

Zoë Metcalfe
North Yorkshire Police, Fire and Crime Commissioner
Lisa Winward
Chief Constable for North Yorkshire

North Yorkshire Police Headquarters
Alverton Court
Crosby Road
Northallerton
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19 August 2022

Dear Ms Metcalfe and Mrs Winward

Police, Fire and Crime Commissioner for North Yorkshire and the Chief Constable for North Yorkshire - Follow up Letter to our Audit Completion Report in relation to the 2020/21 Audit

As required by International Standards on Auditing (UK), I am writing to communicate an update on those matters that were marked as outstanding within our Audit Completion Report dated 4 March 2022.

The following matters have now been resolved.

Audit area previously reported as outstanding	Status	Updated position
Movement in Reserves Statement	Complete	We have completed our work in this area and have no matters to bring to your attention.
Income and expenditure cut off and other employee costs	Complete	We have completed our work in this area and have no matters to bring to your attention.
Cash flow statement	Complete	We have completed our work in this area and have no matters to bring to your attention.
Property valuations (PFCC only)	Complete	We have completed our work on this area. The only matter to bring to Members' attention is the 'material valuation uncertainty' in relation to valuations undertaken by the valuer, as described in the next section of our letter.

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Debtors	Complete	We have completed our work in this area and have no matters to bring to your attention.
Creditors	Complete	We have completed our work in this area and have no matters to bring to your attention.
Journals	Complete	We have completed our work in this area and have no matters to bring to your attention.
Pensions (IAS 19 pension entries)	Complete	We have completed our work in this area. The only matter to bring to your attention is in respect of adjustments made to pension disclosure. This is described in the next section of our letter.
Financial Instruments	Complete	We have completed our work in this area, this has resulted in amendments being made to the disclosure notes to remove debtors and creditors which were not financial instruments.
Police Pension Fund	Complete	We have completed our work in this area and have no matters to bring to your attention
Provisions and contingencies	Complete	We have completed our work in this area and have no matters to bring to your attention.
IT General Controls	Complete	We have completed our work in this area. The only matter to bring to your attention is in respect of a control recommendation raised, please see Appendix B.
Final version of the Annual Report and Annual Governance Statement	Complete	We have completed our work on this area and have no further matters we need to report to you.
Consolidation procedures	Complete	We have completed our work on this area and have no further matters we need to report to you.
Closing procedures	Complete	We have now completed our closing procedures and have no matters to bring to your attention.
WGA	Incomplete	We are awaiting group instructions from the National Audit Office before we are able to undertake this work.

Material valuation uncertainty in respect of property valuations (PFCC only)

Management's valuation expert has provided valuations in year with a material valuation uncertainty clause. Accounting policy 33 in the PFCC financial statements has been updated to disclose the impact on the financial statements. The additional note is explained further in Appendix A, and the text highlighted for ease of reference.



In line with normal practice, we will include reference to this disclosure as an 'emphasis of matter' in our audit report. The purpose of this paragraph is to draw attention to this disclosure, it is not a qualification and does not modify our proposed unqualified opinion on the financial statements.

Our draft Auditor's Report for the PFCC at Appendix C includes a draft emphasis of matter paragraph. The draft Auditor's report for the CC is unchanged from that in the Audit Completion Report.

Adjusted misstatement in relation to the LGPS IAS 19 Pension Liability

As a result of volatility in the value of assets around year end, revised IAS 19 reports were obtained that included the actual return on assets rather than an estimate. The impact of this was the return on asset values falling by £7,279k for the CC and £122k for the PFCC. Details of the amendments made to the statement of accounts in respect of this are included in Appendix A.

In addition to this, the assurance letter received from the auditors of North Yorkshire Pension Fund drew our attention to an unadjusted error of £9.2m in the accounts of North Yorkshire Pension Fund. Assets were understated by £9.2m due to a difference between the custodian report and a valuation report. As the CC's share of assets belonging to the pension fund is approximately 6.6% the pension assets in the CC's financial statements were understated by £607k and therefore the net liability in the overstated by £607k. The financial statements have been amended to reflect this, the adjustments can be seen in Appendix A. The impact for the PFCC was significantly lower due to the PFCC's share of pension fund assets being only 0.1% or £9k, given this low value no amendment was made in respect of this, it is below the trivial threshold and therefore no amendment is required.

Summary of Misstatements

For completeness, I attach a final summary of misstatements as Appendix A to this letter. All changes between the Audit Completion Report and the final position are highlighted in red.

If you wish to discuss these or any other points then please do not hesitate to contact me.

Yours faithfully

Gavin Barker

Gavin Barker
Director
For and on behalf of Mazars LLP

Appendix A – Summary of misstatements

The issues arising between the issue of the Audit Completion Report dated 4 March 2022 and the issue of this update letter are highlighted in red.

We set out below the misstatements identified for adjustment during the course of the audit.

Adjusted misstatements 2020/21

	Comprehensive Income and Expenditure Statement		Balance Sheet	
	Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
1	Dr: (Surplus) Deficit on remeasurements of defined benefit liability charged to the pension reserve (CC)	6,794		
	Cr: Pension liability (CC)			6,794
	Dr: Pension Reserve (CC)		6,794	
	Cr MiRS – adjustment between accounting and funding basis (CC)			6,794
	Being the adjustment of £7,279k made to the CC financial statements reflect actual asset returns per the updated IAS 19 report obtained from the actuary and the adjustment of £607k being made to reflect the understatement of pension asset values arising from the unadjusted misstatement in NYPF's financial statements.			
2	Dr: (Surplus) Deficit on remeasurements of defined benefit liability charged to the pension reserve (PFCC)	122		
	Cr: Pension liability (PFCC)			122
	DR Pension Reserves (PFCC)		122	
	Cr MiRS – adjustment between accounting and funding basis (PFCC)			122
	Being the adjustment made to the CC financial statements reflect actual asset returns per the updated IAS 19 report obtained from the actuary.			

Disclosure amendments

Note 21 Financial instruments (Commissioner and Group): The note was amended to correct some errors in the calculation of debtors and creditors which are classed as financial instruments (Commissioner figures).

Note 11 Financial instruments (Chief Constable): The note was amended to correct some errors in the calculation of creditors which are classed as financial instruments.

Note 28 Retirement Benefits (Commissioner and Group): The note was amended to update it for the misstatement detailed in the table above.

The wording of accounting policy 33 (Commissioner and Group) has been amended to reflect the material valuation uncertainty included in the valuer's report. The note reads as follows in the final version of the financial statements.

Property, Plant and Equipment, Investment Properties and Assets Held for Sale.

Valuation of assets and consideration of impairment depends on a number of complex judgements and a firm of Surveyors and Valuers is engaged to provide expert advice about the assumptions to be applied. The valuation (and any impairment review) is commissioned in accordance with UKPS 1.3 of the Royal Institution of Chartered Surveyors (RICS) Valuation Standards.

In accordance with the RICS Valuation - Global Standards Guidance Notes on Valuation Uncertainty, the Valuer has highlighted an issue that may have a material effect on the degree of uncertainty and confidence that can be applied to a valuation opinion:

Market Activity - The level of recent market activity for comparable transactions is considered to be low for similar properties, with limited supply at present, reflecting current economic uncertainty, together with the uncertainty surrounding the future of office working in response to COVID19.

When it is not possible to measure the value of assets using observable inputs, judgement is required in establishing values. These judgements typically include considerations such as uncertainty and risk. Changes in the assumptions used could affect the value of assets. Significant changes in any of the unobservable inputs would result in a significantly higher or lower value measurement for investment properties and assets held for sale.

The effects on the asset valuation of changes in the assumptions interact in complex ways and are difficult to evaluate.

The value of land and buildings is shown at current value, which is market value or depreciated replacement cost where there is no market and / or the assets are specialised. The value of land and buildings within Property, Plant and Equipment (PPE) impacted by the material valuation uncertainty disclosure by the valuer is that based on market value, £23,593k, of the total PPE balance of £37,175k

Members of the Joint Independent Audit Committee may wish to note that accounting policy 33 has been further amended from the version received by the Committee at its meeting on 28 July 2022. This was the only change made to the financial statements since that meeting, and was amended to provide greater clarity in the disclosure.

We also identified a small number of other minor disclosure inconsistencies and errors, all of which have been amended by management in the final version of the financial statements.



Appendix B – Internal control recommendations

Description of deficiency

Password parameters for iTrent are not consistent with the client's password policy.

Potential effects

Increased risk of inappropriate access to the system due to parameters not requiring a strong password.
We have not identified any instances of this having occurred in year.

Recommendation

Management work with iTrent and the IT Team to identify a mitigating control to address this.

Management response

Agreed.

Appendix C – Draft Audit Report

Any changes from the draft audit report included in the Audit Completion Report are highlighted in red.

Independent auditor's report to the Police, Fire and Crime Commissioner for North Yorkshire and Group

Report on the audit of the financial statements

Opinion on the financial statements

We have audited the financial statements of Police, Fire and Crime Commissioner for North Yorkshire (PFCC) and the Group for the year ended 31 March 2021, which comprise the PFCC and Group Comprehensive Income and Expenditure Statement, the PFCC and Group Movement in Reserves Statement, the PFCC and Group Balance Sheet, the PFCC and Group Cash Flow Statement, the Group Police Pension Fund Statement and Net Asset Statement 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 2020/21.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the PFCC and Group as at 31st March 2021 and of its expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities section of our report. We are independent of the PFCC and Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC'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.

Emphasis of Matter - material uncertainty relating to valuations of land and buildings

We draw attention to Accounting Policy 33 of the financial statements, which describes the effects of current economic uncertainty and uncertainty around the future of office working in response to Covid-19 on the valuation of the Police, Fire and Crime Commissioner for North Yorkshire and Group's land and buildings. As disclosed in Accounting Policy 33 of the financial statements, the Police, Fire and Crime Commissioner for North Yorkshire and Group's valuer included a 'valuation uncertainty' declaration within their report as a result of the low level of comparable transactions, and limited supply of similar properties, together with uncertainty surrounding the future of office working in response to Covid-19 which has impacted market activity, upon which they base their judgements. Our opinion is not modified in respect of this matter.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Chief Finance Officer's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the PFCC and



Group's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Chief Finance Officer with respect to going concern are described in the relevant sections of this report.

Other information

The Chief Finance Officer is responsible for the other information. The other information comprises the Annual Governance Statement and 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.

Responsibilities of the Chief Finance Officer for the financial statements

As explained more fully in the Statement of the Chief Finance Officer's Responsibilities, the Chief Finance Officer is responsible for the preparation of the Statement of Accounts, which includes 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 2020/21, and for being satisfied that they give a true and fair view. The Chief Finance Officer is also responsible for such internal control as the Chief Finance Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Chief Finance Officer is required to comply with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 and prepare the financial statements on a going concern basis on the assumption that the functions of the PFCC and Group will continue in operational existence for the foreseeable future. The Chief Finance Officer is responsible for assessing each year whether or not it is appropriate for the PFCC and Group to prepare its accounts on the going concern basis and disclosing, as applicable, matters related to going concern.

Auditor's responsibilities for the 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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Based on our understanding of the PFCC and Group, we identified that the principal risks of non-compliance with laws and regulations related to the Local Government Act 2003 (and associated regulations made under section 21), the Local Government Finance Acts of 1988, 1992 and 2012, and the Accounts and Audit Regulations 2015, and we considered the extent to which non-compliance might have a material effect on the financial statements.



We evaluated the Chief Finance Officer's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls) and determined that the principal risks were related to posting manual journal entries to manipulate financial performance, management bias through judgements and assumptions in significant accounting estimates and significant one-off or unusual transactions.

Our audit procedures were designed to respond to those identified risks, including non-compliance with laws and regulations (irregularities) and fraud that are material to the financial statements. Our audit procedures included but were not limited to:

- discussing with management and the Police, Fire and Crime Commissioner the policies and procedures regarding compliance with laws and regulations;
- communicating identified laws and regulations throughout our engagement team and remaining alert to any indications of non-compliance throughout our audit; and
- considering the risk of acts by the PFCC which were contrary to applicable laws and regulations, including fraud.

Our audit procedures in relation to fraud included but were not limited to:

- making enquiries of management and the Police, Fire and Crime Commissioner on whether they had knowledge of any actual, suspected or alleged fraud;
- gaining an understanding of the internal controls established to mitigate risks related to fraud;
- discussing amongst the engagement team the risks of fraud; and
- addressing the risks of fraud through management override of controls by performing journal entry testing.

There are inherent limitations in the audit procedures described above and the primary responsibility for the prevention and detection of irregularities including fraud rests with management and the Police, Fire and Crime Commissioner. As with any audit, there remained a risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal controls.

We are also required to conclude on whether the Chief Finance Officer's use of the going concern basis of accounting in the preparation of the financial statements is appropriate. We performed our work in accordance with Practice Note 10: Audit of financial statement and regularity of public sector bodies in the United Kingdom, and Supplementary Guidance Note 01, issued by the National Audit Office in April 2021.

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

Report on the PFCC's arrangements for securing economy, efficiency and effectiveness in the use of resources

Matter on which we are required to report by exception

We are required to report to you if, in our view we are not satisfied that the PFCC has made proper arrangements for securing economy, efficiency and effectiveness in the use of resources for the year ended 31 March 2021.

We have not completed our work on the PFCC's arrangements. On the basis of our work to date, having regard to the guidance issued by the Comptroller and Auditor General in April 2021, we have not identified any significant weaknesses in arrangements for the year ended 31 March 2021.



We will report the outcome of our work on the PFCC's arrangements in our commentary on those arrangements within the Auditor's Annual Report. Our audit completion certificate will set out any matters which we are required to report by exception.

Responsibilities of the PFCC

The PFCC is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in the 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 review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We are required under section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the PFCC has made proper arrangements for securing economy, efficiency and effectiveness in the use of resources. We are not required to consider, nor have we considered, whether all aspects of the PFCC's arrangements for securing economy, efficiency and effectiveness in the use of resources are operating effectively.

We have undertaken our work in accordance with the Code of Audit Practice, having regard to the guidance issued by the Comptroller and Auditor General in April 2021.

Matters on which we are required to report by exception under the Code of Audit Practice

We are required by the Code of Audit Practice to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make a recommendation under section 24 of the Local Audit and Accountability Act 2014; or
- we exercise any other special powers of the auditor under sections 28, 29 or 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

Use of the audit report

This report is made solely to the Police, Fire and Crime Commissioner for North Yorkshire and Group, as a body, in accordance with part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 44 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Police, Fire and Crime Commissioner for North Yorkshire and Group those matters we are required to state to them 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, Fire and Crime Commissioner for North Yorkshire and Group, as a body, for our audit work, for this report, or for the opinions we have formed.

Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate until we have completed:

- the work necessary to issue our assurance statement in respect of the PFCC and Group's Whole of Government Accounts consolidation pack;
- the work necessary to satisfy ourselves that the PFCC has made proper arrangements for securing economy, efficiency and effectiveness in the use of resources.



Gavin Barker
Director
For and on behalf of Mazars LLP

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August 2022