



Annual Audit Letter 2017/18

**Police and Crime
Commissioner for
South Yorkshire and
Chief Constable of
South Yorkshire**

—

October 2018



Section one:

Summary for Audit Committee

This Annual Audit Letter summarises the outcome from our audit work at Police and Crime Commissioner for South Yorkshire (“the PCC”) and Chief Constable of South Yorkshire (“the CC”) in relation to the 2017-18 audit year.

Audit opinion

We issued an unqualified opinion on the PCC and CC’s financial statements on 21st September 2018. This means that we believe the financial statements give a true and fair view of the financial position of the PCC and CC and of its expenditure and income for the year.

We note there has been delays in the audit process relating to the length of time it took to agree the treatment of claims the PCC had initially recorded as contingent liabilities, but following audit challenge, agreed to record as provisions. These initial delays led to some audit work being pushed closer to the deadline of 31 July 2018. Subsequent audit resourcing issues meant it was not possible to complete all work until September.

Financial statements audit

Our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole. Materiality was set at £3 million for the Police and Crime Commissioner and £2.75 million for the Chief Constable, this equates to around 1 percent of gross expenditure. We design our procedures to detect errors in specific accounts at a lower level of precision.

We report to the Audit Committee any misstatements of lesser amounts, other than those that are “clearly trivial”, to the extent that these are identified by our audit work. For the PCC and CC, an individual difference is considered to be clearly trivial if it is less than £0.15 million and £0.138 million respectively.

We identified two audit adjustment impacting the primary statements with a total value of £1.656 million. These related to disclosures the PCC had recorded as contingent liabilities but actually met the definition of provisions and were adjusted by officers before we gave our audit opinion.

We have made no audit recommendations.

Our audit work was designed to specifically address the following significant risks in the table overleaf:

Summary for Audit Committee (cont)

Significant risk	Results of work
<p>Provisions and contingent liabilities – South Yorkshire Police has received legal claims/been put on notice to receive legal claims in respect of Child Sexual Exploitation (“CSE”) and the Hillsborough disaster. The highly unusual nature of these cases makes it very difficult to estimate how much compensation, if any, may be paid out to either individual claimants or as a total for all of the claims. In prior years these uncertainties meant it was not possible to quantify the financial impact and they were disclosed as contingent liabilities.</p>	<p>Our work identified the contingent liability for Hillsborough was appropriate.</p> <p>Our work identified the contingent liability for CSE claims was partly appropriate, however for 14 claims there was sufficient information for a provision to be calculated. As a result a provision of £564k was recognised in the updated financial statements for the PCC.</p> <p>The PCC recognised a new contingent liability relating to the fact a capitalisation direction had now been fully discharged for an existing liability. We reviewed and challenged this treatment and as a result of our findings the PCC decided to treat this as a provision. The PCC calculated a provision value of £1,092k based both a court judgement and medical advice from the court case.</p>
<p>Valuation of property, plant and equipment – The Code requires that where assets are subject to revaluation, their year-end carrying value should reflect the appropriate fair value at that date. The Police and Crime Commissioner has adopted a rolling revaluation model which sees all land and buildings revalued over a five year cycle. As a result of this, however, individual assets may not be revalued for four years.</p> <p>This creates a risk that the carrying value of those assets not revalued in year differs materially from the year end fair value. In addition, as the valuation is not undertaken at the year-end, there is a risk that the fair value is different at the year end.</p>	<p>Our work identified the valuation of property, plant and equipment was appropriate.</p>
<p>Net pension liability – The net pension liability represents a material element of the Police and Crime Commissioner and Chief Constable’s balance sheets; it relates to both the Police pension schemes and the South Yorkshire Pension Fund.</p> <p>The valuation of the pension liability relies on a number of assumptions, most notably around the actuarial assumptions, and actuarial methodology which results in the overall valuation.</p>	<p>Our work identified the valuation of pensions liabilities were appropriate.</p>

Summary for Audit Committee (cont)

Significant risk	Results of work
<p>Faster close – In prior years, the PCC and the Chief Constable have been required to prepare draft financial statements by 30 June and then final signed accounts by 30 September. For years ending on and after 31 March 2018 however, revised deadlines apply which require draft accounts by 31 May and final signed accounts by 31 July.</p>	<p>Our work did not identify any additional material estimates as a result of faster close.</p> <p>The PCC and CC produced accounts in line with the revised deadline of 31 May. We note there has been delays in the audit process relating to the length of time it took to agree the treatment of claims the PCC had initially recorded as contingent liabilities, but following audit challenge, agreed to record as provisions. These initial delays led to some audit work being pushed closer to the deadline of 31 July 2018. Subsequent audit resourcing issues meant it was not possible to complete all work until September.</p>

Other information accompanying the financial statements

Whilst not explicitly covered by our audit opinion, we review other information that accompanies the financial statements to consider its material consistency with the audited accounts. This year we reviewed the Annual Governance Statements and Narrative Reports. We concluded that they were consistent with our understanding and did not identify any issues.

Whole of Government Accounts

We reviewed the consolidation pack which the PCC and CC prepared to support the production of Whole of Government Accounts by HM Treasury. We reported that the PCC and CC's pack was consistent with the audited financial statements.

Value for Money conclusion

We have concluded that the PCC and CC have made proper arrangements to secure economy, efficiency and effectiveness in their use of resources in 2017/18. We therefore issued an unqualified value for money conclusion on 21st of September 2018.

To arrive at our conclusion we looked at the PCC and CC's arrangements to make informed decision making, sustainable resource deployment and working with partners and third parties.

Value for Money risk areas

We set out our assessment of those areas requiring additional risk based work in our External Audit Plan 2017/18 and updated this assessment during our interim visit. As a result of this we have identified the following significant VFM audit risks:

- Financial Resilience and use of Reserves – As a result of reductions in central government funding, and other pressures, especially those relating to legacy issues, the PCC and Chief Constable are having to make additional savings beyond those from prior years. We considered the way in which the PCC and Chief Constable identify, approve, and monitor both savings plans and how budgets are monitored throughout the year.
- HMICFRS had indicated that no progress has been made against the 'requires improvement' grading for use of resources in the PEEL Efficiency report.

Section one:

Summary for Audit Committee (cont.)

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

This assessment that the PCC and CC have proper arrangements does not mean the PCC and CC do not still face significant financial risks from funding changes and most notably legacy issues such as Hillsborough and CSE – but that they have the arrangements in place to manage these financial risks. Although if all the risks from legacy issues crystallise, this will require the support of the Home Office, which we understand the PCC is already in discussions with.

High priority recommendations

We raised no high priority recommendations as a result of our 2017-18 work.

Audit fee

Our fee in comparison to 2016/17 audit fees are identified below.

	2017/18 Audit Fee (£)	2016/17 Audit Fee (£)
PCC	39,143	43,034
CC	18,750	19,853

We did not charge any additional fees for other services.

Exercising of audit powers

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

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

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

Certificate

We issued our certificate on 21st of September 2018. The certificate confirms that we have concluded the 2017/18 audits of the PCC's and CC's financial statements in accordance with the requirements of the Local Audit & Accountability Act 2014 and the Code of Audit Practice.



The key contacts in relation to our audit are:

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

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

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

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