Report to the Joint Audit Committee

POLICE AND CRIME COMMISSIONER FOR HERTFORDSHIRE / CHIEF CONSTABLE OF HERTFORDSHIRE CONSTABULARY

Audit Completion Report: Year ended 31 March 2019

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WELCOME
Introduction

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We have pleasure in presenting our Audit Completion Report to the Joint Audit Committee. This report is an integral part of our communication strategy with you, a strategy which is designed to ensure effective two way communication throughout the audit process with those charged with governance.

It summarises the results of completing the planned audit approach for the year ended 31 March 2019, specific audit findings and areas requiring further discussion and/or the attention of the Joint Audit Committee. At the completion stage of the audit it is essential that we engage with the Audit Committee on the results of our audit of the Group and the single entity financial statements and use of resources comprising: audit work on key risk areas, including significant estimates and judgements made by management, critical accounting policies, any significant deficiencies in internal controls, and the presentation and disclosure in the financial statements.

We would like to take this opportunity to thank the management and staff of the Police Force for the co-operation and assistance provided during the audit.

Aphrodite Lefevre

30 September 2019

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OVERVIEW
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This summary provides an overview of the audit matters that we believe are important to the Joint Audit Committee in reviewing the results of the audit of the financial statements and use of resources of the Group for the year ended 31 March 2019.

It is also intended to promote effective communication and discussion and to ensure that the results of the audit appropriately incorporate input from those charged with governance.

Overview

Our audit work is complete and we have issued our opinion on the Group's financial statements and the Force's use of resources for the year ended 31 March 2019.

Our timetable was revised and thus the issuing of the opinion did not meet the statutory deadline. This is due to delays experienced during the fieldwork in obtaining timely and good quality audit evidence to support our work. Further, the McCloud case which had a material impact for the financial statements was a complex area that was concluded on nationally late in the audit process and required increased time and effort both from the management team and the audit team.

There were changes to the planned audit approach since the Planning report was issued at the March meeting. An additional audit risk was included in respect of related parties. Further, the basis of our materiality was changed and this was communicated in June.

No restrictions were placed on our work.

Audit report

We have issued an unmodified audit opinion on the on the consolidated Group financial statements, the financial statements of the Police and Crime Commissioner (PCC) and the Chief Constable's (CC) financial statements.

We have issued an unmodified audit opinion on the use of resources.

THE NUMBERS
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Final materiality

Group final materiality was determined based on the net pension fund liability. This is a change from the basis reported in our Audit Plan.

The materiality figure was applied to the audit of the pension fund only. Specific materiality for income and expenditure and other balance sheet items are still based on 1.75% of net cost of services expenditure.

Material misstatements

We identified three material misstatements in the group accounts, being the increase on the pension liability for the impact of the McCloud ruling and two classification errors on the balance sheet.

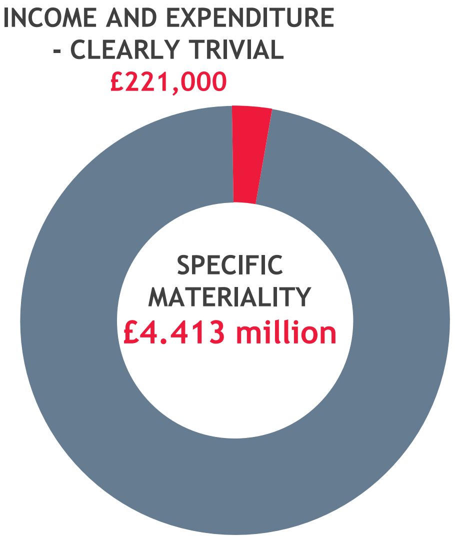
Two further balance sheet classification errors identified were material to the Police and Crime Commissioner accounts.

These have been corrected in the accounts and is shown in the schedule of adjusted misstatements on page 23.

Unadjusted audit differences

We identified audit adjustments that, if posted, would decrease the deficit on the provision of services by £3.430 million.

The adjustment relates to further information provided by the actuary in response to managements requests regarding the impact of the McCloud case on the pension Liability.



OTHER MATTERS
Executive summary

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Financial reporting

- We have not identified any non-compliance with group accounting policies or the applicable accounting framework.
- No significant accounting policy changes have been identified impacting the current year.
- Going concern disclosures are deemed sufficient.
- The Narrative Report is consistent with the financial statements and our knowledge acquired in the course of the audit.
- The Annual Governance Statement is not inconsistent or misleading with other information we are aware of.
- The Group is below the audit threshold of £500 million for a full assurance review of the Whole of Government Accounts Data Collection Tool.

Other matters that require discussion or confirmation

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

Independence

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

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AUDIT RISKS OVERVIEW

As identified in our Audit Plan dated 14 March 2019 we assessed the following matters as being the most significant risks of material misstatement in the financial statements. We have subsequently included a further risk relating to Related Parties. These include those risks which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit and the direction of the efforts of the engagement team.

Audit Risk	Risk Rating	Significant Management Estimates or Judgement	Use of Experts Required	Error Identified	Significant Control Findings	Discussion points / Letter of Representation
Management override of controls	Significant	No	No	No	No	No
Expenditure recognition	Significant	No	No	No	No	No
Property, Plant and Equipment (PPE) Valuation	Significant	Yes	Yes	No	No	Yes
Pension liability Valuation	Significant	Yes	Yes	Yes	No	Yes
Collaboration Transactions	Significant	No	No	No	No	No
Related Parties	Normal	No	No	No	No	Yes

Areas requiring your attention

MANAGEMENT OVERRIDE OF CONTROLS

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

Significant risk	■
Normal risk	
Significant management judgement	
Use of experts	
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant Control Findings	
Letter of Representation point	

Risk description

The primary responsibility for the detection of fraud rests with management. Their role in the detection of fraud is an extension of their role in preventing fraudulent activity. They are responsible for establishing a sound system of internal control designed to support the achievement of departmental policies, aims and objectives and to manage the risks facing the organisation; this includes the risk of fraud.

Under auditing standards there is a presumed significant risk of management override of the system of internal controls.

Work performed

We carried out the following planned audit procedures:

- Reviewed and verified unusual journal entries made in the year, agreeing the journals to supporting documentation. We identified journals with risk characteristics we determined to be key. We used our Data Analytics team to assist with the journal extraction;
- Performed a critical review of the consolidation and, in particular, looked for any manual or late journals posted at consolidated level;
- Performed a review of estimates and judgements applied by Management in the financial statements to assess their appropriateness and the existence of any systematic bias; and
- Reviewed unadjusted audit differences for indications of bias or deliberate misstatement.

Results

Our detailed testing of a sample of journals did not identify any significant issues.

Our work performed on estimates and judgements applied by management did not identify any issues. Our views on significant management estimates are set out in this report.

We have identified no significant or unusual transactions which we consider to be indicative of fraud in relation to management override of controls.

EXPENDITURE RECOGNITION

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Under auditing standards there is a presumption that income recognition presents a fraud risk. In the public sector this extends to expenditure recognition.

Significant risk	■
Normal risk	
Significant management judgement	
Use of experts	
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant Control Findings	
Letter of Representation point	

Risk description

Under auditing standards there is a presumption that income recognition presents a fraud risk.

Due to the nature of the income streams, and the likelihood of error being considered low, the risk of fraudulent revenue recognition has been rebutted.

In the public sector the risk of fraud in revenue recognition is modified by Practice Note 10 issued by the Financial Reporting Council. This states that auditors should also consider the risk that material misstatements may occur through the manipulation of expenditure recognition. This risk is identified as being relevant to cut-off of expenditure, where our testing will be focussed.

Work performed

We carried out the following planned audit procedures:

- Tested an increased sample of transactions to ensure that expenditure has been recorded in the correct period and that all expenditure that should have been recorded has been recorded; and
- Traced an increased sample of items selected from the pre and post year-end bank statements to supporting documentation to confirm the completeness of the amounts recorded.

Results

Our work did not identify any errors in relation to expenditure being recorded in the incorrect period.

PROPERTY, PLANT AND EQUIPMENT (PPE) VALUATION

Contents

There is a risk over the valuation of land and buildings where valuations are based on significant assumptions.

Significant risk	■
Normal risk	
Significant management judgement	■
Use of experts	■
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant Control Findings	
Letter of Representation point	■

Risk description

Local authorities are required to ensure that the carrying value of property, plant and equipment (PPE) is not materially different to the current value or fair value (as applicable) at the balance sheet date.

The CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 ("The Code") requires management to carry out a full valuation of its land and buildings on a periodic basis (at least every 5 years). In the intervening years, management is required to assess whether there has been a material change in the value of its assets that should be accounted for.

The Force uses an external valuer to perform the valuation assessment.

We concluded that there is a significant risk of material misstatement of asset values.

Work performed

We carried out the following planned audit procedures:

- Reviewed the instructions provided to the valuer as well as the valuer's skills and expertise in order to determine if we can rely on them as a management expert;
- Confirmed that the basis of valuation for assets valued in year is appropriate based on their usage;
- Reviewed the accuracy and completeness of asset information provided to the valuer such as rental agreements and floor sizes; and
- Confirmed that the valuation movements are consistent with the expectations provided by independent data about the property market.

Results

Our review of the instructions provided to the valuer and our consideration of the valuer's skills and expertise did not identify any issues.

We confirmed the basis of valuation for assets valued in year is appropriate and in line with Code.

We reviewed the judgements used in the calculations and our results are presented below.

PROPERTY, PLANT AND EQUIPMENT (PPE) VALUATION

Continued

Assets Valued at Depreciated Replacement Cost (DRC)

Overview

A number of assets have been valued using DRC. This is because the properties are primarily police stations that have a range of specialised facilities. Accordingly the valuers have classified this group of buildings as specialised and adopted the DRC approach in their valuation.

The DRC method values the current cost of replacing an asset with its modern equivalent, less deductions for any physical deterioration.

The key judgements used in these valuations are BCIS average building costs, BCIS location factors and the expected remaining useful life of the asset.

Discussion

- Where movements appeared to be noticeably larger or smaller than comparative market data, we reviewed the detail of the valuation and obtained explanations for this difference. The location, size and nature of individual properties have been considered to assess movements in the values of individual properties. Generally, we found that the valuations increased by less than our expectations but were still within our threshold.
- We reviewed the floorplans for these assets and are satisfied that these agree to the floor areas used in the valuers calculations.
- We agreed BCIS build costs and locations factors used by the valuers for a sample of assets and confirmed that these agreed to the BCIS database as at the effective date of valuation.
- We reviewed the expected remaining useful lives of the assets and challenged the general methodology applied by the valuer. We are satisfied that the judgement applied by the valuer is reasonable.

Impact

< lower valuation **Higher valuation >**

Contents

PROPERTY, PLANT AND EQUIPMENT (PPE) VALUATION

Continued

Assets Valued using Market Value

Overview

Primarily Land and police houses have been valued on this basis. Two Surplus assets also valued at Market value were subject to valuation.

The valuer has used comparative data to inform the market valuation.

Discussion

- The valuers have used comparative data sources to estimate a suitable value for each property. We obtained the sources used to ensure that these were accurate and suitable comparatives. In the majority of cases the valuer has settled at the lower end of the range, appropriately reducing the value where it is considered that additional costs would be required to sell the property.

Impact

< lower valuation **Higher valuation >**

Assets Valued at Existing Use Value (EUV)

Overview

The remaining assets have been measured at EUV.

Per the Code definition, we consider it appropriate for assets for which there is an alternative use to be valued using EUV. This is the case for police stations and offices that do not have significant elements of specialist adaptations.

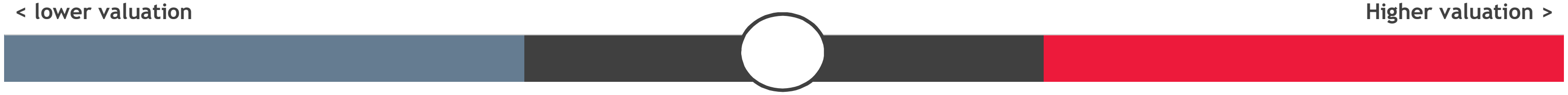
The key judgements used in these valuations are anticipated rent, should the property be rented out, and the rental yield.

Discussion

- The valuers have used a number of comparative data sources to estimate a suitable rental value for each property. We obtained the sources used to ensure that these were suitable comparatives. The valuer has identified a range of potential values and considered the relative locations and quality of the comparators. We are satisfied that the values applied are reasonable.
- The rental yield values applied are as expected, given data we have obtained from external sources relating to office spaces in the area.

Impact

< lower valuation **Higher valuation >**



PENSION LIABILITY VALUATION

Contents

There is a risk the membership data and cash flows used by the actuary may not be correct, or the valuation uses inappropriate assumptions to value the liability.

Significant risk	■
Normal risk	
Significant management judgement	■
Use of experts	■
Unadjusted error	■
Adjusted error	■
Additional disclosure required	■
Significant Control Findings	
Letter of Representation point	■

Risk description

The net pension liability comprises the Force's estimated future liability to pay pensions.

An actuarial estimate of the pension fund liability is calculated by independent actuaries with specialist knowledge and experience. The estimate is based on the most up to date membership data held by the pension fund and has regard to local factors such as mortality rates and expected pay rises along with other assumptions around other factors, such as inflation, when calculating the liability.

There is a risk that the valuation is not based on accurate membership data or uses inappropriate assumptions to value the liability.

Work performed

We carried out the following planned audit procedures:

- Reviewed and considered the actuary's skills and expertise in order to determine if we can rely on them as a management expert;
- Agreed the disclosures in the accounts to the information provided by the pension fund actuary;
- Obtained assurance over the controls for providing complete and accurate data to the actuary;
- Contacted the administering authority of the Local Government Pension Scheme (LGPS) and requested confirmation of the controls in place for providing accurate membership data to the actuary and testing of that data; and
- Reviewed the reasonableness of the assumptions used in the calculation against other local government actuaries and other observable data.

Results

Our review of the skills and expertise of the actuary did not identify any issues. The consulting actuary commissioned for local public auditors by the NAO has reviewed the work of both the Police pension scheme actuary and the Local Government Pension Scheme actuary and are satisfied that the approaches taken by both are reasonable.

We have received assurance from the auditors of the administering authority of the LGPS fund and whilst variances were found between the forecast data used by the actuary and the final figures, none of these differences were material.

PENSION LIABILITY VALUATION

Continued

Group pension liabilities (Police Pension Fund)

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

Assumptions

	Actual Used	Expected	Comments
Financial			
Rate of increase in Salaries	4.35%	3.10% - 4.35% but scheme and employer specific	Reasonable
Rate of increase in pensions in payment	2.35%	2.10% - 2.60%	Reasonable
Discount rate (nominal)	2.45%	2.35% - 2.90%	Reasonable
CPI Inflation	2.35%	2.10% - 2.60%	Reasonable
CARE revaluation rate	3.60%	CPI + 1.25%	Reasonable
Mortality			
Normal health pensioners	104% of S2NXA	104% - 117% S2NA	Reasonable
Mortality improvements	Population actual then ONS 2016 based principal population projection	Population actual then 2016 based on ONS projection	Reasonable

Life Expectancies

65 year old current normal health pensioner	Males	Females
Actual Used	22.7	24.3
Expected Range	20.6 - 23.7	20.0 - 26.4
Comments	Reasonable	Reasonable

45 year old future normal health pensioner at 65	Males	Females
Actual Used	24.6	26.2
Expected Range	22.2 - 26.3	22.6 - 29.0
Comments	Reasonable	Reasonable

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

We note that the consulting actuary has stated that the assumptions used by GAD (Government Actuary Department, Actuary used for the Police pension fund) tend to produce slightly higher Police & Fire liability calculations than the other actuaries, and the relative liability compared to assumptions used by others could result in a liability being 103.4% of the average liabilities of all actuaries.

Contents

PENSION LIABILITY VALUATION

Continued

Group pension liabilities (LGPS)

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

	Actual Used	Expected	Comments
Financial			
Discount Rate	2.40%	2.35% - 2.90%	Reasonable
Pension Increase	2.50%	2.10% - 2.60%	Reasonable
Salary Increase	2.60%	Scheme and employer specific	Reasonable
CPI Inflation	2.50%	2.10% - 2.60%	Reasonable
Mortality			
Mortality improvements	CMI 2013, 1.25% long term rate	Actuary specific	

Life Expectancies

Retiring Today	Males	Females
Actual Used	22.5	24.9
Expected Range	20.6 - 23.7	20.0 - 26.4
Comments	Reasonable	Reasonable

Retiring in 20 years	Males	Females
Actual Used	24.1	26.7
Expected Range	22.2 - 26.3	22.6 - 29.0

The actuary has estimated the value of assets of the fund as at 31/03/19 using a forecast investment return of 7.6% for 2018/19. The actual investment return of the fund was 7.0% for 2018/19. A revised report was obtained from the actuary which accounted for this change, The impact was an increase in the net liability of £1.413 million.

For the Chief Constable for Hertfordshire, the auditors of the administering authority of the LGPS fund reported that the total benefit paid as per the Pension Funds general ledger was £682,000 lower than the forecast figure used by the actuary. The impact of this is trivial in the context of the pension fund materiality.

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

We note that the consulting actuary has stated that the assumptions used by Hymans Robertson (Actuary for Hertfordshire LGPS) tend to produce slightly higher LGPS liability calculations than the other actuaries, and the relative liability compared to assumptions used by others could result in a liability being 103.1% of the average liabilities of all actuaries.

PENSION LIABILITY VALUATION

Continued

GMP Equalisation

Following a ruling on gender discrimination in the Lloyds Banking Group case, the courts found that UK defined benefit schemes must equalise Guaranteed Minimum Pensions (GMP). The Government's interim solution, originally in place from 2016 to 2018 to ensure a smooth transition to equalisation, has been extended to 2021 and it is not yet clear whether the LGPS (through employers) or Government will fund these additional costs after 2021.

An LGPS wide assessment of additional liabilities arising from GMP equalisation for suggests that the impact of; the interim solution between 2016 to 2018, the extension from 2018 to 2021, and potential post 2021 costs falling on the LGPS, could increase liabilities by +0.3%.

Hymans Robertson have provided a revised report which includes the impact of both of the issues detailed on this page. In the Chief Constables accounts, an approximate allowance for the impact of GMP equalisation has been made at 0.07% of total liabilities. This corresponds to a liability of £286,000. There is no impact on the PCC.

The consulting actuary has confirmed that GAD have allowed for the full impact of indexation changes (i.e. indexation until 2021) in the 2017/18 Police and Fire liabilities as a past service cost. As such it is not necessary to recognise an impact in the Police Pension liability this year.

We request that the approaches taken by the actuary are disclosed in the accounts.

McCloud Age Discrimination

Following the ruling on age discrimination in the McCloud case, where members approaching retirement age received protected benefits moving to the career average relevant earnings scheme from the final salary scheme but employees more than 10 years from retirement did not received this underpin of benefits, Government will have to remedy the discrimination in the LGPS and in Police and Fire Schemes.

In LGPS

The Government Actuary Department has undertaken an LGPS-wide impact assessment and a worse case scenario suggests that the liability could increase by up to 3.2% for active members where the remedy would be for all staff to receive the underpin, and using a model with an average member age of 46 and salaries increasing at +1.5% above CPI.

The Force has received an updated valuation of the liability to take account of the impact of this ruling. The impact on the Chief Constable's accounts was to increase the liability by £525,000. The accounts will be adjusted for this difference. The impact on the Police and Crime Commissioner's accounts is £2,000. The trivial changes in the PCC's figures have not been reported in our schedules.

In Police

For the Police scheme, GAD provided potential impact figures of 4.4% of total liabilities across police Forces. Management requested and received a revised IAS19 report to include the impact of this in the accounts. The overall impact was an increase of £85.530 million in the liability and in past service costs.

GAD have highlighted the sensitivity of the potential McCloud impact to the age profile of membership, therefore we requested that management further communicate with GAD to ensure that the revised figures were appropriate for Hertfordshire's membership profile. The actuary responded with further information to suggest that due to Hertfordshire having a higher proportion of active members, the liability could still materially misstated.

A third report was therefore commissioned, to enable GAD to provide an estimate based on the specifics of the scheme. Management received this report which confirmed that the actuary's most accurate calculations are not materially different from the figure initially provided. Management have decided not to amend the accounts for this final report. The difference is recorded as an unadjusted misstatement on page 21.

Additional narrative has been added to the accounts to explain the estimates involved in the McCloud allowance and the potential sensitivities in this calculation.

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COLLABORATION TRANSACTIONS

There is a risk the membership data and cash flows used by the actuary may not be correct, or the valuation uses inappropriate assumptions to value the liability.

Significant risk	■
Normal risk	
Significant management judgement	
Use of experts	
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant Control Findings	
Letter of Representation point	

Risk description

The Force regularly incurs expenditure on behalf of the other forces in the collaborations, and vice versa. This expenditure is recharged between the Forces.

We consider there to be a risk that misstatements could occur in relation to the calculation of year-end debtors and accruals, and the appropriate basis of allocation being applied between the Forces.

Work performed

We carried out the following planned audit procedures:

- Tested an increased sample of expenditure transactions which have been allocated between the bodies within the Bedfordshire, Cambridgeshire, Hertfordshire Collaborated Units (BCH) or Eastern Region Special Operations Unit (ERSOU) collaborations and confirm that all have been allocated to the correct body, on the correct basis; and
- Tested an increased sample of transactions from within the year-end debtor and creditor balances, ensuring that they have been correctly classified as debtors and/or creditors.

Results

We obtained the year end apportionment workings for both BCH and ERSOU that are prepared outside of the Force by the respective dedicated teams and checked the accuracy of the calculations. The majority of collaborated areas are apportioned to Forces based on the Net Revenue Expenditure in each. This allocation is appropriate and in line with the method prescribed in the Section 22 agreements.

We found no issues in our expenditure sample testing. This sample was taken from the population of collaborated expenditure recorded in Hertfordshire's ledger before the recharges to other Forces take place.

We ensured that the final amount recognised as expenditure in Hertfordshire’s accounts, agreed to the share of total expenditure that it was due to recognise from the allocation exercise.

We tested the debtor and creditor balances recognised in the accounts back to the apportionment workings and confirmed that they had been recognised correctly.

RELATED PARTY TRANSACTIONS

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

Significant risk	
Normal risk	■
Significant management judgement	
Use of experts	
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant Control Findings	
Letter of Representation point	■

Risk description

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

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

Work performed

We carried out the following planned audit procedures:

- Performed our own searches of the senior management on Companies House in order to identify any related parties not included in the Statement of Accounts.
- For any additional related parties identified we performed searches in the ledger to identify transactions.
- For related parties already identified ensured that the relationship and figures disclosed matched those included in the ledger.

Results

Our work did not identify any issues with the content in the related parties note. We have asked that management make some minor narrative changes to better explain the relationships that were already disclosed in the draft accounts.

OTHER MATTERS

Contents

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

Issue	Comment
There were some minor changes in the CIPFA Code that required a change in the presentation of the accounts from the prior year. We noted that these updates had not been made in all of the relevant disclosure notes.	We have requested that management re-present the particular notes in the accounts that were affected by the changes in the Code this year.
We identified errors in our testing of cash balances, due to a number of manual adjustments being made around the year end. Bank reconciliations performed by the finance team at year end, did not identify these issues. We also noted that intra-entity balances were accounted for within the cash balance.	We have requested that management correct the errors found and review the treatment of intra-entity balances (these being between the PCC and CC, or, between the Force and the separate Pension Fund and Proceeds of Crime Balance sheets). It is our view that any cash held on behalf of the other entities should be recognised on the balance sheet, with corresponding entries in debtors or creditors. Management have corrected the balances.
A number of debtor and creditor balances required reclassifying between the Police and Crime Commissioner and the Chief Constable accounts. As a result, a number of amendments were made to the financial instruments note.	We have requested that the financial instruments note discloses balances separately for the PCC's single entity accounts, within the Group accounts, consistent with other notes in the accounts. This change has not been made in the final version.
As part of our testing we queried the appropriateness of the asset classified as 'held for investment'. This asset was found to not currently be in use and would therefore be more appropriately classified as Surplus.	Management have agreed to reclassify the asset in the Property, Plant and Equipment note.
A number of other narrative and disclosure changes were Identified. In particular, we have asked that management consider removing immaterial notes and accounting policies.	We have identified a number of minor narrative amendments. We requested that management make all of these changes and these have been agreed and implemented.

MATTERS REQUIRING ADDITIONAL CONSIDERATION

Fraud

Whilst the directors have ultimate responsibility for prevention and detection of fraud, we are required to obtain reasonable assurance that the financial statements are free from material misstatement, including those arising as a result of fraud.

Our audit procedures did not identify any instances of fraud.

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

Laws and regulations

We have made enquiries of management regarding compliance with laws and regulations and reviewed correspondence with the relevant authorities.

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

Internal audit

We reviewed the audit work of the Force's internal audit function to assist our risk scoping at the planning stage.

UNADJUSTED AUDIT DIFFERENCES: SUMMARY

Summary for the current year

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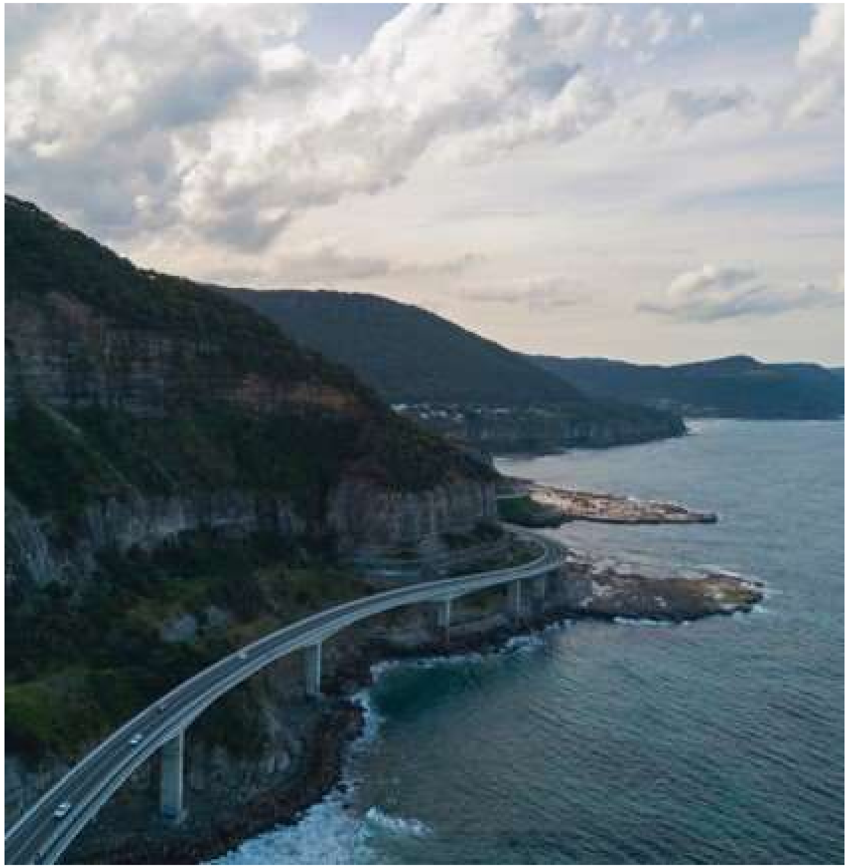

We are required to bring to your attention unadjusted differences and we request that you correct them.

There is one unadjusted audit difference identified by our audit work which would decrease the deficit on the provision of services and decrease net liabilities by £3.430 million if adjusted.

The adjustment relates to further information provided by the actuary in response to managements requests regarding the impact of the McCloud case on the pension Liability. You consider the differences to be immaterial in the context of the financial statements as a whole.

UNADJUSTED AUDIT DIFFERENCES: DETAIL

Details for the current year

Contents

	Income and expenditure			Statement of Financial Position	
Unadjusted audit differences	NET DR/(CR) £'000	DR £'000	(CR) £'000	DR £'000	(CR) £'000
Group deficit on the provision of services before unadjusted audit differences	162,852				
1: Change to pension liability reported in a subsequent revision of the Police Pension IAS 19 report.					
DR Chief Constable Pension Liability				3,430	
CR Past Service Cost			(3,430)		
Total unadjusted audit differences		**-**	**(3,430)**	**3,430**	**-**
Deficit on the provision of services if above issues adjusted	**159,422**				

ADJUSTED AUDIT DIFFERENCES: SUMMARY

Summary for the current year

There were nine audit differences identified by our audit work that were adjusted by management. The overall impact is to increase the group deficit on the provision of services by £86.055 million.

This is primarily the impact of recognising the addition to the pension fund liability from the McCloud judgement.

ADJUSTED AUDIT DIFFERENCES: DETAIL

Details for the current year

		Income and expenditure		Statement of Financial Position	
Adjusted audit differences	NET DR/(CR) £'000	DR £'000	(CR) £'000	DR £'000	(CR) £'000
Group deficit on the provision of services before adjustments	76,785				
1: Correction of Pension fund Net assets, to recognise the correct value of April pensions paid in March					
DR Cash				2,816	
DR Debtors				295	
CR Debtors					(3,111)
2: Pension fund and Proceeds of Crime recognition on balance sheet.					
DR Cash				755	
Dr Debtors (Pension fund balance)				1,951	
Cr Creditors (POCA Balance)					(2,706)
3: Recognition of McCloud additional Police Pension Liability in CC accounts					
DR Chief Constable Past Service Cost		85,530			
CR Chief Constable Pension Liability					(85,530)
4: Recognition of McCloud and GMP in LGPS Pension.					
DR Chief Constable Past Service Cost		518			
DR Chief Constable Net interest expense		7			
CR Chief Constable Pension Liability					(525)

ADJUSTED AUDIT DIFFERENCES: DETAIL

Details for the current year

	Income and expenditure			Statement of Financial Position	
Adjusted audit differences	NET DR/(CR) £'000	DR £'000	(CR) £'000	DR £'000	(CR) £'000
5: Reclassification of PCC Long term Debtor to Short Term					
DR Long term Debtors				4,500	
CR Short Term Debtors					(4,500)
6: Reclassification of PCC property from 'held for investment' to Surplus.					
DR Surplus Assets				625	
CR Assets Held for Investment					(625)
7: Removal of offsetting Grant entries in Debtors and Creditors.					
DR Short Term Creditors				674	
CR Short Term Debtors					(674)
8: Reclassification of Debtor items between PCC and CC (net effect of pension prepayments and grant)					
DR PCC Debtors				3,779	
CR CC Debtors					(3,779)

ADJUSTED AUDIT DIFFERENCES: DETAIL

Details for the current year

Adjusted audit differences	Income and expenditure NET DR/(CR) £'000	Income and expenditure DR £'000	Income and expenditure (CR) £'000	Statement of Financial Position DR £'000	Statement of Financial Position (CR) £'000
9: Reclassification of cash equivalents balance as short term investments					
DR Short Term Investments				5,000	
CR Cash					(5,000)
Total adjusted audit differences		**86,055**	**-**	**20,395**	**(106,450)**
Adjusted deficit on the provision of services	**162,840***				

*Unreported trivial adjustments of £12,000 are also included in the final version of the accounts, giving an adjusted group deficit of £162,852,000

Contents

ADJUSTED DISCLOSURE OMISSIONS AND IMPROVEMENTS

Disclosure omissions and improvements

Contents

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

The following disclosure matters were noted, we have requested that these are adjusted in the final accounts:

- Amendments made to the figures reported in the Narrative Report, so that these were consistent with the financial statements.
- The Expenditure and Funding analysis was amended so that it presents the same operating segments as shown on the CIES.
- Re-presentation of the Property plant and equipment note.
- Re-presentation of debtor and creditors notes.
- Small amendments made to some notes in order for them to agree to other areas of the accounts.
- Additional disclosures in relation to pensions.
- Updated wording of accounting policies and disclosures for new standards IFRS 15 and IFRS 9.
- Reclassification of one long term investment previously held at amortised cost. Due to the nature of this investment, it has been reclassified as Fair Value through Profit or Loss in the accounts. However, the accounting affect of this reclassification would be trivial and therefore we have not raised this issue as an unadjusted error.

REPORTING ON OTHER INFORMATION

Contents

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

Matter	Comment
We are required to report on whether the financial and non-financial information in the Narrative Report within the Statement of Accounts is consistent with the financial statements and the knowledge acquired by us in the course of our audit.	We are satisfied that the other information in the Narrative Report is consistent with the financial statements and our knowledge. Some minor inconsistencies were corrected by management.
We are required to report by exception if the Annual Governance Statement is inconsistent or misleading with other information we are aware of from our audit of the financial statements, the evidence provided in the review of effectiveness and our knowledge of the Group.	We have no matters to report in relation to the consistency of the Annual Governance Statement with the financial statements and our knowledge.

WHOLE OF GOVERNMENT ACCOUNTS

Matter	Comment
Auditors are required to review Whole of Government Accounts (WGA) information prepared by component bodies that are over the prescribed threshold of £500 million in any of: assets (excluding property, plant and equipment); liabilities (excluding pension liabilities); income or expenditure. The Group falls below the threshold for review and there is no requirement for further work other than to submit the section on the WGA Assurance Statement to the WGA audit team with the total values for assets, liabilities, income and expenditure.	Local authorities were required to submit the unaudited DCT to HM Treasury and auditors by 28 June 2019. The group did not meet this deadline and the return has not yet been submitted. We will submit the relevant section of the assurance statement to the National Audit Office on the date of issuing the opinion.

OVERVIEW

We are required to be satisfied that proper arrangements have been made to secure economy, efficiency and effectiveness in the use of resources (value for money) and report to you on an 'except for' basis. This is based on the following reporting 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.

There are three sub criteria that we consider as part of our overall risk assessment:

- Sustainable resource deployment
- Informed decision making
- Working with partners and other third parties.

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

Audit Risk	Criterion	Risk Rating	Issues identified that impact on conclusion
Sustainable Resource Deployment	Sustainable resource deployment	Significant	No

SUSTAINABLE RESOURCE DEPLOYMENT

Contents

The Force will need to deliver significant savings to maintain balanced budgets.

- Significant risk
- Normal risk
- Sustainable resource deployment
- Informed decision making
- Working with partners and other third parties
- Significant control findings

Risk description

In 2017/18, the Force reported an overspend of £1.4 million against budget and faces increasing financial challenge in the medium term. Reserves are likely to be utilised going forward and increased savings are required to be made, whilst the demand for services increases.

We have therefore concluded that there is a significant risk related to the financial resilience of the Force and a need to undertake further work to satisfy ourselves that the proper arrangements are in place, given the financial challenges, to enable the Force to deploy resources in a sustainable matter.

Work performed

We carried out the following planned audit procedures:

- Reviewed assumptions used in the Medium Term Financial Strategy to assess their reasonableness;
- Considered delivery of the budgeted savings in 2018/19 and the plans to deliver the identified savings for 2019/20; and
- Considered the current level of reserves and the planned use of reserves in the medium term.

Results

The annual budget contains an updated Medium Term Financial Strategy covering the period 2019/20 to 2022/23. A balanced position is forecast for this period, on the assumption that the required savings are found. Significant savings will be required to meet this forecast and annual use of the budget reserve is planned in order to maintain the balanced budget.

The Medium Term Plan is founded on the prudent assumptions that central funding will remain at standstill position throughout this period, and that council tax increases will be capped at 2% from 2020/21 onwards, with a 1% increase in the tax base each year. The savings needed to be found each year therefore increase in the context of growing expenditure pressures and minimal increases in funding.

SUSTAINABLE RESOURCE DEPLOYMENT

Contents

The Force will need to deliver significant savings to maintain balanced budgets.

- Significant risk
- Normal risk
- Sustainable resource deployment
- Informed decision making
- Working with partners and other third parties
- Significant control findings

Results continued

The revenue budget was set at £190.242 million for 2018/19. This year the Force recognised an overspend of £2.016 million, resulting in additional use of the base budget support reserve. Overspends such as these increase the risk and rate at which the force could run out of reserves.

The Force has set a minimum prudent General Reserve level of £6.3 million. In addition to this fund, the usable Base Budget Reserve balance stands at £10.945 million at 31st March 2019. Even if the planned savings are achieved the Base Budget reserve level is expected to be substantially depleted by 2022/23, but there is a risk that this reserve will be fully utilised before this date if overspends continue. After this point the General reserve may need to be utilised.

The savings identified for 19/20 total £800,000 and we are satisfied that reasonable planning has been done to identify the areas in which these savings will be achieved.

The savings plans for 2020/21 onwards have recently been reconsidered in light of the Police and Crime Commissioners expectation that the 2% efficiency savings are found each year from this date. This has the effect of smoothing the savings requirements over the three year period rather than targets increasing each year in a way that could be unmanageable. It does however mean that a significant £4 million of savings are required in 2020/21 and maintained at roughly this level each year going forwards. This is a total of £12 million savings over the three year period.

Management are therefore in the process of identifying how these savings will be achieved. A number of well documented proposals have been put forward, identifying different budget areas where savings of this magnitude could be identified, and the impact of making such savings in these areas. These proposals are to be reviewed, decided upon, and refined into a savings plan over the coming months. We are satisfied that management is taking the appropriate steps to prepare for the financial pressures forecast for 2020/21.

We noted during our discussions with management that the savings identified and included in the Medium Term Plans are not specifically monitored or tracked. Once savings are identified they are removed from budgets and monitored through the normal outturn process. However specific savings outcomes are not necessarily identifiable within the overall position and there are no monitors against the specific savings targets set. It is necessary for the Force to monitor savings in order to identify how robust and accurate financial planning has been.

Whilst we acknowledge that over the medium term there is a risk that the plan for a balanced budget may not be achieved, given the significant savings required; we are satisfied that the assumptions used in the plans, and the savings required over the coming financial year, are reasonable. We also note that the current levels of reserves are adequate to cover any unforeseen issues that could arise in the shorter term.

CONTROL DEFICIENCIES

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

We did not identify any significant deficiencies during the course of the audit however we have included below a list of other matters.

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

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

Area	Observation & implication	Recommendation	Management response
Other deficiency	Management does not keep a savings tracker to monitor delivery against specific savings plans. Savings are instead, removed from budgets, and then considered in the context of the overall cost centre outturn.	We recommend that the savings identified in the budget and Medium Term Plans are monitored separately, to enable management to assess the accuracy of its budget setting process and assist with future forecasting.	Agreed.
Other deficiency	A number of manual adjustments were made to cash balances at the year end which resulted in errors. These adjustments took place after bank reconciliations were performed so the errors were not identified.	We recommend that management avoid making adjustments to cash balances and perform reconciliations at an appropriate time.	Agreed.
Other deficiency	The pension fund actuary requests 12 months of pensions data, even if the final months are just estimated. We identified that only 11 months worth of data was provided to GAD in relation to Lump sum benefits, which has caused an inconsistency between notes in the accounts. The impact of this particular issue was trivial to the pension fund.	We recommend that management endure they are providing best estimates to the actuary, with respect to all inputs required, so that the pension liability can be calculated on the best data available.	Agreed.

CONTROL DEFICIENCIES

Area	Observation & implication	Recommendation	Management response
Other deficiency	The ledger does not currently allow for the recording of balances in line with managements determination of how balances should be apportioned between the CC and PCC. As such, a number of manual adjustments need to be made off ledger, which creates scope for error and an unclear audit trail.	We recommend that management take steps to amend the ledger coding so that balances can be more easily attributed to the PCC or CC for reporting purposes.	Amendments will be made within the constraints of the system(s).
Other deficiency	BDO tax experts performed a review of arrangements and confirmed that yearly calculations are not carried out to ensure the value of exempt supply VAT is less than 5% of the total recoverable VAT since 2001. If the exempt supply is over the 5% threshold, this means that the Force may be restricted in recovering VAT on exempt supplies and a breach of the Section 33 for Local authorities and similar bodies. HMRC can raise assessments for inaccuracies in the last 4 years of VAT return and penalty may also apply.	We recommend that the Force carry out this exercise as soon as possible and seek VAT specialist advice if in any doubt.	Agreed.

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OVERVIEW

Opinion on financial statements

We have issued an unmodified opinion on the Group and the Chief Constable financial statements.

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

Conclusion on use of resources

We have issued an unqualified use of resources conclusion.

Conclusion relating to going concern

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

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

Other information

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

Annual Governance Statement

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

INDEPENDENCE

Contents

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

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

We have embedded the requirements of the Standards in our methodologies, tools and internal training programmes. Our internal procedures require that audit engagement partners are made aware of any matters which may reasonably be thought to bear on the integrity, objectivity or independence of the firm, the members of the engagement team or others who are in a position to influence the outcome of the engagement. This document considers such matters in the context of our audit for the year ended 31 March 2019.

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

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

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

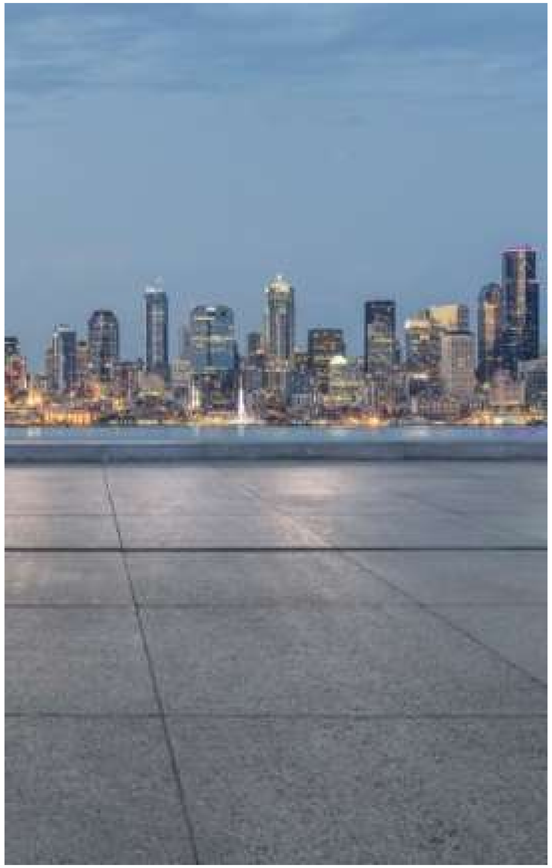
We also confirm that we have obtained confirmation of independence from non BDO auditors and external audit experts involved in the audit comply with relevant ethical requirements including the FRC's Ethical Standard and are independent of the PCC, CC and the Group.

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

FEES

Fees summary	2018/19 Actual £	2018/19 Planned £
Audit fee		
• Police and Crime Commissioner for Hertfordshire	TBC	24,434
• The Chief Constable for Hertfordshire	TBC	11,550
Total Audit Fees	TBC	35,984
Fees for other non-audit services*	5,000	5,000
Total fees	**TBC**	**40,984**

*BDO tax specialists provide advice to the constabulary as part of a subscription service for Public Sector clients. These services ended in March 2019.



APPENDICES CONTENTS

RESPONSIBILITIES AND REPORTING
Responsibilities and reporting

Contents

Our responsibilities and reporting

We are responsible for performing our audit under International Standards on Auditing (UK) to form and express an opinion on your consolidation Group and PCC and CC financial statements. We report our opinion on the financial statements to the members.

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

We report where we consider that the Group has not put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

We review the Whole of Government Accounts Data Collection Tool provided to HM Treasury and express an opinion on whether it is consistent with the audited financial statements.

What we don’t report

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

ADDITIONAL MATTERS WE ARE REQUIRED TO REPORT

	Issue	Comments
1	Significant difficulties encountered during the audit.	Good quality working papers were not provided during the audit. Additionally, it took longer than expected to receive documentation and explanations in relation to audit samples. The McCloud case led to significant amounts of time spent by both management and the audit team in resolving the treatment and implications to the financial statements which led to a material change in the pension liability. The above have led to delays in the audit fieldwork being completed which has resulted in the statutory deadline for presenting audited accounts being missed.
2	Written representations which we seek.	We enclose a copy of our draft representation letter.
3	Any fraud or suspected fraud issues.	No exceptions to note.
4	Any suspected non-compliance with laws or regulations.	No exceptions to note.
5	Significant matters in connection with related parties.	No exceptions to note.

COMMUNICATION AND REPORTS ISSUED

Contents

Those Charged with Governance (TCWG)

References in this report to those charged with governance are to the Group as a whole. For the purposes of our communication with those charged with governance you have agreed we will communicate primarily with the Audit Committee.

Communication, meetings and feedback

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

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

Communication	Date (to be) communicated	To whom
18/19 Audit Fee Letters	April 2018	Management
Audit Plan	March 2019	Audit Committee
Materiality Update	June 2019	Audit Committee
Draft Audit Completion Report	July 2019	Audit Committee
Audit Completion Report	September 2019 (This Report)	Audit Committee
Annual Audit Letter	October 2019	Audit Committee

AUDIT REPORT

Contents

INDEPENDENT AUDITOR'S REPORT TO THE POLICE AND CRIME COMMISSIONER FOR HERTFORDSHIRE

Opinion on the financial statements

We have audited the financial statements of the Police and Crime Commissioner for Hertfordshire ("the Police and Crime Commissioner") and the Chief Constable for Hertfordshire Constabulary (together comprising "the group") for the year ended 31 March 2019 which comprise the Police and Crime Commissioner and the group Comprehensive Income and Expenditure Statements, Movement in Reserves Statements, Balance Sheets, Cash Flow Statements, Expenditure and Funding Analysis, and Pension Fund Account and notes to the financial statements including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

In our opinion the financial statements:

- give a true and fair view of the financial position of the Police and Crime Commissioner as at 31 March 2019 and of its expenditure and income for the year then ended;
- give a true and fair view of the financial position of the group as at 31 March 2019 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

Basis for opinion on the financial statements

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)), the Code of Audit Practice issued by the National Audit Office in April 2015 ("Code of Audit Practice") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Police and Crime Commissioner and group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Chief Financial Officer's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Chief Financial Officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Police and Crime Commissioner's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

AUDIT REPORT
Continued

Contents

Other information

The Chief Financial Officer is responsible for the other information. The other information comprises the Narrative report together with all other information included in the Statement of Accounts, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Conclusion on the Police and Crime Commissioner's arrangements for securing economy, efficiency and effectiveness in its use of resources

On the basis of our work, having regard to the guidance on the specified criterion published by the National Audit Office in November 2017, we are satisfied that, in all significant respects, the Police and Crime Commissioner put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

Matters on which we are required to report by exception

We have nothing to report in respect of the following other matters which the Code of Audit Practice (April 2015) requires us to report to you if:

- we have been unable to satisfy ourselves that the Annual Governance Statement is misleading or inconsistent with other information that is forthcoming from the audit;
- we issue a report in the public interest under section 24 of the Act in the course of, or at the conclusion of the audit;
- we designate under section 24 of the Local Audit and Accountability Act 2014 any recommendation as one that requires the Police and Crime Commissioner to consider it at a public meeting and to decide what action to take in response;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

Responsibilities of the Chief Financial Officer and the Police and Crime Commissioner

As explained more fully in the Statement of the Chief Financial Officer's Responsibilities, the Chief Financial Officer is responsible for the preparation of the Statement of Accounts, which comprises the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that the financial statements give a true and fair view.

AUDIT REPORT
Continued

In preparing the financial statements, the Chief Financial Officer is responsible for assessing the Police and Crime Commissioner's and group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Police and Crime Commissioner intends to cease operations of the Police and Crime Commissioner or group or has no realistic alternative but to do so.

The Police and Crime Commissioner is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities for the audit of the financial statements

In respect of our audit of the financial statements our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located at the Financial Reporting Council's website at: https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Auditor's responsibilities in respect of the Police and Crime Commissioner's use of resources

We are required under Section 20 of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Police and Crime Commissioner has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

We report if significant matters have come to our attention which prevent us from concluding that the Police and Crime Commissioner has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Police and Crime Commissioner's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Certificate of completion of the audit

We certify that we have completed the audit of the accounts of The Police and Crime Commissioner for Hertfordshire Group in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office.

Use of our report

This report is made solely to the Police and Crime Commissioner, in accordance with part 5 of the Local Audit and Accountability Act 2014 and as set out in the Responsibilities of the Audited Body and Responsibility of the Auditor within Chapter 2 of the Code of Audit Practice published by the National Audit Office in April 2015. Our audit work has been undertaken so that we might state to the Police and Crime Commissioner those matters we are required to state to him in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Police and Crime Commissioner for our audit work, for this report, or for the opinions we have formed.

Aphrodite Lefevre

For and on behalf of BDO LLP, Appointed Auditor

Norwich, UK

[Insert date]

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

AUDIT QUALITY

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BDO is totally committed to audit quality

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

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

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

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

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

Letter of representation

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[Client name and Letter headed paper
Separate representation letters will be required from both the Police and Crime Commissioner and the Chief Constable.]

BDO LLP
Yare House
62-64 Thorpe Road
Norwich
NR1 1RY

Financial statements of The Police and Crime Commissioner for Hertfordshire Group for the year ended 31 March 2019

We confirm that the following representations given to you in connection with your audit of the Group and the Police and Crime Commissioner for Hertfordshire's ("the PCC") financial statements for the year ended 31 March 2019 are made to the best of our knowledge and belief, and after having made appropriate enquiries of other officers and members of the Force.

The Chief Finance Officer has fulfilled his responsibilities for the preparation and presentation of the Group and the PCC statements as set out in the Accounts and Audit Regulations 2015 and in particular that the financial statements give a true and fair view of the financial position of the Group and the PCC as of 31 March 2019 and of its income and expenditure and cash flows for the year then ended in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

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

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

Going concern

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

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

Laws and regulations

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

Post balance sheet events

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

Fraud and error

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

We have considered the risk that the financial statements may be materially misstated due to fraud and have made the results available to you.

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

To the best of our knowledge we are not aware of any allegations of fraud or suspected fraud affecting the financial statements that have been communicated by employees, former employees, analysts, regulators or any other party.

Misstatements

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

Related party transactions

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

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

Carrying value and classification of assets and liabilities

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

Accounting estimates

a) Pension fund assumptions

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

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

b) Valuation of Land and Buildings

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

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

Litigation and claims

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

Confirmation

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

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

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

Yours faithfully

Ian Rooney

Chief Finance Officer

[date]

Paul Smith

Chair of the Audit Committee

[date]

FOR MORE INFORMATION:

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The matters raised in our report prepared in connection with the audit are those we believe should be brought to your attention. They do not purport to be a complete record of all matters arising. This report is prepared solely for the use of the organisation and may not be quoted nor copied without our prior written consent. No responsibility to any third party is accepted.

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