



**Police, Fire and Crime
Commissioner and Chief
Constable for
Northamptonshire**

Annual Audit Letter for the year
ended 31 March 2019

February 2021



EY

Building a better
working world

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Public Sector Audit Appointments Ltd (PSAA) have issued a 'Statement of responsibilities of auditors and audited bodies'. It is available from the Chief Executive of each audited body and via the PSAA website (www.psa.co.uk). It is available from the Chief Executive of each audited body and via the PSAA website OR As part the Auditor Engagement process, we have agreed with you the respective responsibilities of auditors and audited bodies. Copies of the Engagement Letter and Terms and Conditions of our appointment are available from the Chief Executive or via the bodies minutes on their website.

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

The 'Terms of Appointment (updated April 2018)' issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

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

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



01 Executive Summary

Executive Summary

We are required to issue an Annual Audit Letter to Police, Fire and Crime Commissioner and Chief Constable for Northamptonshire's (the "PFCC and CC") following completion of our audit procedures for the year ended 31 March 2019. Below are the results and conclusions on the significant areas of the audit process.

Area of Work	Conclusion
Opinion on the PFCC and CC's: ▶ Financial statements	Unqualified with emphasis of matter in relation to cost pressures as a result of the Covid-19 pandemic. The financial statements give a true and fair view of the financial position of the Authority as at 31 March 2019 and of its expenditure and income for the
▶ Consistency of other information published with the financial statements	Other information published with the financial statements was consistent with the Annual Accounts.
Conclusion on the PFCC and CC's arrangements for securing economy, efficiency and effectiveness	We concluded that you have put in place proper arrangements to secure value for money in your use of resources "except for" in relation to taking informed decisions and sustainable resource deployment as regards the Multi-Force Shared Services (MFSS) due to the overspend on the budget.

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

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

Executive Summary (cont'd)

Our audit was substantially concluded by the middle of March 2020. Since that point, the Authority have experienced the significant operational and financial implications caused by the Covid-19 outbreak. From an audit perspective, we were unable to issue our audit opinion on the 2018-2019 financial statements until we have considered the appropriateness of management's disclosures on events after the reporting date and the basis for authorising the financial statements as a going concern.

We established early on that as the Covid-19 outbreak happened towards the end of March 2020, there were no conditions that existed at the 31st March 2019 that would lead to an adjusting post balance sheet event. The Authority included a non-adjusting post balance sheet event disclosure indicating the impact that the Covid-19 outbreak could have on significant accounting transactions and judgements, including the recoverability of debtors and the carrying value of assets. We were satisfied that the Authority's disclosure was appropriate for its circumstances.

We performed additional work to review management's assessment on going concern covering the period at least 12 months from the reporting date of the end of July 2020. We reviewed the Authority's cashflow and budget projections, stress tested critical income and expenditure assumptions and the impact this would have on the available to use reserves. We consulted with our professional practice department on the Authority's going concern disclosures and the impact on our audit report. We concluded that the Authority's disclosures were appropriate and did not need to modify our audit report. We did not believe there were any conditions that gave rise to a material uncertainty on the Authority's ability to continue to provide Fire and Rescue Services for the period of the going concern assessment. We did however, consistent with all open audits for the 2018-2019 financial year, express an emphasis of matter in our audit report which draws the reader of accounts attention to the going concern disclosure note. This is not a modification or qualification to our audit opinion.

We would like to take this opportunity to thank the Authority's staff for their assistance during the course of our work.

Neil Harris

Associate Partner

For and on behalf of Ernst & Young LLP



02

Purpose and Responsibilities

Purpose and Responsibilities

The Purpose of this Letter

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

We have already reported the detailed findings from our audit work in our 2018/19 Audit Results Report to the Audit Committee meeting on 11 March 2020, representing those charged with governance. We do not repeat those detailed findings in this letter. The matters reported here are the most significant for the PFCC and CC.

Responsibilities of the Appointed Auditor

Our 2018/19 audit work has been undertaken in accordance with the Audit Plan on 20 March 2019 and is conducted in accordance with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office.

As auditors we are responsible for:

- ▶ Expressing an opinion:
 - ▶ On the 2018/19 financial statements; and
 - ▶ On the consistency of other information published with the financial statements.
- ▶ Forming a conclusion on the arrangements the PFCC and CC has to secure economy, efficiency and effectiveness in its use of resources.
- ▶ Reporting by exception:
 - ▶ If the annual governance statement is misleading or not consistent with our understanding of the PFCC and CC;
 - ▶ Any significant matters that are in the public interest;
 - ▶ Any written recommendations to the PFCC and CC, which should be copied to the Secretary of State; and
 - ▶ If we have discharged our duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

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

Responsibilities of the PFCC and CC

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

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



03

Financial Statement Audit

Financial Statement Audit

Key Issues

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

We audited the PFCC and CC's Statement of Accounts in line with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office and issued an unqualified audit report on 29 July 2020.

Our detailed findings were reported to the Audit Committee meeting on 11 March 2020.

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

Significant Risk

Conclusion

Misstatements due to fraud or error

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.

We have not identified any material weaknesses in controls or evidence of material management override.

We have not identified any instances of inappropriate judgements being applied.

We did not identify any other transactions during our audit which appeared unusual or outside the PFCC and CC's normal course of business

Financial Statement Audit (cont'd)

Significant Risk	Conclusion
<p>Pension liability valuation</p> <p>We focused on the following:</p> <ul style="list-style-type: none"> ➤ Obtain assurances over the information supplied to the actuary in relation to Northamptonshire Police Fund; ➤ Assessing the work of the LGPS Pension Fund and the Police Pension actuary including the assumptions they have used by relying on the work of PWC, and considering any relevant reviews by the EY actuarial team; and ➤ Reviewing and testing the accounting entries and disclosures made within the PFCC and CC's financial statements in relation to IAS19. In addition, with respect to the Police Pension scheme, we have engaged the support of our EY Actuarial team to review the assumptions and calculations of the actuary with respect to the McCloud adjustment. 	<p>The PFCC and CC has revised the Pension Liability and Reserves for the movement between the original and revised IAS 19 reports provided by the actuary (Hymans Robertson).</p> <p>Our pension specialist has reviewed the actuarial assumptions with the McCloud impact and has determined that the revised amendments for past service costs and disclosures for the Police Pension Scheme of £58.3million in the accounts are within a acceptable range.</p> <p>For the LGPS scheme, our review of the assumptions for the McCloud and recognition of the GMP scheme are outside of the expected ranges. However these are not material differences but above the level at which we need to report corrected or uncorrected errors to the JIAC.</p> <p>In finalising our summary of audit differences, we will confirm with management the value of the LGPS liabilities for McCloud and GMP that we believe are outside of the range have been adjusted for by the PFCC and CC. Aside from a reported overstatement in the valuation of pension fund assets, we have completed our programme of work considering the findings from the auditors of the Northamptonshire Pension Fund and were informed of one error which overstated the valuation of the pension fund assets by £3.539million. Each admitted body takes its share of the overstatement and we have informed officers of the PFCC, CC and Voice for Victims Limited of the following errors - CC (£226,552); PFCC (£3,540) and Voice for Victims Limited (£494). The PFCC and CC decided not to adjust for these errors, and have included them in their letter of representation.</p>

Financial Statement Audit (cont'd)

Significant Risk	Conclusion
<p data-bbox="91 320 920 347">Property, plant and equipment and investment property valuations</p> <p data-bbox="91 384 987 475">We focused on aspects of the land and buildings and investment property valuations which could have a material impact on the financial statements, primarily:</p> <ul data-bbox="91 496 1021 1168" style="list-style-type: none"><li data-bbox="91 496 1021 592">• Considered the work performed by the Group and PFCC valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;<li data-bbox="91 608 1021 703">• Sample tested key asset information used by the valuers in performing their valuation (e.g. floor plans to support valuations based on price per square metre);<li data-bbox="91 719 1021 847">• Considered the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code of Practice. We considered if there are any specific changes to assets that have occurred and that these have been communicated to the valuer;<li data-bbox="91 863 1021 927">• Reviewed assets not subject to valuation in 2018/19 to confirm that the remaining asset base is not materially misstated;<li data-bbox="91 943 1021 1007">• Considered changes to useful economic lives as a result of the most recent valuation; and<li data-bbox="91 1023 1021 1086">• Tested accounting entries have been correctly processed in the financial statements.<li data-bbox="91 1102 1021 1168">• Make use of our valuation experts to review the change in valuation methodology and as deemed appropriate.	<p data-bbox="1028 368 2085 427">Our testing of key inputs into a sample of valuations to confirm the material accuracy of valuations has not identified any issues.</p> <p data-bbox="1028 448 2132 703">In addition to our own audit procedures on the valuation methodology and testing of observable market data, we engaged our internal specialists to review a sample of specialised assets. Our valuers concluded that overall the PFCC and CC's valuation is within an acceptable range, however it was noted that in respect of the PFCC and CC's Headquarters our valuers did not consider that the use of a market approach based upon a simple capital value per sq. ft. could be supported given the lack of directly relevant comparable evidence. Instead a depreciated replacement cost should be applied not unlike other specialised assets.</p> <p data-bbox="1028 719 2132 815">We are satisfied that all assets have been valued within a 5 year period or annually as required and that there is no material misstatement in relation to those assets not revalued in year.</p> <p data-bbox="1028 831 2074 895">We considered that any changes to useful economic lives as a result of the most recent valuation were appropriate.</p> <p data-bbox="1028 911 1711 943">We are satisfied that accounting entries are appropriate.</p>

Financial Statement Audit (cont'd)

Other Areas of Audit Focus - New accounting standards

The Code requires the PFCC and CC to comply with the requirements of two new accounting standards for 2018/19 and make preparations for another new standard for 2020/21. These standards are:

- ▶ IFRS 9 - Financial instruments
- ▶ IFRS 15 - Revenue from contracts
- ▶ IFRS 16 - Leases (2020/21)

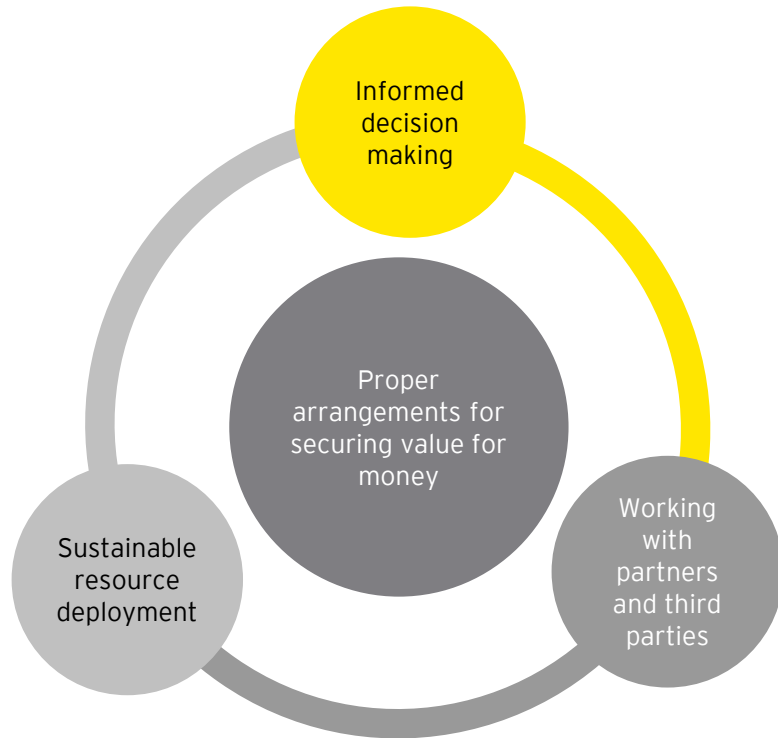
There is an inherent risk in relation to implementing new accounting standards and carrying out a sufficient assessment and evaluation of the potential impact. We therefore assessed the PFCC and CC's assessment of the impact of the new standards and checked compliance with additional disclosure requirements.

Standard	Audit Findings
IFRS 9 - Financial Instruments	Our audit procedures for financial instruments have been completed, we did not identify any audit issues.
IFRS 15 - Revenue from Contracts	Our audit procedures for financial instruments have been completed, we did not identify any audit issues.
IFRS 16 - Leases	IFRS 16 replaces IAS 17 Leases and its related interpretations, and will apply to the 2020/21 financial statements. The changes introduced by the standard will have substantial practical implications for local authorities that currently have material operating leases, and are also likely to have an effect on the capital financing arrangements of the PFCC and CC.



04 Value for Money

£ Value for Money



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

For 2018/19 this is based on the overall evaluation criterion:

"In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people"

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

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

In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

At the planning stage of the audit we identified two significant risks in relation to the following:

- **Securing the PFCC and CC financial resilience:** We obtained information from the PFCC and CCs financial team on the assumptions set out in the medium term financial strategy and completed a qualitative and quantitative assessment of the PFCCs and CCs financial resilience. This did not highlight any further significant concerns and as a result we determined at the execution phase of the audit that the risk on the PFCC and CCs financial resilience was no longer a significant audit risk.
- **Taking informed decisions and sustainable resource deployment as regards the Multi-Force Shared Services (MFSS):** the adequacy of arrangements for governance and risk management for the implementation of new financial systems at the CC (Project Fusion). We have noted the significant overspend on MFSS Project Fusion in 2018/19 of £1.4 million against a £0.9 million budget.

We have undertaken appropriate procedures and concluded that we have issued an "except for" conclusion in relation to the significant overspend on Project Fusion in 2018/19.



05 Other Reporting Issues



Other Reporting Issues

Consistency of other information published with the financial statements, including the Annual Governance Statement

We must give an opinion on the consistency of the financial and non-financial information in the Statement of Accounts 2018/19 with the audited financial statements

We must also review the Annual Governance Statement for completeness of disclosures, consistency with other information from our work, and whether it complies with relevant guidance.

Financial information in the Statement of Accounts 2018/19 and published with the financial statements is consistent with the audited financial statements.

We have reviewed the Annual Governance Statement and can confirm it is consistent with other information from our audit of the financial statements and we have no other matters to report.

Whole of Government Accounts

Alongside our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of our review, and the nature of our report, is specified by the National Audit Office.

We have submitted the required return and have no issues to report on this work.

Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the PFCC and CC to consider it or to bring it to the attention of the public (i.e. "a report in the public interest"). We did not identify any issues which required us to issue a report in the public interest.

We also have a duty to make written recommendations to the PFCC and CC, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014. We did not identify any issues.

Other reporting issues

Other reporting issues

Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of the PFCC and CC's financial reporting process. They include the following:

- Significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures;
- Any significant difficulties encountered during the audit;
- Any significant matters arising from the audit that were discussed with management;
- Written representations we have requested;
- Expected modifications to the audit report;
- Any other matters significant to overseeing the financial reporting process;
- Findings and issues around the opening balance on initial audits (if applicable);
- Related parties;
- External confirmations;
- Going concern;
- Consideration of laws and regulations; and
- Group audits (as appropriate).

We have no matters to report.



06 Data Analytics



Use of Data Analytics in the Audit

Data analytics – Journal Entry Analysis and Payroll Analysis

Analytics Driven Audit

Data analytics

We used our data analysers to enable us to capture entire populations of your financial data. These analysers:

- ▶ Help identify specific exceptions and anomalies which can then be the focus of our substantive audit tests; and
- ▶ Give greater likelihood of identifying errors than traditional, random sampling techniques.

In 2018/19, our use of these analysers in the PFCC and CC's audit included testing journal entries and employee expenses, to identify and focus our testing on those entries we deem to have the highest inherent risk to the audit.

We capture the data through our formal data requests and the data transfer takes place on a secured EY website. These are in line with our EY data protection policies which are designed to protect the confidentiality, integrity and availability of business and personal information.

Journal Entry Analysis

We obtain downloads of all the financial ledger transactions posted in the year. We perform completeness analysis over the data, reconciling the sum of transactions to the movement in the trial balances and financial statements to ensure we have captured all data. Our analysers then review and sort transactions, allowing us to more effectively identify and test journals that we consider to be higher risk, as identified in our audit plan.

Payroll Analysis

We use our journal entry analyser in our payroll testing where we obtain all payroll transactions posted in the year from the general ledger system and perform completeness analysis over the data, including reconciling the total amount to the payroll system. We then analyse the data against a number of specifically designed procedures. These include analysis of payroll costs by month to identify any variances from established expectations, as well as more detailed transactional interrogation.



07

Focused on your future



Focused on your future

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

Standard	Issue	Impact
IFRS 16 Leases	<p>It is currently proposed that IFRS 16 will be applicable for local authority accounts from the 2020/21 financial year.</p> <p><i>Whilst the definition of a lease remains similar to the current leasing standard; IAS 17, for local authorities who lease a large number of assets the new standard will have a significant impact, with nearly all current leases being included on the balance sheet.</i></p> <p><i>There are transitional arrangements within the standard and although the 2019/20 Accounting Code of Practice for Local Authorities has yet to be issued, CIPFA have issued some limited provisional information which begins to clarify what the impact on local authority accounting will be. Whether any accounting statutory overrides will be introduced to mitigate any impact remains an outstanding issue.</i></p>	<p>in response to the ongoing pandemic and its pressures on local authority finance teams, the CIPFA LASAAC Local Authority Accounting Code Board has announced that the implementation of IFRS 16 (Leases) in the Code of Practice on Local Authority Accounting in the UK (the Code) will be deferred until the 2022-23 financial year. This decision brings the Code in line with the decision by the Government's Financial Reporting Advisory Board to put back the effective date for the implementation of the standard to 1 April 2022.</p> <p>CIPFA LASAAC has indicated that the deferral is limited to one year only and that there is no intention to grant any further extensions based on a lack of preparedness.</p>

A close-up photograph of a person's hand reaching into a filing cabinet to touch a folder. The cabinet is filled with numerous folders of various colors (yellow, blue, white) and sizes, each containing stacks of papers. The background is a textured, light-colored wall.

08 Audit Fees

Audit Fees

As part of our reporting on our independence, we set out below a summary of the fees paid for the year ended 31 March 2019.

We confirm that we have not undertaken non-audit work outside the NAO Code requirements. We have adopted the necessary safeguards in completing this work and complied with Auditor Guidance Note 1 issued by the NAO.

	Final fee 2018/19	Planned fee 2018/19	Scale fee 2018/19	Final Fee 2017/18
	£'s	£'s	£'s	£'s
Audit Fee - PFCC Code work	22,554	22,554	22,554	29,291
Audit Fee - CC Code work	11,550	11,550	11,550	15,000
Total Audit Services	34,104	34,104	34,104	44,291
Fee for additional audit work (see note below)	21,106			
Total fees	55,210	34,104	34,104	44,291

All fees exclude VAT

Note:

We have calculated our final fee for 2018/19 will be subject to PSAA approval of the scale fee variation for the work carried out in response to significant risks and change of scope, specifically the work identified in this report covering:

- Additional pensions procedures as a result of the McCloud and GMP judgements, and the engagement of EY Pensions of £6,049;
- The engagement of EYRE specialists to review a sample of Property, Plant & Equipment of £5,055;
- Additional work to address the VFM significant risks in relation to financial resilience and the governance arrangements around MFSS of £5,021; and
- Delays in audit readiness, including adequacy of working papers and resolution of audit queries of £4,981.

We have discussed these additional fees with management which are still subject to PSAA approval.

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