

Police and Crime
Commissioner for
Hampshire,
Hampshire Constabulary

Annual Audit Letter for the year
ended 31 March 2020
March 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).

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 Hywel Ball, 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.



Section 1

Executive Summary

Executive Summary

We are required to issue an annual audit letter to The Police and Crime Commissioner for Hampshire (PCC) and Hampshire Constabulary (CC) following completion of our audit procedures for the year ended 31 March 2020. Covid-19 had an impact on a number of aspects of our 2019/20 audit. We set out these key impacts below.

Area of impact	Commentary
Impact on the delivery of the audit	
▶ Changes to reporting timescales	As a result of Covid-19, new regulations, the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020 No. 404, have been published and came into force on 30 April 2020. This announced a change to publication date for final accounts from 31 July to 30 November 2020 for all relevant authorities.
Impact on our risk assessment	
▶ Valuation of Property Plant and Equipment	The Royal Institute of Chartered Surveyors (RICS), the body setting the standards for property valuations, issued guidance to valuers highlighting that the uncertain impact of Covid-19 on markets might cause a valuer to conclude that there is a material uncertainty. Caveats around this material uncertainty have been included in the year-end valuation reports produced by the PCC's property valuers. We consider that the material uncertainties disclosed by the valuer gave rise to an additional risk relating to disclosures on the valuation of property, plant and equipment.
▶ Disclosures on Going Concern	Financial plans for 2020/21 and medium term financial plans will need revision for Covid-19. We considered the unpredictability of the current environment gave rise to a risk that the PCC and CC would not appropriately disclose the key factors relating to going concern, underpinned by managements assessment with particular reference to Covid-19 and the PCC and CC's actual year end financial position and performance.
▶ Events after the balance sheet date	We identified an increased risk that further events after the balance sheet date concerning the current Covid-19 pandemic may need to be disclosed. The amount of detail required in the disclosure needed to reflect the specific circumstances of the PCC and CC.
Impact on the scope of our audit	
▶ Information Produced by the Entity (IPE)	We identified an increased risk around the completeness, accuracy, and appropriateness of information produced by the entity due to the inability of the audit team to verify original documents or re-run reports on-site from the PCC and CC's systems. We undertook the following to address this risk: <ul style="list-style-type: none">• Used the screen sharing function of Microsoft Teams to evidence re-running of reports used to generate the IPE we audited; and• Agreed IPE to scanned documents or other system screenshots.
▶ Consultation requirements	Additional EY consultation requirements concerning the impact on auditor reports. The changes to audit risks and audit approach changed the level of work we needed to perform.

Executive Summary (cont'd)

The tables below set out the results and conclusions on the significant areas of the audit process.

Area of Work	Conclusion
Opinion on the PCC and CC's:	
▶ Financial statements	On 19 February 2021 we issued unqualified opinions. The financial statements give a true and fair view of the financial position of the PCC and the CC as at 31 March 2020 and of their expenditure and income for the year then ended.
▶ Consistency of other information published with the financial statements	Other information published with the financial statements was consistent with the Statement of Accounts.
▶ Concluding on the PCC 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.

Area of Work	Conclusion
Reports by exception:	
▶ Consistency of Governance Statement	The Governance Statement was consistent with our understanding of the PCC and CC.
▶ Public interest report	We had no matters to report in the public interest.
▶ Written recommendations to the PCC 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.

Executive Summary (cont'd)

Area of Work	Conclusion
Reporting to the National Audit Office (NAO) on our review of the PCC's Whole of Government Accounts return (WGA).	We have substantially completed the work required by the NAO. There have been some national technical issues identified with the new NAO WGA tool and as a result there has been an extension to the submission deadline.

As a result of the above we have also:

Area of Work	Conclusion
Issued a report to those charged with governance of the PCC and CC communicating significant findings resulting from our audit.	We presented our Audit Results Reports on the PCC and CC to the Joint Audit Committee on 22 September 2020.
Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2015 Code of Audit Practice.	We will issue our audit completion certificate as soon as we have submitted the WGA.

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

Kevin Suter
Associate Partner
For and on behalf of Ernst & Young LLP

Section 2

Purpose and Responsibilities



Purpose

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 PCC and CC.

We have already reported the detailed findings from our audit work in our 2019/20 Audit Results Report to the 22 September 2020 Joint Audit Committee, 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 PCC and CC.

Responsibilities

Responsibilities of the Appointed Auditor

Our 2019/20 audit work was undertaken in accordance with the Audit Plans presented on 11 February 2020.

Our initial findings were communicated through the audit results report we presented on 22 September 2020. Our audit was conducted in accordance with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK), and other guidance issued by the National Audit Office.

As auditors, we are responsible for:

- ▶ Expressing an opinion:
 - ▶ On the 2019/20 financial statements; and
 - ▶ On the consistency of other information published with the financial statements.
- ▶ Forming a conclusion on the arrangements the PCC 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 PCC and CC;
 - ▶ Any significant matters that are in the public interest;
 - ▶ Any written recommendations to the PCC 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. We have substantially completed the WGA review and will submit in line with the revised NAO timetable.

Responsibilities of the PCC and CC

The PCC and CC are responsible for preparing and publishing their statement of accounts accompanied by an Annual Governance Statement (AGS). In the AGS, the PCC and CC report publicly each year on how far they comply with their own code of governance, including how they have monitored and evaluated the effectiveness of their governance arrangements in year, and any changes planned in the coming period.

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

Section 3

Financial Statement Audit



Financial Statement Audit

Key Issues

The Statement of Accounts is an important tool for the PCC and CC to show how they have used public money and how they can demonstrate their financial management and financial health.

We audited the PCC and CC Statement of Accounts in line with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK), and other guidance issued by the National Audit Office and issued an unqualified audit report on 19 February 2021.

Our preliminary findings were reported to the 22 September 2020 Joint Audit Committee. The key issues identified as part of our audit were as follows.

Significant risks	Conclusion
Misstatements due to fraud or error	We did not identify any matters to report to the Joint Audit Committee.
Incorrect capitalisation of revenue expenditure	Our testing of revenue expenditure funded by capital under statute ("REFCUS") noted expenditure of £31m that was capital in nature and should have been capitalised. We raised this as an audit difference and it was adjusted by management. This error was not indicative of fraud.

Other audit risks on the PCC and CC audit

Valuation of land & buildings: We noted a difference in our analysis of assets not revalued in the year that was above our nominal amount therefore we have recorded as a misstatement. The difference arises due to management performing an indexation exercise as at 01 April 2019. Our view is that this should be done as at the year end date, 31 March 2020. Management chose not to adjust due to materiality

Pension liability - We are satisfied that the actuary has taken into consideration the impacts of McCloud and that the impacts of 'Goodwin' would not be material for the CC. The results of the work performed by the Pension Fund audit noted a difference in the CC's share of the Pension Fund assets of £1.4 million. Management have chosen not to adjust this misstatement.

Going concern - The PCC and CC have assessed the impact of Covid-19 on their income, expenditure, cash and reserves position into 2020/21 and 2021/22 and made an appropriate disclosure in the final audited financial statements.

Financial Statement Audit (cont'd)

Our application of materiality

When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole.

Item	Thresholds applied
Planning materiality	<p>We determined group planning materiality to be £10.1m (2018/19: £9.7m), which is 1.8% of gross expenditure reported in the accounts adjusted for revaluation losses, but including pension interest costs, payments of precepts and investment property running costs.</p> <p>We consider gross expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the PCC.</p> <p>The planning materiality figure for the Pension Fund was £1.7m (2018/19: £960k)</p>
Reporting threshold	<p>We communicated to the Joint Audit Committee that we would report to them all audit differences for the group in excess of £508k (2018/19: £485k).</p> <p>The reporting threshold for the Pension Fund was £87k (2018/19: £85k)</p>

Materiality	HPCC (Group)	CC	Pension Fund
Planning	£10.1m	£8.9m	£1.7m
Performance	£7.6m	£6.7m	£1.3m
Reporting	£508k	£448k	£87k

Section 4

Value for Money



Value for Money

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

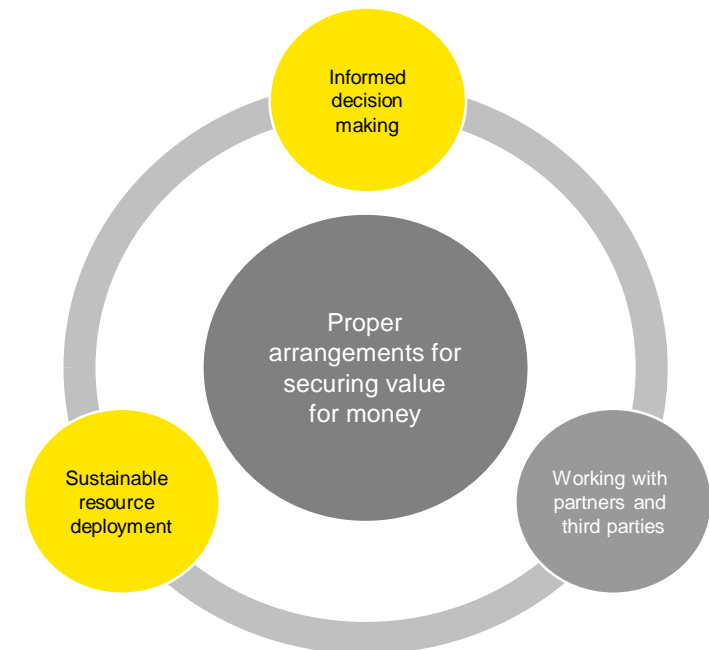
Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

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

On 16 April 2020 the National Audit Office published an update to auditor guidance in relation to the 2019/20 Value for Money assessment in the light of Covid-19. This clarified that in undertaking the 2019/20 Value for Money assessment auditors should consider Local Authorities' response to Covid-19 only as far as it relates to the 2019-20 financial year; only where clear evidence comes to the auditor's attention of a significant failure in arrangements as a result of Covid-19 during the financial year, would it be appropriate to recognise a significant risk in relation to the 2019-20 VFM arrangements conclusion.

We have performed the procedures outlined in our audit plan. We did not identify any significant weaknesses in the PCC's arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

We therefore issued an unqualified value for money conclusion on 19 February 2021.



A photograph of a business meeting in progress. Several people are gathered around a large wooden conference table, looking at documents. A woman with blonde hair is leaning forward, resting her chin on her hand, appearing thoughtful. A man in a blue shirt and red tie is standing in the background. The scene is brightly lit, suggesting a modern office environment.

Section 5

Other Reporting Issues

Other Reporting Issues

Whole of Government Accounts

We are required to perform the procedures specified by the National Audit Office on the accuracy of the consolidation pack prepared by the PCC for Whole of Government Accounts purposes.

We are in the process of concluding our work on the WGA consolidation pack. There have been some technical issues with the new submission tool and as a result the NAO have extended the deadline, advising auditors not to finalise the submission until all issues are resolved.

Annual Governance Statement

We are required to consider the completeness of disclosures in the PCC and CC's annual governance statements, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it is misleading.

We completed this work and did not identify any areas of concern.

Report in the Public Interest

We have a duty under the Local Audit and Accountability Act 2014 to consider whether, in the public interest, to report on any matter that comes to our attention in the course of the audit in order for it to be considered by the PCC or CC or brought to the attention of the public.

We did not identify any issues which required us to issue a report in the public interest.

Written Recommendations

We have a duty under the Local Audit and Accountability Act 2014 to designate any audit recommendation as one that requires the PCC and CC to consider it at a public meeting and to decide what action to take in response.

We did not identify any issues which required us to issue a written recommendation.

Other Reporting Issues (cont'd)

Objections Received

We did not receive any objections to the 2019/20 financial statements from members of the public.

Other Powers and Duties

We identified no issues during our audit that required us to use our additional powers under the Local Audit and Accountability Act 2014.

Independence

We communicated our assessment of independence in our Audit Results Report to the Joint Audit Committee on 22 September 2020. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning regulatory and professional requirements.

Control Themes and Observations

As part of our work, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control, we are required to communicate to you significant deficiencies in internal control identified during our audit.

We have adopted a mainly substantive audit approach. We relied on the ISAE 3402 report on the Integrated Business Centre in respect of the operation of controls over Accounts Payable, Accounts Receivable and Cash.

Our audit did not identify any controls issues to bring to the attention of the Joint Audit Committee.

Section 6

Focused on your future



Focused on your future

The NAO has a new Code of Audit Practice for 2020/21. The impact on the PCC and CC is summarised in the table below.

Authority responsibilities for value for money

The PCC and CC are required to maintain an effective system of internal control that supports the achievement of its policies, aims and objectives while safeguarding and securing value for money from the public funds and other resources at their disposal.

As part of the material published with the financial statements, the PCC and CC are required to bring together commentary on the governance framework and how this has operated during the period in a governance statement. In preparing the governance statement, the Authority tailors the content to reflect its own individual circumstances, consistent with the requirements of the relevant accounting and reporting framework and having regard to any guidance issued in support of that framework. This includes a requirement to provide commentary on arrangements for securing value for money from the use of resources.

Auditor responsibilities under the new Code

Under the 2020 Code we are still required to consider whether the PCC and CC have put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. However, there is no longer overall evaluation criterion which we need to conclude on. Instead the 2020 Code requires the auditor to design their work to provide them with sufficient assurance to enable them to report to the Authority, a commentary against specified reporting criteria (see below) on the arrangements the PCC and CC have in place to secure value for money through economic, efficient and effective use of its resources for the relevant period.

The specified reporting criteria are:

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

Continued

Focused on your future

Reporting on VFM

In addition to the commentary on arrangements, where we are not satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources the 2020 Code has the same requirement as the 2015 Code in that we should refer to this by exception in the audit report on the financial statements.

However, a new requirement under the 2020 Code is for us to include the commentary on arrangements in a new Auditor's Annual Report. The 2020 Code states that the commentary should be clear, readily understandable and highlight any issues we wish to draw to the Authority's attention or the wider public. This should include details of any recommendations arising from the audit and follow-up of recommendations issued previously, along with our view as to whether they have been implemented satisfactorily.

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 PCC and CC is summarised in the table below.

Standard	Issue	Impact
IFRS 16 Leases	<p>It was proposed that IFRS 16 (Leases) would be applicable for local authority accounts from the 2021/22 financial year, deferred a year due to the impact of Covid-19.</p> <p>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.</p> <p>In response to the ongoing pandemic and its pressures on Authority finance teams, CIPFA announced that the implementation will be deferred until the 2022-23 financial year.</p> <p>CIPFA 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>	<p>There are transitional arrangements within the standard and It is assumed this will be reflected in the 2021/22 Accounting Code of Practice for Local Authorities when published. 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.</p> <p>However, what is clear is that the PCC will need to undertake a detailed exercise to identify all of its leases and capture the relevant information for them. The PCC must therefore ensure that all lease arrangements are fully documented, and use the extension to ensure it is ready for the standard's application.</p>

A hand is holding a bright yellow sticky note over a grey file folder. The folder is filled with papers, and several other folders are visible in the background, some with blue and orange tabs. The scene is set against a light-colored, textured wall.

Section 7

Audit Fees

Audit Fees

Our base fee for 2019/20 is in line with the scale fee set by the PSAA

Description	Scale Fee as set by PSAA 2019/20 £	Additional Fee Proposal 2019/20 £	Final Fee 2018/19 £
Initial Audit Fee – Code work - PCC	31,751		32,501
Initial Audit Fee – Code work – CC	14,438		14,438
Changes in work required to address professional and regulatory requirements and scope associated with risk (see page 23)	N/A	23,582	N/A
Proposed Revised Scale Fee	46,189	23,582	46,939
Scale fee variation:			
Additional work required for Covid-19 considerations and Going Concern (see Note 1)		11,454	
Additional work required on PPE valuation, (see Note 2)		1,377	
Work required for other inherent risks areas (see Note 3)		967	
Total Proposed Audit Fee	46,189	37,380	46,939
Non audit fee - PCC	70,000		

Note 1: We have quantified the additional work we have undertaken during 2019/20 as a result of Covid19, going concern and resulting consultation processes.

Note 2: We have quantified the additional work we have undertaken during 2019/20 as a result of the impact of Covid-19 on property, plant and equipment valuations.

Note 3: We have quantified the additional work completed during 2019/20 over the IAS 19 valuation, including the work performed by the Pension Fund Auditor.

We have discussed these with the Chief Financial Officers and provided further breakdown of each of the figures. We did not reach agreement and therefore we will be seeking PSAA approval.

Audit Fees (cont'd)

Scale Fee Rebasing: Changes in work required to address professional and regulatory requirements and scope associated with risk

Janet Dawson, our Government & Public Sector Assurance Lead, wrote to all Chief Finance Officers and Audit Committee (or equivalent) chairs on 11 February 2020 on the subject of the sustainability of UK local public audit. Amongst other issues her letter stated that we did not believe the existing scale fees provide a clear link with both a public sector organisation's risk and complexity, and the audit profession's context for cost and fee increases, including the attractiveness of audit, investment in technology, innovation and the regulatory environment.

Around the same time, PSAA consulted on its 2020/21 audit fees ([PSAA fee consultation](#)), discussing the challenging environment, new standards and regulatory requirements. They noted an appropriate forum for fee discussions from these impacts would be between the auditor and Chief Financial Officer, to take place as soon as possible as part of planning discussions for 2019/20 audits.

The subsequent review by Sir Tony Redmond ([Redmond Review](#)) has also highlighted that audit fees in the local authority sector have dropped significantly at the same time that audit fees in other sectors have significantly risen, and that no assessment of the amount it would cost to audit each local authority based on their level of audit risk has been made in the past ten years due to the methods applied by the Audit Commission and then PSAA. As such there is no guarantee that the fee paid by each local authority accurately reflects the risk profile or amount of audit work required for their external audit.

To address these issues we undertook an analysis of the changes in professional and regulatory requirements since our last tender to PSAA was submitted, and any other known changes in audit risk. For instance, where applicable, significant commercial property investments, creation of joint ventures, subsidiaries and other similar arrangements. For pension fund we evaluated particularly the values and types of investment assets.

We identified the proposed fee rebasing under the headings of:

- Changes in risk;
- Increased regulatory requirements; and
- Client readiness and ability to support a technologically enabled audit.

As requested by PSAA, we discussed this with management in May 2020 (delayed from March 2020 due to the impact of the coronavirus pandemic)

We did not reach agreement. While management recognised many of these pressures and can see how they are reflected in the changes in the audit work, their view was that this is a decision for PSAA.

Having not reached agreement, and in light of managements comments, we will now submit the proposed rebasing to PSAA for their review and decision. We would like to thank management for their contribution to this debate and the positive manner in which they engaged with us, although we did not reach agreement.

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