



Report to the Joint Audit Committee

**POLICE AND CRIME COMMISSIONER
CAMBRIDGESHIRE AND
PETERBOROUGH / THE CHIEF
CONSTABLE OF CAMBRIDGESHIRE
CONSTABULARY**

Audit Completion Report: Year ended 31 March 2019

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WELCOME

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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 Joint Audit Committee on the results of our audit of the Group, Police and Crime Commissioner (PCC) and Chief Constable (Chief) 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 look forward to discussing these matters with you at the Joint Audit Committee meeting and to receiving your input.

In the meantime if you would like to discuss any aspects in advance of the meeting we would be happy to do so.

We would also like to take this opportunity to thank the management and staff of the PCC and Chief Constable for the co-operation and assistance provided during the audit.

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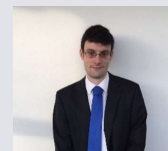
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19 July 2019



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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the Group, PCC and Chief Constable financial statements and use of resources. This report has been prepared solely for the use of the Joint Audit Committee and those charged with governance. In preparing this report we do not accept or assume responsibility for any other purpose or to any other person. For more information on our respective responsibilities please see the appendices.

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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

Subject to the successful resolution of outstanding matters, our audit work is complete, and we anticipate issuing our opinion on the Group's financial statements and use of resources for the year ended 31 March 2019 in line with the agreed timetable.

Outstanding matters are listed on page 35 in the appendices.

There were no significant changes to the planned audit approach and no additional significant audit risks have been identified.

No restrictions were placed on our work.

Audit report

We anticipate issuing an unmodified audit opinion on the consolidated Group financial statements and the PCC's and Chief Constable's financial statements and use of resources.

THE NUMBERS

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Final materiality

Planning materiality for the group was included in the planning report as 1.75% of gross expenditure, based on the prior year signed financial statements. As part of our planning risk assessment procedures we reviewed the draft financial statements received for audit and refined our audit strategy and materiality levels.

Materiality thresholds for the group and the Chief Constable, used for the pension fund only, have been based on 1.75% of the pension fund liability on the basis that they are liability based entities. Specific materiality for income and expenditure and other balance sheet items were still based on 1.75% of net cost of services expenditure.

Our materiality for the PCC was based on 1.75% of gross assets, which is consistent with the planning materiality applied.

We consider this revised approach more appropriately reflects the nature of the entities' accounts in the audit strategy.

Material misstatements

Our audit to date has identified a number of material misstatements as detailed on page 19.

Management has amended the financial statements for these issues, which have had no impact on the deficit on the provision of services.

Unadjusted audit differences

Our audit to date has identified audit adjustments totaling £0.616m that, if posted, would have no net impact on the deficit on the provision of services.

ENTITY	Materiality - Pension Fund	Pension fund clearly trivial threshold	Specific materiality - I&E / other balance sheet items	I&E / other balance sheet items clearly trivial threshold
Group	27,700,000	1,385,000	2,500,000	125,000
Police and Crime Commissioner Cambridgeshire and Peterborough	-	-	1,500,000	75,000
The Chief Constable of Cambridgeshire Constabulary	27,600,000	1,380,000	2,300,000	115,000

OTHER MATTERS

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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.
- Our review of the consistency of the Narrative Report and other information included in the Statement of Accounts with the financial statements and our knowledge acquired in the course of the audit is ongoing at the time of writing. We will provide a verbal update to the Joint Audit Committee.
- Our review of the Annual Governance Statement to determine if it is inconsistent or misleading compared to other information we are aware of is ongoing at the time of writing. We will provide a verbal update to the Joint Audit Committee.
- The PCC and Chief Constable are both 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, PCC and Chief Constable in accordance with the Financial Reporting Council's Ethical Standard.



AUDIT RISKS OVERVIEW

As identified in our Audit Plan dated 18 January 2019 we assessed the following matters as being the most significant risks of material misstatement in the financial statements. 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	Yes	No	No	No	Yes
Expenditure recognition	Significant	Yes	No	No	No	No
Property, Plant and Equipment (PPE) valuations	Significant	Yes	Yes	Yes	No	Yes
Pension liability assumptions	Significant	Yes	Yes	No	No	Yes
Bedfordshire, Cambridgeshire and Hertfordshire (BCH) collaboration	Significant	Yes	No	No	No	No

 Areas requiring your attention

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MANAGEMENT OVERRIDE OF CONTROLS

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

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 determined key risk characteristics to filter the population of journals using our IT team to assist with the journal extraction;
- Critical review of the consolidation and, in particular, manual or late journals posted at consolidated level;
- Reviewed 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 audit work on journals and estimates to date has not identified any issues. Our testing in this area remains ongoing as at the time of writing. We will provide a verbal update to the Joint Audit Committee.

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Risk description

Under auditing Standards there is a presumption that income and expenditure recognition presents a fraud risk. For the Authority, the risk can be identified as affecting the cut off of year-end expenditure and the allocation of expenditure between each of the bodies in the Bedfordshire, Cambridgeshire and Hertfordshire (BCH) and Eastern Region Special Operations Unit (ERSOU) collaborations.

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
- Traced an increased sample of items picked from the pre and post year-end bank statements to supporting documentation to confirm the completeness of the amounts recorded.
- Tested an increased sample of expenditure transactions which have been allocated between the bodies within the BCH or ERSOU collaborations and confirmed that all have been allocated to the correct body.

Results

We have not identified any deficiencies in the internal control environment relating to the recognition of expenditure. Our testing in this area remains ongoing as at the time of writing. We will provide a verbal update to the Joint Audit Committee.

PROPERTY, PLANT AND EQUIPMENT (PPE) VALUATIONS

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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 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.

As part of the 5 year rolling re-valuation programme, approximately 20% of the land and buildings assets have been re-valued in 2018/19.

The Authority uses an internal 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 could rely on them as a management expert
- Confirmed that the basis of valuation for assets valued in year was appropriate based on their usage
- Confirmed that the valuation movements were consistent with the expectations provided by independent data about the property market
- Confirmed that the assets not specifically valued in the year had been properly assessed to confirm that their reported values remained materially correct

Results

From our review of the instructions provided to the valuer and our assessment of the expertise of the valuer, we are satisfied that we can rely on their work. Our work to verify the floor areas applied by the valuer in the valuations is ongoing at the time of writing. We will provide a verbal update to Joint Audit Committee.

For the sample of PPE assets we are satisfied that the basis of the valuation for each asset is appropriate and that the revaluation movements have been correctly accounted for. Our review of the reasonableness of valuation assumptions applied is noted overleaf.

PROPERTY, PLANT AND EQUIPMENT (PPE) VALUATIONS

Continued

Significant accounting estimates: £40.518m

Overview

PCC's 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 at the Balance Sheet date.

The valuation for land and buildings included in PPE is a management estimate based on existing use valuation (EUV). Management uses external valuation data to assess whether there has been a material change in the value of classes of assets and periodically (minimum of every five years) employs an internal expert (valuer) to undertake a full valuation.

Discussion

The PCC used their internal valuer to value three police stations during the year in line with the rolling revaluation policy. Following challenge by BDO, a desktop valuation was performed at year-end on the seven highest value properties. In total, assets to the value of £31.154m have been assessed during the year. The assets which have not been reviewed have a total value of £5.370m. It is the valuer's judgement that any movement on these assets since their last valuation will not be material. The movement on the assets re-valued in year is a net upward revaluation movement of £1.765m. Given this movement, we consider the likelihood of there being a material movement in the remaining unassessed assets to be low.

We assessed the valuer's competence, independence and objectivity and determined we could rely on the management expert.

We reviewed the valuations provided and the valuation methodology applied and, in all cases, confirmed that the basis of valuation for assets valued in year is appropriate based on Code requirements for all assets. All assets were valued using EUV methodology. Assets with specialised facilities are usually valued using depreciated replacement cost (DRC). Some of the police stations valued include custody facilities which we consider to be specialised facilities. It was determined that the specialised element of each asset represented less than 10% of the total usage of the asset, and therefore it was deemed appropriate to use EUV methodology based on the majority of the asset's usage.

The predecessor auditor raised an unadjusted misstatement in the prior year regarding the transactions posted to the financial statements in respect of the valuation adjustments to be recognised for one specific asset. It was confirmed that the value of this asset within the financial statements was overstated by £0.198m. This asset was subject to a desktop valuation in the current year with a valuation increase of £0.141m calculated. This valuation increase has not been applied in the financial statements, and therefore partially offsets the overstatement from the prior year. This asset is therefore overstated by £0.057m as at 31 March 2019, which is trivial to our audit.

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PENSION LIABILITY ASSUMPTIONS

Pension liability assumptions

Risk description

The net pension liability comprises the Authority's share of the market value of assets held in four pension funds and the estimated future liability to pay pensions.

An actuarial estimate of the pension fund liability is calculated by an independent firm of 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:

- Agreed the disclosures to the information provided by the pension fund actuary.
- Reviewed the competence of the management expert (actuary).
- Obtained assurance over the controls for providing complete and accurate data to the actuary.
- Contacted the administering Authority and requested confirmation of the controls in place for providing accurate membership data to the actuary and testing of that data.
- Reviewed the reasonableness of the assumptions used in the calculation against other local government actuaries and other observable data.

Results

Our work to agree the disclosures to the information provided by the actuary is ongoing at the time of writing. We will provide a verbal update to the Joint Audit Committee.

The assurances from the auditor of Cambridgeshire Pension Fund have not been received at the time of writing. We will provide a verbal update to the Joint Audit Committee.

There has been a significant movement between the fund liability values provided by the actuary and the year-end values included in the pension fund account as a result of the McCloud judgement. An adjustment in respect of this (as detailed overleaf) will be made to the pension fund liability in the final financial statements.

Our review of the reasonableness of the assumptions used by the pension fund actuary is ongoing at the time of writing. We will provide a verbal update to the Joint Audit Committee.

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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 receive this underpin of benefits, the valuation of both the Local Government pension scheme (LGPS), and Police pension schemes will have to be increased to remedy this discrimination.

The Authority has obtained an updated valuation of the liability to take account of the impact of this ruling. This suggests that the Authority's liability in respect of the Police pension scheme could increase by £65.750m, with the LGPS increasing by up to £3.820m in the Chief Constable accounts and £0.073m in the PCC accounts. Our work on the appropriateness of the assumptions used on the revised calculation is still ongoing.

Management is expected to correct the financial statements to include this additional liability for all pension schemes.

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, has been extended to 2021 and it is not yet clear whether the Police pension schemes, LGPS (through employers) or Government will fund these additional costs after 2021.

An LGPS wide assessment of additional liabilities arising from GMP equalisation for 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%. An adjustment of 0.3% would not have a material impact on the Authority's pension fund liability.

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Risk description

The Authority regularly incurs expenditure on behalf of the Hertfordshire and Bedfordshire authorities and vice versa. This expenditure is recharged between the authorities.

The predecessor identified a misstatement in the calculation of the year-end debtor and accruals.

We therefore consider there to be a risk that similar misstatements will occur in the current year.

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 BCH or Eastern Region Special Operations Unit (ERSOU) collaborations and confirm that all have been allocated to the correct body.
- 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

No issues have been identified to date in our review of the classification of expenditure between the three authorities. Our testing in this area is ongoing at the time of writing.

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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 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 Progress Report on 23 April 2019.

Laws and regulations

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

Our testing to date has not identified any non-compliance with laws and regulations that could have a material impact on the financial statements.

Related parties

Whilst you 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 testing in this area is ongoing at the time of writing. We will provide a verbal update to the Joint Audit Committee.



UNADJUSTED AUDIT DIFFERENCES: SUMMARY

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

There are 3 unadjusted audit differences identified by our audit work which would have no net impact on the deficit on the provision of services or the net liabilities if adjusted.

There would be no impact on the general fund balance.

Management consider the differences to be immaterial in the context of the financial statements as a whole.

UNADJUSTED AUDIT DIFFERENCES: DETAIL

Current year impact of prior year unadjusted audit differences

	Income and expenditure			Statement of Financial Position	
	NET DR/(CR) £'000	DR £'000	(CR) £'000	DR £'000	(CR) £'000
Unadjusted audit differences					
Deficit on the provision of services before unadjusted audit differences	38,163				
1: Impact of brought forward unadjusted errors - current year impact of extrapolated expenditure errors from prior year relating to understated prepayments (projected)					
DR Expenditure	258	258			
CR General Fund					(258)

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UNADJUSTED AUDIT DIFFERENCES: DETAIL

Details for current year

	Income and expenditure			Statement of Financial Position	
	NET DR/(CR) £'000	DR £'000	(CR) £'000	DR £'000	(CR) £'000
Unadjusted audit differences					
2: Current year impact of historical assets under construction write-off in 2018/19 (factual)					
DR General fund				258	
CR Supplied and services expenditure	(258)		(258)		
3: Reclassification of credit balances on the debtors listing in respect of council tax arrears to creditors (factual)					
DR Short term debtors				100	
CR Short term creditors					(100)
Total unadjusted audit differences	-	258	(258)	358	(358)
Deficit on the provision of services if above issues adjusted	38,163				

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There were four audit differences identified by our audit work that were adjusted by management. These adjustments have had no impact on the draft deficit on the provision of services or net liabilities, and are listed overleaf.

There was no impact on the general fund balance.

In addition to these adjustments, there are two further material adjustments as follows:

- An increase of £69.643m to the pension fund liability to reflect the impact of the McCloud judgement.
- A prior period adjustment of £3.073m to reclassify assets under construction relating to software development from property, plant and equipment to intangible assets.

ADJUSTED AUDIT DIFFERENCES: DETAIL

Details for the current year

	Income and expenditure			Statement of Financial Position	
	NET DR/(CR) £'000	DR £'000	(CR) £'000	DR £'000	(CR) £'000
Adjusted audit differences					
Deficit on the provision of services before adjustments	38,163				
1: Reclassification of PAYE and NIC creditor from cash and cash equivalents to short term creditors (factual)					
DR Cash and cash equivalents				2,486	
CR Short term creditors					(2,486)
2: Reclassification of short term investments to cash and cash equivalents (factual)					
DR Short term investments				2,000	
CR Cash and cash equivalents					(2,000)
3: Reclassification of other income to the appropriate income lines in the CIES (factual)					
DR Other income			(2,130)		
CR Government grants		683			
CR Income from fees and charges		1,447			
4: Reclassification of assets under construction relating to software development from PPE to intangible assets (factual)					
DR Intangible assets				812	
CR Property, plant and equipment					(812)
Total adjusted audit differences		2,130	(2,130)	5,298	(5,298)
Deficit on the provision of services after adjustments	38,163				

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

Matter	Comment
<p>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.</p>	<p>Our work to determine whether the other information in the Narrative Report is consistent with the financial statements and our knowledge is ongoing at the time of writing. We will provide a verbal update to the Joint Audit Committee.</p>
<p>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 Authority’s review of effectiveness and our knowledge of the Authority.</p>	<p>Our review of the consistency of the Annual Governance Statement with the financial statements and our knowledge is ongoing at the time of writing. We will provide a verbal update to the Joint Audit Committee.</p>

WHOLE OF GOVERNMENT ACCOUNTS

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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 Authority 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.	<p>Local authorities were required to submit the unaudited DCT to HM Treasury and auditors by 28 June 2019. The Authority met this deadline.</p> <p>We are planning to submit the relevant section of the assurance statement to the National Audit Office by the required deadline of 13 September 2019.</p>

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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 matter 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

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Sustainable resource deployment

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 Authority reported an overspend of £1.7 million against budget and faces an increasing financial challenge in the medium term. Reserves are likely to be utilised and increased savings are required to be made, whilst the demand for services increases.

We therefore determined that we should raise a significant risk related to the financial resilience of the Authority and undertake further work to satisfy ourselves that the proper arrangements are in place, given the financial challenges, to enable the Authority to deploy resources in a sustainable matter.

Work performed

We carried out the following planned audit procedures:

- Reviewed the assumptions used in the Medium Term Financial Strategy (MTFS) and assessed their reasonableness.
- Reviewed the delivery of the budgeted savings in 2018/19 and the plans to deliver the identified savings for 2019/20.
- Reviewed the current level of reserves and the planned use of reserves in the medium term.
- Held interviews with relevant officers.

Results

The delivery of savings is monitored as part of the regular finance monitoring that the Authority undertakes on a monthly basis. For 2018/19 the total savings identified per the MTFS were £3.717m. The Authority has underspent against the budget for the year by £0.556m, demonstrating that the savings achieved in year were greater than those budgeted. Total savings achieved in the year are £4.566m, consisting of the £3.717m identified savings plus a further £0.849m previously unidentified. The total savings achieved was therefore in line with the savings requirement. Prior to savings, there was a budget gap for 2018/19 of £6.367m, and anticipated use of usable reserves of £2.650m to balance the budget. Following the additional savings found, the actual use of reserves in 2018/19 was reduced to £1.801m. Usable reserves were still therefore required to balance the budget. For 2019/20 the total savings identified per the MTFS are £3.522m, which is lower than the initial budget gap identified of £5.069m. The Authority therefore anticipates utilising £1.547m of usable reserves to balance the budget.

Review of the MTFS and future savings plans have identified that work has been undertaken to address the three year budget gap. A number of savings have been identified for 2020/21 to 2022/23, which will reduce the overall budget gap. If all identified savings are delivered, the Authority will still need to utilise £1.357m of useable reserves in 2020/21. The identified savings will therefore allow them to balance the budget from 2021/22.

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Sustainable resource deployment
Significant risk
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Going into 2018/19, the PCC had an annual budget gap of £6.367m. Over the 4 year period to 2021/22, they aimed to eliminate this budget gap. One year into this four year period, the budget gap has been decreased to £5.068m, with all savings required to close this gap by 2021/22 fully identified. The Authority was able to deliver the savings that it planned in 2018/19 and more suggesting that it will be possible to deliver all identified savings and balance the budget by 2021/22.

The Authority has decreased its General Fund reserves by £8m over the last 4 years. In the first 2 years of this period up to 31/03/2017, General Fund reserves increased to £28.5m, with a decrease of £9.2m in the 2 years to 31/03/2019. A new loan for £10m was taken out in 2017/18 to fund future capital commitments. The majority of these capital commitments have not yet been incurred, with the unspent element of this £10m inflating the reserve balance as at 31/03/2019. Per the MTFS, £1.547m of useable reserves is required to balance the budget in 2019/20. The Authority plans to utilise £7.183m of useable reserves in total in 2019/20 to include the capital requirements. This will leave an expected remaining useable reserves balance of £14.7m as at 31/03/2020. Future utilisation of usable reserves is then planned at £3.250m for 2020/21, £0.169m for 2021/22 and £0.037m for 2022/23, with useable reserves expected to stabilise at £11.2m towards the end of this period.

Total utilisation of reserves over the MTFS period to 2022/23 is budgeted at £10.639m. £2.735m of this amount is required to balance the budget by 2021/22. The remaining £7.904m is the utilisation of a £10m loan taken out in 2017/18. This loan is anticipated to be fully spent by 2020/21. The Authority has a clear policy in place that no further useable reserves will be utilised for capital purposes, and all future capital expenditure will be funded via borrowing. Therefore, once this loan has been fully utilised and if the budget gap is fully closed by 2021/22 as planned, then the useable reserves balance will remain at £11.2m from thereon. This is a level of reserves which the Authority deems to be acceptable. There are clear plans in place to stabilise the reserves balance at this amount within the next 4 years, and no evidence to suggest that these plans will not be achieved. However, we have noted that whilst savings schemes have been identified, and the level of savings achieved in 2018/19 is greater than the savings target, the monitoring process in respect of individual savings target could be improved, as it is unclear if individual targets have been met, and therefore whether there is further potential for savings in these areas.

SIGNIFICANT DEFICIENCIES

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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.

As the purpose of the audit is for us to express an opinion on the Group, PCC and Chief Constable’s 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 control 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.

Our audit to date has not identified any significant deficiencies in internal control.



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Opinion on financial statements

We anticipate issuing an unmodified opinion on the Group, PCC and 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 are proposing to issue 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 Independent Auditor’s Report.

Annual Governance Statement

Our review of the Annual Governance Statement to determine if it is inconsistent or misleading compared to other information we are aware of is ongoing at the time of writing. We will provide a verbal update to the Joint Audit Committee.

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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 other 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, Chief Constable and the Group.

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

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Fees summary	2018/19	2018/19	2017/18
	Actual	Planned	Actual
	£	£	£
Audit fee			
• Code audit fee: Police and Crime Commissioner Cambridgeshire and Peterborough	23,360	23,360	30,338
• Code audit fee: The Chief Constable of Cambridgeshire Constabulary	11,550	11,550	15,000
Non-audit assurance services	-	-	-
Total fees	34,910	34,910	45,338



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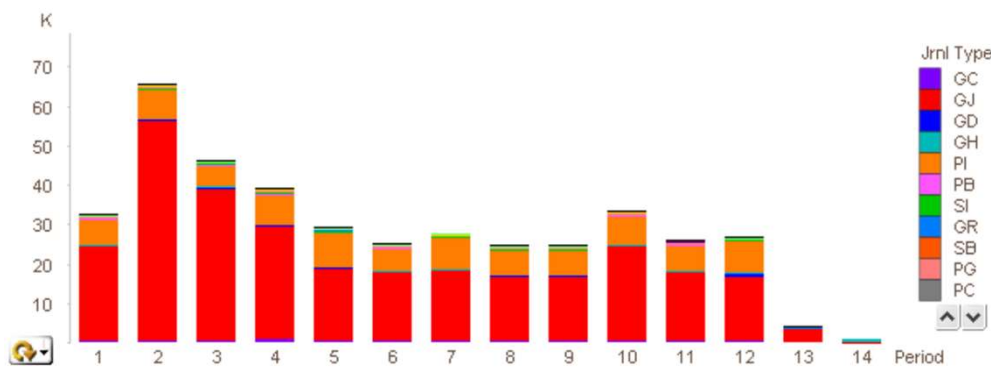
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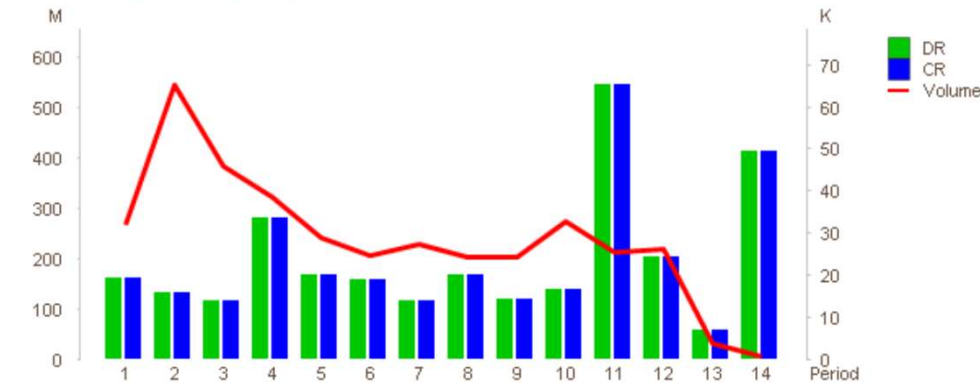
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Journal Line Volume by Type



Journal Value and Volume by Period



In respect of the combined ledger for Police and Crime Commissioner Cambridgeshire and Peterborough and the Chief Constable of Cambridgeshire Constabulary, we have shown a pictorial representation of the journals entered in the year.

The “Journal line volume by type” graphic shows the volume of each type of journal entered in the year. As expected, we can see that the highest volume of journals entered are type GJ (GL standard journal), with 292,971 entries posted. The volume of different types of journals has been assessed with our knowledge of the entity and no unexplained anomalies have been found.

The graph “Journal value and volume by period” shows the total number and value of journals posted on a monthly basis. This shows a significant peak in the value of entries in period 11, which was as a result of a reallocation of bank account transactions, which is an annual process undertaken every year. The volume is observed to be high in period 2 as this is the period in which the prior year-end reversing journals were reversed. As expected, the value of transactions in periods 13 and 14 is disproportionately high compared to the rest of the year

For the PCC and Chief Constable, the numbers in the population were found to follow the expected trend.

RESPONSIBILITIES AND REPORTING

Responsibilities and reporting

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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 consolidated Group, PCC and Chief Constable financial statements. We report our opinion on the financial statements to the members of the PCC and Chief Constable.

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.	No exceptions to note.
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.	Our testing in this area is ongoing at the time of writing. We will provide a verbal update to the Joint Audit Committee.
5	Significant matters in connection with related parties.	Our testing in this area is ongoing at the time of writing. We will provide a verbal update to the Joint Audit Committee.

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Those Charged with Governance (TCWG)

References in this report to those charged with governance are to the Authority as a whole. For the purposes of our communication with those charged with governance you have agreed we will communicate primarily with the Joint 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
Audit Plan	January 2019	Joint Audit Committee
Audit progress report	April 2019	Joint Audit Committee
Audit Completion Report	July 2019	Joint Audit Committee

OUTSTANDING MATTERS

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Our audit work in respect of the financial statements and use of resources for the year ended 31 March 2019 is in progress as at the date of writing.

The following matters are outstanding at the date of this report and could impact our audit opinion. Our expectation is that the majority of this work will have been completed by the time of the Joint Audit Committee at which this report is being considered, where we will provide a verbal update on current status:

- Clearance of outstanding requests currently with management
- Completion of audit testing in respect of:
 - Property, plant and equipment
 - Pensions (including assurance letter)
 - CIES NCOS expenditure (excluding payroll)
 - Payroll disclosures
 - CIES other operating expenditure
 - Taxation and non-specific grant income
 - Collaboration disclosures
 - Consolidation
 - Contingencies and commitments
 - Related party transactions
 - Narrative report and Annual Governance Statement
- Final Manager and Partner review and clearance of review points within our file
- Final review and approval by you of the Statement of Accounts
- Completion procedures:
 - Checks on approved Statement of Accounts
 - Subsequent events review up to the date of signing
 - Management letter of representation, as attached on page 37 to be approved and signed

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

[Client name and Letter headed paper]

BDO LLP
16 The Havens
Ransomes Europark
Ipswich
IP3 9SJ

Dear Sirs

Financial statements of Police and Crime Commissioner Cambridgeshire and Peterborough 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 PCC’s 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 Group and PCC and other Group entities.

The Chief Finance Officer has fulfilled his responsibilities for the preparation and presentation of the PCC financial 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 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 have been made available to you for the purpose of your audit and all the transactions undertaken by the PCC 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 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 PCC 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.

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 or 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.

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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 identified no significant risks.

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.

There were no loans, transactions or arrangements between any Group entity and the PCC’s 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

We confirm the following significant assumptions made in relation to accounting estimates (including fair value measurements) used in the preparation of the financial statements:

- a) assumptions used by the actuary in the calculation of the pension fund liability

We confirm that the actuarial assumptions underlying the valuation of the Local Government Pension Scheme (LGPS) and Police schemes liabilities, as applied by the schemes’ actuary, are reasonable and consistent with our knowledge of the business. These assumptions include:

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	LGPS	Police schemes
Rate of increase in salaries	2.6%	4.3%
Rate of increase in pensions	2.3%	2.3%
Rate of discounting scheme liabilities	2.7%	2.6%

We also confirm that the actuary has applied up-to-date mortality tables for life expectancy of scheme members in calculating scheme liabilities.

b) assumptions used for land and buildings valuations.

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 PCC in order to make themselves aware of any relevant audit information and to establish that you are aware of that information.

Yours faithfully

Matthew Warren
Chief Finance Officer

[date]

Jason Ablewhite
Police and Crime Commissioner

[date]

Letter of representation

[Client name and Letter headed paper]

BDO LLP
16 The Havens
Ransomes Europark
Ipswich
IP3 9SJ

Dear Sirs

Financial statements of The Chief Constable of Cambridgeshire Constabulary for the year ended 31 March 2019

We confirm that the following representations given to you in connection with your audit of the Chief Constable’s 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 Chief Constable.

The Chief Finance Officer has fulfilled her responsibilities for the preparation and presentation of the Chief Constable financial 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 Chief Constable 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 Chief Constable, as set out in the Accounts and Audit Regulations 2015, to make arrangements for the proper administration of the Chief Constable’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 Chief Constable have been made available to you for the purpose of your audit and all the transactions undertaken by the Chief Constable 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 Chief Constable’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 Chief Constable 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.

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 Chief Constable’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 Chief Constable’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.

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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 identified no significant risks.

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.

There were no loans, transactions or arrangements between any Chief Constable’s 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 Chief Constable financial statements.

Accounting estimates

We confirm the following significant assumptions made in relation to accounting estimates (including fair value measurements) used in the preparation of the financial statements:

- a) assumptions used by the actuary in the calculation of the pension fund liability

We confirm that the actuarial assumptions underlying the valuation of the Local Government Pension Scheme (LGPS) and Police schemes liabilities, as applied by the schemes’ actuary, are reasonable and consistent with our knowledge of the business. These assumptions include:

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	LGPS	Police schemes
Rate of increase in salaries	2.6%	4.3%
Rate of increase in pensions	2.3%	2.3%
Rate of discounting scheme liabilities	2.7%	2.6%

We also confirm that the actuary has applied up-to-date mortality tables for life expectancy of scheme members in calculating scheme liabilities.

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 Chief Constable in order to make themselves aware of any relevant audit information and to establish that you are aware of that information.

Yours faithfully

Niki Howard
Chief Finance Officer

[date]

Nick Dean
Chief Constable

[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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