations identified in our *ISA 260 Report 2016/17* and re-iterates any recommendations still outstanding.

Number of recommendations that were

Included in the original report	3
Fully implemented in year or superseded	0
Outstanding or in progress at the time of our audit	3

No.	Risk	Issue & Recommendation	Management Response	Status as at June 2018
1	2	<p>Separation of forces within accounting system</p> <p>We note that the configuration of the accounting system makes it difficult to separate the transactions of Devon & Cornwall Police with those of Dorset Police. For example, it is difficult to run a listing of just one force’s ledger transactions.</p> <p>—There is a risk that expenditure and other transactions are recorded in the wrong entity’s accounts (although we have noted no such instances during our audit).</p> <p>—The impact of this in our audit has been a delay in getting certain pieces of information to support each entity’s accounts.</p> <p>Recommendation</p> <p>The Alliance Finance Function should review and address the system issues leading to these problems. We note that a member of the team has been specifically tasked with improving the accounting system configuration and we welcome this work being undertaken.</p>	<p>Accepted</p> <p>Responsible Officer</p> <p>Michael Gravelle</p> <p>Implementation Deadline</p> <p>March 2018</p>	<p>In recognition of a possible merger, a specific decision was made to await the result of the final business case.</p> <p>A system solution has been designed and implemented in the TEST system and the Force is aiming to conclude testing of this during July, with the intention to go live at the end of July. This will prevent all cross company posting and ensure full segregation of Forces’ records.</p>

Appendix 2:

Follow-up of prior year recommendations (continued)

No.	Risk	Issue & Recommendation	Management Response	Status as at June 2018
2	2	<p>Strategic Alliance cost allocation process</p> <p>—Whilst we found no errors in the allocation of Strategic Alliance costs to the two forces, the process seems overcomplicated, and loses the overall picture of a simple split of costs in each business case.</p> <p>—The impact was that it took much more work for both the force, and the audit team, to gather evidence to show that the recharges were correct and the costs were correctly recorded in each entity's accounts.</p> <p>Recommendation</p> <p>The Alliance Finance Function should review and amend the model for allocations and recharges with a view to simplifying the approach.</p>	<p>Accepted</p> <p>Responsible Officer</p> <p>Michael Gravelle</p> <p>Implementation Deadline</p> <p>March 2018</p>	<p>Although the Force recognises that the process might be able to be simplified the Force had delayed a full review until the solution to separating forces transactions was fully in place. Part of the scoping of that piece of work identified that it may be easier to deliver a simpler solution after the changes.</p>
3	2	<p>Alignment of accounts preparation</p> <p>—While the Strategic Alliance Finance Function was responsible for the Devon & Cornwall Police and Dorset Police Accounts preparation, the processes for creating the sets of accounts are currently not the same.</p> <p>—This means that the same approach cannot be replicated across the two forces, and instead different procedures are performed, which will be time consuming for the team and require more audit involvement.</p> <p>Recommendation</p> <p>Review of each of the PCCs' and Forces' accounts, and create one template set of financial statements for 2017/18, with similar formatting and note consistency. This will aid the accounts production process in future years.</p>	<p>Accepted</p> <p>Responsible Officer</p> <p>Lucinda Hines</p> <p>Implementation Deadline</p> <p>March 2018</p>	<p>A single template for accounts preparation prepared and alignment of accounting policies also undertaken to an extent. Some differences between the working papers supplied as backing for the draft financial statements persist and also the fixed asset registers are maintained differently for both forces.</p> <p>As such we deem the recommendation to be in progress as the alignment process is ongoing.</p>

Audit differences

We are required by ISA 260 to report all uncorrected misstatements, other than those that we believe are clearly trivial, to those charged with governance (which in your case is the Independent Audit Committee).

We are also required to report all material misstatements that have been corrected but that we believe should be communicated to you to assist you in fulfilling your governance responsibilities.

Audit differences

We have identified one audit difference as a result of our work, highlighted below.

Table 1: Adjusted audit differences (£'000)

No.	Income and expenditure statement	Movement in reserves statement	Assets	Liabilities	Reserves	Basis of audit difference
1	Dr Surplus on revaluation of non-current assets £1.6m	Cr Adjustments between accounting basis and funding basis under regulations £1.6m	Cr Land and buildings £1.6m		Dr Revaluation reserve £1.6m	<p>When reconciling the valuation report to the asset register, we identified that three assets that were held separately on the asset register (such as the land for the helicopter runway on the HQ site) had been combined for valuation purposes in the report.</p> <p>The combined valuation had been recorded against a single asset in the asset register and not split over the separate assets. As the original assets were also on the register, this resulted in double counting of the assets.</p> <p>The result was that the asset register, and therefore the accounts, had been overstated by £1.6m.</p>
	Dr £1.6m	Cr £1.6m	Cr £1.6m	-	Dr £1.6m	Total impact of adjustments

Presentational adjustments

We identified a small number of presentational adjustments required to ensure that the Force’s financial statements for the year ending 31 March 2018 are fully compliant with the Code of Practice on Local Force Accounting in the United Kingdom 2017-18 (‘the Code’) - it is our understanding that these will be adjusted.

Materiality and reporting of audit differences

The assessment of what is material is a matter of professional judgment and includes consideration of three aspects: materiality by value, nature and context.

Material errors by value are those which are simply of significant numerical size to distort the reader's perception of the financial statements. Our assessment of the threshold for this depends upon the size of key figures in the financial statements, as well as other factors such as the level of public interest in the financial statements.

Errors which are material by nature may not be large in value, but may concern accounting disclosures of key importance and sensitivity, for example the salaries of senior staff.

Errors that are material by context are those that would alter key figures in the financial statements from one result to another – for example, errors that change successful performance against a target to failure.

We used the same planning materiality reported in our *External Audit Plan 2017-18*, presented to you in March 2018.

Materiality for the PCC accounts was set at £4 million which equates to around 1.3 percent of gross expenditure. Materiality for the CC accounts was set at £3.8 million which equates to around 1.4 percent of gross expenditure. We design our procedures to detect errors in specific accounts at a lower level of precision.

Reporting to the Independent Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Independent Audit Committee any misstatements of lesser amounts to the extent that these are identified by our audit work.

Under ISA 260, we are obliged to report omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

ISA 450 requires us to request that uncorrected misstatements are corrected.

In the context of the Force, an individual difference is considered to be clearly trivial if it is less than £195k for the Force.

Where management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Independent Audit Committee to assist it in fulfilling its governance responsibilities.

Appendix 5:

Required communications with the Independent Audit Committee

We have provided below at-a-glance summary of the information we are required to report to you in writing by International Accounting Standards.

Required Communication	Commentary
Our draft management representation letter	We have not requested any specific representations in addition to those areas normally covered by our standard representation letter for the year ended 31 March 2018.
Adjusted audit differences	We have identified one adjusted difference as a result of our audit of the Police and Crime Commissioner's and the Chief Constable's financial statements.
Unadjusted audit differences	We have identified no unadjusted differences as a result of our audit of the Police and Crime Commissioner's and the Chief Constable's financial statements
Related parties	There were no significant matters that arose during the audit in connection with the entity's related parties.
Other matters warranting attention by the Independent Audit Committee	There were no matters to report arising from the audit that, in our professional judgment, are significant to the oversight of the financial reporting process.
Control deficiencies	We have set out our assessment of the Force's internal control environment, including details of significant deficiencies identified, in Section one of this report (see pages 4 to 7).
Actual or suspected fraud, noncompliance with laws or regulations or illegal acts	We identified no actual or suspected fraud involving the Force's Member or officers with significant roles in internal control, or where the fraud resulted in a material misstatement in the financial statements.
Significant difficulties	No significant difficulties were encountered during the audit.
Modifications to auditor's report	There are no modifications to our audit report.
Disagreements with management or scope limitations	The engagement team had no disagreements with management and no scope limitations were imposed by management during the audit.

Appendix 5:

Required communications with the Independent Audit Committee (cont.)

Required Communication	Commentary
Other information	<p>No material inconsistencies were identified related to other information in the Narrative Report or Annual Governance Statement.</p> <p>These reports were found to be fair, balanced and comprehensive, and compliant with applicable requirements.</p>
Our declaration of independence and any breaches of independence	<p>No matters to report.</p> <p>The engagement team and others in the firm, as appropriate, the firm and, when applicable, KPMG member firms have complied with relevant ethical requirements regarding independence.</p> <p>See Appendix 6 for further details.</p>
Accounting practices	<p>Over the course of our audit, we have evaluated the appropriateness of the Force’s accounting policies, accounting estimates and financial statement disclosures. In general, we believe these are appropriate.</p> <p>We have set out our view of the assumptions used in valuing pension assets and liabilities at page 17.</p>
Significant matters discussed or subject to correspondence with management	<p>There were no significant matters arising from the audit which were discussed, or subject to correspondence, with management.</p>



Declaration of independence

ASSESSMENT OF OUR OBJECTIVITY AND INDEPENDENCE AS AUDITOR OF DEVON AND CORNWALL POLICE AND CRIME COMMISSIONER AND THE CHIEF CONSTABLE

Professional ethical standards require us to provide to you at the conclusion of the audit a written disclosure of relationships (including the provision of non-audit services) that bear on KPMG LLP's objectivity and independence, the threats to KPMG LLP's independence that these create, any safeguards that have been put in place and why they address such threats, together with any other information necessary to enable KPMG LLP's objectivity and independence to be assessed.

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code of Audit Practice, the provisions of Public Sector Audit Appointments Limited's ('PSAA's') Terms of Appointment relating to independence, the requirements of the FRC Ethical Standard and the requirements of Auditor Guidance Note 1 - General Guidance Supporting Local Audit (AGN01) issued by the National Audit Office ('NAO') on behalf of the Comptroller and Auditor General.

This Statement is intended to comply with this requirement and facilitate a subsequent discussion with you on audit independence and addresses:

- General procedures to safeguard independence and objectivity;
- Independence and objectivity considerations relating to the provision of non-audit services; and
- Independence and objectivity considerations relating to other matters.

General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP partners, Audit Directors and staff annually confirm their compliance with our ethics and independence policies and procedures. Our ethics and independence policies and procedures are fully consistent with the requirements of the FRC Ethical Standard. As a result we have underlying safeguards in place to maintain independence through:

- Instilling professional values
- Communications
- Internal accountability
- Risk management
- Independent reviews.

We are satisfied that our general procedures support our independence and objectivity.

Declaration of independence (cont.)

Independence and objectivity considerations relating to the provision of non-audit services

Summary of fees

We have considered the fees charged by us to the PCC and CC for professional services provided by us during the reporting period. We have detailed the fees charged by us to the Force and its controlled entities for significant professional services provided by us during the reporting period in Appendix 7, as well as the amounts of any future services which have been contracted or where a written proposal has been submitted. Total fees charged by us for the period ended 31 March 2018 can be analysed as follows:

	2017-18 £	2016-17 £
Audit of the Police and Crime Commissioner	36,353	36,353
Audit of the Chief Constable	18,750	18,750
Total audit services	55,103	55,103
Total Non Audit Services	-	-

We have not provided any non-audit services to the Force in the year and so we are compliant with the AGN 01 requirement to limit the proportion of fees charged for non-audit services (excluding mandatory assurance services) to 70% of the total fee for all audit work carried out in respect of the Force under the Code of Audit Practice for the year.

Independence and objectivity considerations relating to other matters

There are no other matters that, in our professional judgment, bear on our independence which need to be disclosed to the Independent Audit Committee.

Confirmation of audit independence

We confirm that as of the date of this report, in our professional judgment, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Audit Director and audit staff is not impaired.

This report is intended solely for the information of the Independent Audit Committee of the Force and should not be used for any other purposes.

We would be very happy to discuss the matters identified above (or any other matters relating to our objectivity and independence) should you wish to do so.

KPMG LLP

Appendix 7:

Audit fees

As communicated to you in our *External Audit Plan 2017-18*, our scale fee for the Police and Crime Commissioner audit is £36,353 plus VAT (£36,353 in 2016/17) and for that of the Chief Constable £18,750 plus VAT (£18,750 in 2016.17), which is consistent with the prior year.

Component of the audit	2017-18 Planned Fee £	2016-17 Actual Fee £
Accounts opinion and value for money work		
PSAA Scale fee (Police and Crime Commissioner)	36,353	36,353
PSAA Scale fee (Chief Constable)	18,750	18,750
Total audit services	55,103	55,103
Grand total fees for the Force	55,103	55,103

All fees quoted are exclusive of VAT.





The key contacts in relation to our audit are:

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This report is addressed to the Force and has been prepared for the sole use of the Force. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. We draw your attention to the Statement of Responsibilities of auditors and audited bodies, which is available on Public Sector Audit Appointment's website (www.psaa.co.uk).

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Rees Batley, the engagement lead to the Force, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers, by email to Andrew.Sayers@kpmg.co.uk. After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing generalenquiries@psaa.co.uk by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3HZ.

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