



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 2021

IDEAS | PEOPLE | TRUST



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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 2021, specific audit findings and areas requiring further discussion and/or the attention of the Joint Audit Committee. Throughout the audit, it is essential that we engage with the Joint Audit Committee on the progress to date of our audit of the financial statements and use of resources comprising: audit work on key risk areas performed to date, including significant estimates and judgements made by management, critical accounting policies, any significant deficiencies in internal controls identified to date, 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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18 January 2022



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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 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 and should not be shown to any other person without our express permission in writing. 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.

OVERVIEW

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This summary provides an overview of the audit matters that we believe are important to the Joint Audit Committee in reviewing the results of the audit of the financial statements and use of resources of the Group for the year ended 31 March 2021.

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



Overview

Our audit work on the financial statements is complete. Nothing has come to our attention from the work we have completed to date that would result in a modification of our audit opinion.

We presented our Audit Planning Report to the Joint Audit Committee in April 2021. 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 single entity financial statements.

We have no exceptions to report at this stage in respect of the Group’s value for money arrangements.

Our audit certificate will be issued when we have completed our work on the Group’s value for money arrangements.

THE NUMBERS

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Final materiality

Planning materiality for the group and the Chief Constable, used for the pension fund only, was determined based on 2% of the pension fund liability. Specific materiality for income and expenditure and other balance sheet items was determined based on 2.25% of net cost of services expenditure. Our materiality for the PCC was determined based on 2% of gross assets.

Our materiality levels have not required reassessment since our audit planning report issued on 21 April 2021, but have been updated to reflect the pension fund liability, net cost of services expenditure and gross assets reported in the draft financial statements presented for audit.

Unadjusted audit differences

We identified audit adjustments that, if posted, would increase the PCC deficit on the provision of services for the year by £859,000 and increase the Chief Constable deficit on the provision of services for the year by £15.582 million.

Material misstatements

We identified one material misstatement in the PCC for £2.671 million relating to the impairment recorded on the valuation of one asset. We did not identify any material misstatements in the Chief Constable.

There are fourteen audit adjustments identified by our audit work which have been posted by management. These adjustments increased the PCC deficit on the provision of services for the year by £2.666 million and increased the Chief Constable deficit on the provision of services for the year by £1.704 million.

| 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 | 34,620,000 | 1,731,000 | 3,500,000 | 175,000 |
| Police and Crime Commissioner Cambridgeshire and Peterborough | - | - | 2,200,000 | 106,000 |
| The Chief Constable of Cambridgeshire Constabulary | 34,600,000 | 1,730,000 | 3,300,000 | 165,000 |

OTHER MATTERS

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Financial reporting

- We have not identified any non-compliance to date 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
- Following amendments made over the course of the audit, the Narrative Report and other information included in the Statement of Accounts with the financial statements is consistent with the financial statements and our knowledge acquired in the course of the audit.
- The Annual Governance Statement complies with relevant guidance and is not inconsistent or misleading with other information we are aware of.
- 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 (DCT).

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 PCC and Chief Constable in accordance with the Financial Reporting Council's (FRC's) Ethical Standard.

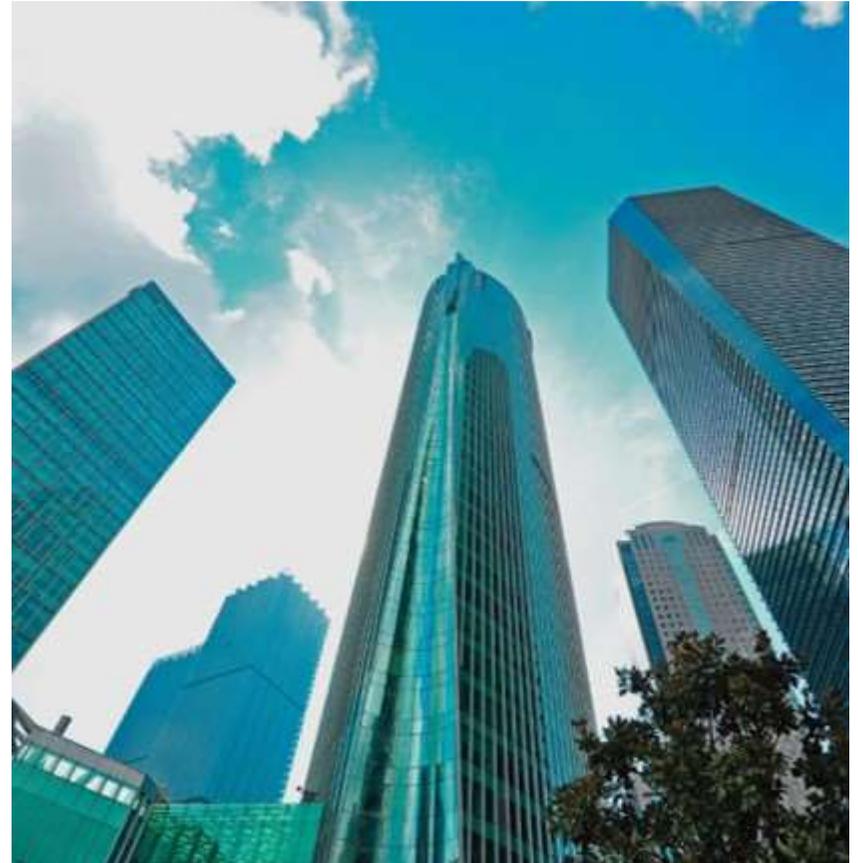


OUR METHODOLOGY

Summary

We obtain our audit evidence through substantive testing

As part of our risk assessment procedures we documented the systems and controls in place insofar as they are relevant to the preparation of the financial statements. Given the control activities we identified and the nature of activities, we determined that substantive testing to directly verify items in the Comprehensive Income and Expenditure Statement (CIES) and Balance Sheet would be the most effective approach for our audit. This is consistent with the approach we took in the prior year.



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AUDIT RISKS OVERVIEW

As identified in our Audit Planning Report dated 21 April 2021 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 Judgement Involved | Use of Experts Required | Error Identified | Control Findings to be reported identified | Discussion points / Letter of Representation |
|---------------------------------|-------------|---|-------------------------|------------------------------|--|--|
| Management override of controls | Significant | Yes | No | No | No | Yes |
| Expenditure recognition | Significant | Yes | No | Yes, unadjusted | No | No |
| Valuation of non-current assets | Significant | Yes | Yes | Yes, adjusted and unadjusted | No | Yes |
| Valuation of pension liability | Significant | Yes | Yes | Yes, unadjusted | No | Yes |
| Related party transactions | Normal | No | No | No | No | Yes |



 Areas requiring your attention

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MANAGEMENT OVERRIDE OF CONTROLS

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Auditing standards presume that management is in a unique position to perpetrate fraud by overriding controls.

| | |
|---|--|
| Significant risk | |
| Normal risk | |
| Significant management judgement | |
| Use of experts | |
| Unadjusted error | |
| Adjusted error | |
| Additional disclosure required | |
| Significant control findings to be reported | |
| Letter of representation point | |

Risk description

Management has the ability to manipulate accounting records and override controls that otherwise appear to be operating effectively. We are required to consider this as a significant risk of material misstatement due to fraud.

Work performed

We carried out the following planned audit procedures:

- Verified journal entries made in the year, by agreeing the journals to supporting documentation. We determined key risk characteristics to filter the population of journals and used our IT team to assist with the journal extraction
- Evaluated estimates and judgements applied by management in the financial statements to assess their appropriateness and the existence of any systematic bias
- Assessed unadjusted audit differences for indications of bias or deliberate misstatement.

Results

We have used our data analytics tools to inspect journals processed throughout the year and as part of the financial reporting closing process for any unusual transactions.

We identified a number of unusual journal entries (journals which fall outside of our expectations, and were selected for testing as part of our testing approach) posted during the year. All were agreed to supporting documentation, with appropriate explanations obtained for all journals identified.

We have assessed and corroborated significant management estimates and judgements in the following key areas:

- Depreciation/Amortisation
- Accruals and accrued income
- Valuation of land and buildings
- Pension liability
- Going concern assumptions

We have found no evidence of management override or bias for these estimates to date.

EXPENDITURE RECOGNITION

For public sector bodies the risk of fraud is relevant to expenditure recognition.

Risk description

Under International Standard on Auditing 240 “The Auditor’s responsibility is to consider fraud in an audit of financial statements”. In the public sector, the risk of fraud is modified by Practice Note 10 (PN10), issued by the Financial Reporting Council. PN10 states that auditors should also consider the risk that material misstatements may occur through the manipulation of expenditure recognition.

For net-spending bodies in the public sector there is increased risk of fraud related to expenditure. For the Force, we consider the risk of fraud to be in respect of the cut-off of non-payroll expenditure at year-end.

Work performed

We confirmed that expenditure is recognised in the correct accounting period by substantively testing a sample of expenditure items around year-end. A financial threshold was set to determine the samples to be selected for this testing. A lower threshold was used to account for the significant risk.

Results

Our audit work on expenditure cut off has not identified any issues. We have tested a sample of items, picked from the nominal ledger around the year-end, agreeing them to supporting documentation, and confirmed that the expenditure has been recognised in the correct year, with accruals/creditors or prepayments recognised where necessary.

We also selected a sample of expenditure items from the bank statements around year-end. This sample has been agreed to supporting documentation, and we confirmed that the expenditure has been recognised in the correct year, with accruals/creditors or prepayments recognised where necessary.

We have not identified any indications of fraud in this area and have not identified any material misstatement as a result of error.

| | |
|---|--|
| Significant risk | |
| Normal risk | |
| Significant management judgement | |
| Use of experts | |
| Unadjusted error | |
| Adjusted error | |
| Additional disclosure required | |
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The valuation of non-current assets is a significant risk as it involves a high degree of estimation uncertainty.

| | |
|---|---|
| Significant risk | ■ |
| Normal risk | |
| Significant management judgement | ■ |
| Use of experts | ■ |
| Unadjusted error | |
| Adjusted error | |
| Additional disclosure required | |
| Significant control findings to be reported | |
| Letter of representation point | ■ |

Risk description

Police and Crime Commissioners are required to ensure that the carrying value of land and buildings is not materially different to the current value (operational assets) or fair value (surplus assets, assets held for sale and investment properties) at the balance sheet date.

There is a risk over the valuation of these assets due to the high degree of estimation uncertainty and where updated valuations have not been provided for a class of assets at the year-end. Revisions to ISA (UK) 540 mean that we need to update our approach to the audit of accounting estimates.

Work performed

We carried out the following planned audit procedures:

- Reviewed the instructions provided to the valuer and the valuer’s skills and expertise in order to determine if we can rely on the management expert
- Confirmed that the basis of valuation for assets valued in year was appropriate based on their usage
- Reviewed accuracy and completeness of information provided to the valuer, such as rental agreements and sizes
- Reviewed assumptions used by the valuer and movements against relevant indices for similar classes of assets
- Followed up valuation movements that appeared unusual
- Confirmed that assets not specifically valued in the year had been assessed to ensure 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.

For the sample of PPE assets we are satisfied that the basis of the valuation for each asset is appropriate. Our review of the reasonableness of valuation assumptions applied is noted overleaf.

The PCC owns a percentage of a small number of assets which are used for collaboration activities, for which only the proportion of the valuation amount has been included in the PCC accounts in line with the percentage ownership. This is consistent with the accounting standard requirements for such assets.

Our testing identified that the floor areas had been included in the valuation calculation incorrectly for a number of assets, the impact of which is an understatement of asset values of £195,000. An unadjusted audit difference has been raised for this on page 20.

Please see also page 12.

VALUATION OF NON-CURRENT ASSETS

Continued

Significant accounting estimates: £48.475m

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 eight land and buildings assets during the year, consisting of three assets valued in line with the rolling revaluation policy and five high value assets valued every year. In total, assets to the value of £36.886m have been assessed during the year. The assets which have not been reviewed have a total net book value of £11.589m. It is the valuer's judgement that any movement on these assets since their last valuation will not be material. All valuations are undertaken as at 1 April and therefore there is a movement in valuation between the valuation date and year-end for all assets. We estimated the total understatement across all assets to be £1.732 million as a result of this movement. An unadjusted misstatement has been raised for this on page 21.

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 and other facilities which we consider to be specialised facilities. It was determined that the specialised element of each asset represented a minority 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.

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The valuation of the pension liability is a significant risk as it involves a high degree of estimation uncertainty

| | |
|---|---|
| Significant risk | ■ |
| Normal risk | |
| Significant management judgement | ■ |
| Use of experts | ■ |
| Unadjusted error | |
| Adjusted error | |
| Additional disclosure required | |
| Significant control findings to be reported | |
| Letter of representation point | ■ |

Risk description

The valuation of the defined benefit obligation is a complex calculation involving a number of significant judgements and assumptions. The actuarial estimate of the pension fund liability uses information on current, deferred and retired member data and applies various actuarial assumptions over pension increases, salary increases, mortality, commutation take up and discount rates to calculate the net present value of the liability. Revisions to ISA (UK) 540 mean that we need to update our approach to the audit of accounting estimates.

There is a risk that the membership data and cash flows provided to the actuary at year end may not be accurate, and that the actuary uses inappropriate assumptions to value the liability. Relatively small adjustments to assumptions used can have a material impact on the Force's liability.

The risk is applicable to both the Local Government Pension Scheme (LGPS) and the Police Pension Scheme liability.

Work performed

We carried out the following planned audit procedures:

- Agreed the disclosures to the information provided by the pension fund actuary
- Assessed the competence of the management expert (actuary)
- Checked the reasonableness of the assumptions used in the calculation against other local government actuaries and other observable data

- Assessed the controls in place for providing accurate membership data to the actuary
- Contacted the pension fund auditor and requesting confirmation of the controls in place for providing accurate membership data to the actuary and testing of that data
- Checked that any significant changes in membership data have been communicated to the actuary.

Results

We have received assurances from the auditor of Cambridgeshire Pension Fund. This highlighted two misstatements in the financial statements. The pension fund asset was valued as at 31 December 2020. There was an estimated increase in the value of this asset, by the pension fund auditor, of £441,000 in the PCC and £2.649 million in the Chief Constable between 31 December 2020 and 31 March 2021. For the Chief Constable, the benefits paid figure in the IAS19 report was identified by the pension fund auditor to be overstated by £2.851 million. Unadjusted audit differences have been raised for the two amounts above on pages 20 and 23 respectively.

In addition, our review of the expected return on plan assets identified that the value disclosed was different to expectations by a trivial amount in the Chief Constable and £148,000 in the PCC. The PCC was unable to provide an explanation for this difference. An unadjusted misstatements has been raised in respect of this on page 20.

We confirmed that assumptions used by the pension fund actuary are reasonable and in line with expectations.

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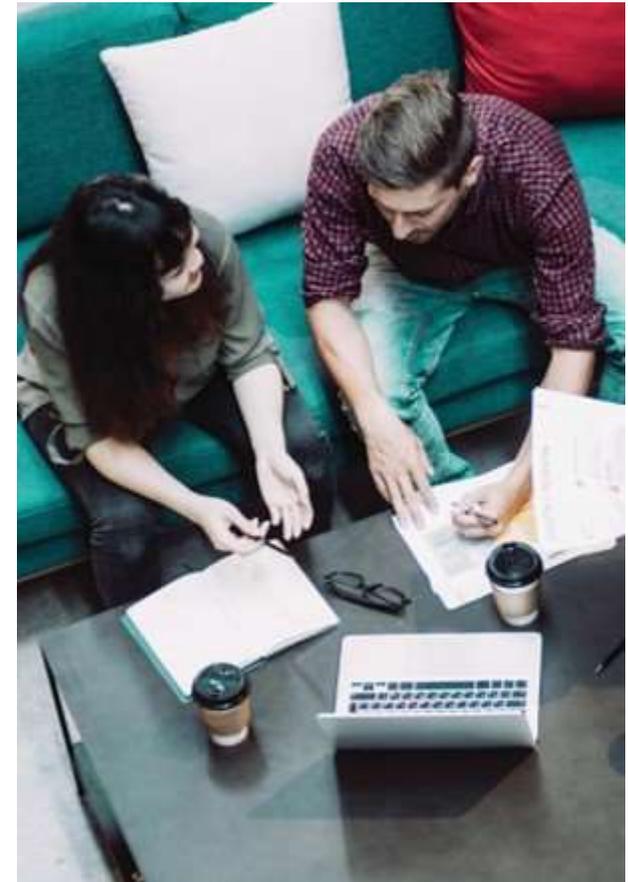
The valuation of the pension liability is a significant risk as it involves a high degree of estimation uncertainty

| | |
|---|---|
| Significant risk | ■ |
| Normal risk | |
| Significant management judgement | ■ |
| Use of experts | ■ |
| Unadjusted error | |
| Adjusted error | |
| Additional disclosure required | |
| Significant control findings to be reported | |
| Letter of representation point | ■ |

Results continued

We agreed the disclosures to the information provided by the actuary. In the prior year, there was a 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, of £18.231 million in the Chief Constable and a trivial movement in the PCC. This was raised as an unadjusted misstatement in the prior year audit, and as a result, the opening balance in the current year is incorrect by the same amount. An unadjusted audit difference has been raised for this amount on page 24.

An in-year adjustment has been made in the current year to correct the position, and the cumulative position is therefore correct. The in-year adjustment was posted incorrectly and we expect management to correct this in the final financial statements.



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

| |
|---|
| Significant risk |
| Normal risk |
| Significant management judgement |
| Use of experts |
| Unadjusted error |
| Adjusted error |
| Additional disclosure required |
| Significant control findings to be reported |
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Risk description

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

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

Work performed

We carried out the following planned audit procedures:

- Searches of the senior management on Companies House in order to identify any related parties not included in the Statement of Accounts
- For any additional related parties identified, searches in the ledger to identify transactions
- For related parties already identified, checks to ensure the relationship was correctly disclosed and that the figures disclosed match those included in the ledger.

Results

Our review of the controls to identify and disclose related party transactions did not identify any deficiencies in control.

Our review of the accuracy of related party transactions disclosed did not identify any issues.

We have not identified any indications of fraud in this area and have not identified any material misstatement as a result of error.

GOING CONCERN

We are required to highlight any judgements about events or conditions that may cast significant doubt over the entity's ability to continue as a going concern

Management's assessment of going concern

Management has performed a going concern assessment. The conclusion of which is: "Based on all the factors outlined and reviewed, our assessment is that the Constabulary continues to be a going concern. The controlled environment we work in alongside the strong financial management record in force mitigates the increased uncertainty which we now face."

Judgements noted

The key assumptions used when producing the Medium Term financial plan (MTFP) are as follows:

- Grant income: grant income will increase by £4.973 million (5.82%) in 2021/22, £904,000 in 2022/23 and then increase by 2.01% for the duration of the MTFP period
- Authority tax precept increase: Within the allowable increase set by the Home Office, the precept rise of £14.94 per annum for a Band D property generates total precept funding for 2021/22 of £72.3 million based on local Council Tax base estimates (this differs to the Home Office funding settlement figure of £71.7 million which uses Office for Budget Responsibility forecast tax base increases).

The MTFP factors in the PCC implementing £14.94 of this possible increase, thus increasing the council tax per band D property from £232.66 to £247.59, an increase of 6.42%. The MTFP then assumes a further increase of 2% per annum in the value of the precept per band D property and a further 0.6% increase per annum in the council tax base (being the number of properties).

- Pay award: Following the Spending Review Pay inflation is zero for 2021/22, however this takes effect from September 2021 to August 2022. Therefore, a part year impact exists from the previous September 2020 pay award through to August 2021. The combination of the part year pay award from September 2020 and the pay freeze from September 2021 provides weighted pay inflation of 1.04% for 2021/22.
- Inflation: general inflation will be 2% per annum for Cambridgeshire functions and 1% for BCH functions.

Summary of support measures taken into account

We are aware that the PCC and Chief Constable are fully supported by Central Government through grant funding.

Material uncertainty

We have not noted any material uncertainty to date with respect to going concern.

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GOING CONCERN

We are required to highlight any judgements about events or conditions that may cast significant doubt over the entity's ability to continue as a going concern

Discussion and conclusion

The assumptions above were reviewed and are deemed reasonable as all assumptions are appropriate figures and are in line with our knowledge of the entity & the public sector. This improves the accuracy and therefore the reliability of the forecast as it has taken into account relevant information into its underlying assumptions.

The forecast itself shows a £0 funding gap in 2021/22 and 2022/23. This then grows to approximately £3.9 million in 2023/24 and £4.3 million in 2024/25. The budget gap in these years is largely due to pay inflation and expected increases in the employer contribution rates for the police pension scheme. The absence of a multi-year funding settlement creates uncertainty regarding the funding levels with precept increases being modelled at 2%. Therefore, the PCC continues to hold the budget assistance reserve throughout the MTFP period to support future year budgets and savings requirements if necessary.

The plan acknowledges these gaps and that they are being addressed.

Further savings are still to be identified for 2023/24 and 2024/25. The budget gap in these years is largely due to pay inflation and expected increases in the employer contribution rates for the police pension scheme.

As above the nature of the entity means that even with these funding gaps the PCC and Chief Constable will continue to exist. There was no savings plan in 2020/21 due to Covid-19, however the PCC and Chief Constable successfully delivered their savings targets in 2019/20, delivering £5.471 million against a target of £3.522 million.

Additionally in accordance with paragraph 198 of Practice Note 10 we have also ascertained that:

- The government has no known intention of reviewing an area of policy affecting the entity
- No review of the entity has been announced
- No review has indicated that the entity could be rationalised or its future re-examined
- There is no known intention to privatise the activities of the entity.

We are therefore satisfied that there are no going concern issues for the PCC or Chief Constable.

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Fraud

Whilst the senior officers 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 have not identified any fraud.

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.

We did not identify and significant matters in connection with related parties.

Laws and regulations

The most significant considerations for your organisation are the:

- Local Government Acts of 1972 and 2003
- Local Government Finance Acts of 1988, 1992 and 2012
- International accounting standards as interpreted and adapted by the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21
- Local Audit and Accountability Act 2014
- Accounts and Audit Regulations 2015
- VAT legislation
- PAYE legislation.

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

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.

Police and Crime Commissioner Cambridgeshire and Peterborough

There are seven unadjusted audit differences identified by our audit work which would increase the deficit on the provision of services for the year of £2.407 million by £859,000 and would decrease net assets by £979,000.

There would be no impact on the general fund balance.

The Chief Constable of Cambridgeshire Constabulary

There are three unadjusted audit differences identified by our audit work which would increase the deficit on the provision of services for the year of £25.215 million by £15.582 million and would decrease net liabilities by £2.649 million.

There would be no impact on the general fund balance.

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

UNADJUSTED AUDIT DIFFERENCES: POLICE AND CRIME COMMISSIONER DETAIL

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| | Income and expenditure | | | Balance Sheet | |
|---|------------------------|-------------|-------------|---------------|-------------|
| | NET DR/(CR) £'000 | DR £'000 | CR £'000 | DR £'000 | CR £'000 |
| Unadjusted audit differences | | | | | |
| Deficit on the provision of services for the year before adjustments | 2,407 | | | | |
| Adjustment 1: Movement in value of pension fund asset between 31/12/2020 and 31/03/2021 (judgemental) | | | | | |
| DR Pension fund asset (net liability position) | | | | 441 | |
| CR Re-measurement of the net defined benefit liability | (441) | | 441 | | |
| Adjustment 2: Adjustment to property, plant and equipment valuation as a result of incorrect floor areas being used (judgemental) | | | | | |
| DR Property, plant and equipment | | | | 195 | |
| CR Revaluation reserve | | | | | 195 |
| Adjustment 3: Differences identified on expected return on plan assets calculation (judgemental) | | | | | |
| DR Pension reserve | | | | 148 | |
| CR Pension fund asset (net liability position) | | | | | 148 |

UNADJUSTED AUDIT DIFFERENCES: POLICE AND CRIME COMMISSIONER DETAIL

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| | Income and expenditure | | | Balance Sheet | |
|---|------------------------|-------------|-------------|---------------|-------------|
| | NET DR/(CR) £'000 | DR £'000 | CR £'000 | DR £'000 | CR £'000 |
| Unadjusted audit differences | | | | | |
| Adjustment 4: Estimated movement on PPE assets since last valuation date (judgemental) | | | | | |
| DR CIES | 1,732 | 1,732 | | | |
| CR Property, plant and equipment | | | | | 1,732 |
| Adjustment 5: Extrapolated value of income relating to 2020/21, but recognised in 2021/22 (projected) | | | | | |
| DR Accrued income | | | | 397 | |
| CR Income | (397) | | 397 | | |
| Adjustment 6: Extrapolation of overstated prepayments arising from sample test (projected) | | | | | |
| DR Expenditure | 132 | 132 | | | |
| CR Prepayments | | | | | 132 |

UNADJUSTED AUDIT DIFFERENCES: POLICE AND CRIME COMMISSIONER DETAIL

Current year impact of prior year unadjusted audit differences

| | Income and expenditure | | | Balance Sheet | |
|---|------------------------|--------------|--------------|---------------|--------------|
| | NET DR/(CR) £'000 | DR £'000 | CR £'000 | DR £'000 | CR £'000 |
| Unadjusted audit differences | | | | | |
| Adjustment 7: Movement in value of pension fund asset between 31/12/2019 and 31/03/2020 (judgemental) | | | | | |
| DR Pension reserve | | | | 167 | |
| CR Re-measurement of the net defined benefit liability | (167) | | 167 | | |
| Total unadjusted audit differences | 859 | 1,864 | 1,005 | 1,348 | 2,207 |
| Deficit on the provision of services for the year if above issues adjusted | 3,266 | | | | |

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| | Income and expenditure | | | Balance Sheet | |
|---|------------------------|-------------|-------------|---------------|-------------|
| | NET DR/(CR) £'000 | DR £'000 | CR £'000 | DR £'000 | CR £'000 |
| Unadjusted audit differences | | | | | |
| Deficit on the provision of services for the year before adjustments | 25,215 | | | | |
| Adjustment 1: Movement in value of pension fund asset between 31/12/2020 and 31/03/2021 (judgemental) | | | | | |
| DR Pension fund asset (net liability position) | | | | 2,649 | |
| CR Re-measurement of the net defined benefit liability | (2,649) | | 2,649 | | |
| Adjustment 2: Overstatement of benefits paid (judgemental) | | | | | |
| DR Plan assets (net liability position) | | | | 2,851 | |
| CR Plan liabilities | | | | | 2,851 |

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UNADJUSTED AUDIT DIFFERENCES: CHIEF CONSTABLE DETAIL

Current year impact of prior year unadjusted audit differences

| | Income and expenditure | | | Balance Sheet | |
|--|------------------------|---------------|--------------|---------------|---------------|
| | NET DR/(CR) £'000 | DR £'000 | CR £'000 | DR £'000 | CR £'000 |
| Unadjusted audit differences | | | | | |
| Adjustment 3: Adjustment to pension liability arising from McCloud (judgemental) | | | | | |
| DR CIES | 18,231 | 18,231 | | | |
| CR General fund/Pension reserve | | | | | 18,231 |
| Total unadjusted audit differences | 15,582 | 18,231 | 2,649 | 5,500 | 21,082 |
| Deficit on the provision of services for the year if above issues adjusted | 40,797 | | | | |

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Police and Crime Commissioner Cambridgeshire and Peterborough

There were eleven audit differences identified by our audit work that were adjusted by management. This increased the draft deficit on the provision of services of £2.407 million by £2.666 million and decreased draft net assets of £55.034 million by £2.666 million.

There was no impact on the general fund balance.

The Chief Constable of Cambridgeshire Constabulary

There were three audit differences identified by our audit work that were adjusted by management. This increased the draft deficit on the provision of services of £25.215 million by £1.704 million and decreased draft net liabilities of £1,734.914 million by £1.704 million.

There was no impact on the general fund balance.

ADJUSTED AUDIT DIFFERENCES: POLICE AND CRIME COMMISSIONER DETAIL

Details for the current year

| | Income and expenditure | | | Balance Sheet | |
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| | NET DR/(CR) £'000 | DR £'000 | CR £'000 | DR £'000 | CR £'000 |
| Adjusted audit differences | | | | | |
| Deficit on the provision of services for the year before adjustments | 2,407 | | | | |
| Adjustment 1: Reclassification of pension prepayment from other debtors to prepayments | | | | | |
| DR Prepayments | | | | 2,550 | |
| CR Other debtors | | | | | 2,550 |
| Adjustment 2: Correction to pension top up grant disclosure | | | | | |
| DR Pension top up grant | 286 | 286 | | | |
| CR Supplies and services expenditure | (286) | | 286 | | |
| Adjustment 3: Third party funds not included in cash or creditors | | | | | |
| DR Cash and cash equivalents | | | | 187 | |
| CR Creditors | | | | | 187 |
| Adjustment 4: Adjustment for incorrect recognition of valuation of HQ building | | | | | |
| DR Impairments recognised through CIES | 2,671 | 2,671 | | | |
| CR Land and buildings | | | | | 2,671 |

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| | Income and expenditure | | | Balance Sheet | |
|---|------------------------|-------------|-------------|---------------|-------------|
| | NET DR/(CR) £'000 | DR £'000 | CR £'000 | DR £'000 | CR £'000 |
| Adjusted audit differences | | | | | |
| Adjustment 5: Classification error in pension liability reconciliation in respect of additional injury awards paid | | | | | |
| DR Benefits paid | | | | 170 | |
| CR Past service cost | | | | | 170 |
| Adjustment 6: Reclassification of data centre UPS incorrectly classified as land and buildings to plant and equipment | | | | | |
| DR Plant and equipment - reclassifications | | | | 96 | |
| CR Land and buildings - reclassifications | | | | | 96 |
| Adjustment 7: Removal of adjustment posted to correct prior period reclassification error, which was posted incorrectly | | | | | |
| DR Vehicles - additions | | | | 48 | |
| CR Vehicles - reclassifications | | | | | 48 |
| DR Assets under construction - revaluation increase through provision of services | | | | 48 | |
| CR Assets under construction - reclassifications | | | | | 48 |

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| | Income and expenditure | | | Balance Sheet | |
|---|------------------------|-------------|---------------|---------------|---------------|
| | NET DR/(CR) £'000 | DR £'000 | (CR) £'000 | DR £'000 | (CR) £'000 |
| Adjusted audit differences | | | | | |
| Adjustment 8: Reversal of disposal incorrectly recorded against HQ building | | | | | |
| DR Land and buildings - disposals | | | | 5 | |
| CR Loss on disposal | (5) | | 5 | | |
| Adjustment 9: Corrections to assets on disposal journals posted incorrectly | | | | | |
| DR Assets under construction - disposals | | | | 10 | |
| CR Assets under construction - revaluation increase through provision of services | | | | | 10 |
| CR Assets under construction - depreciation disposals | | | | | 10 |
| DR Assets under construction - depreciation reclassifications | | | | 2 | |
| DR Assets under construction - additions | | | | 8 | |

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|--|------------------------|--------------|---------------|---------------|---------------|
| | NET DR/(CR) £'000 | DR £'000 | (CR) £'000 | DR £'000 | (CR) £'000 |
| Adjusted audit differences | | | | | |
| Adjustment 10: Corrections for incorrect classifications on depreciation released on revaluation (factual) | | | | | |
| DR PPE Cost - Impairments recognised in Surplus/Deficit | | | | 35 | |
| CR Depreciation charge for year | | | | | 511 |
| DR Accumulated Depreciation: Revaluations depreciation increase/ decrease in RR | | | | 248 | |
| DR Accumulated Depreciation: Revaluations increase/ decrease in Surplus/Deficit | | | | 344 | |
| CR Blank description line in PPE note | | | | | 35 |
| CR PPE Cost: Revaluations increase/ decrease in Surplus/Deficit | | | | | 81 |
| Adjustment 11: Reclassification of pension top-up grant | | | | | |
| DR Grants credited to services | 1,398 | 1,398 | | | |
| CR Taxation and non-specific grant income | (1,398) | | 1,398 | | |
| Total Adjusted audit differences | 2,666 | 4,355 | 1,689 | 3,751 | 6,417 |
| Adjusted deficit on the provision of services for the year | 5,073 | | | | |

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ADJUSTED AUDIT DIFFERENCES: CHIEF CONSTABLE DETAIL

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| | Income and expenditure | | | Balance Sheet | |
|---|------------------------|--------------|-------------|---------------|---------------|
| | NET DR/(CR) £'000 | DR £'000 | CR £'000 | DR £'000 | CR £'000 |
| Adjusted audit differences | | | | | |
| Deficit on the provision of services for the year before adjustments | 25,215 | | | | |
| Adjustment 1: Correction to calculation of accumulated absences accrual | | | | | |
| DR Police pay and allowances | 260 | 260 | | | |
| DR Police staff pay and allowances | 1,440 | 1,440 | | | |
| CR Accumulated absences accrual | | | | | 1,704 |
| Adjustment 2: Adjustment for the prior year re-issued IAS 19 report | | | | | |
| DR LGPS current service cost | | | | 415 | |
| CR LGPS past service cost | | | | | 415 |
| DR PPS current service cost | | | | 13,100 | |
| CR PPS past service cost | | | | | 13,100 |
| Adjustment 3: Pension fund adjustment identified by audited entity - correction for mapping error | | | | | |
| DR Commutations and lump sum retirement benefits | 298 | 298 | | | |
| CR Refunds of contributions | (298) | | 298 | | |
| Total Adjusted audit differences | 1,704 | 2,002 | 298 | 13,515 | 15,219 |
| Adjusted deficit on the provision of services for the year | 26,919 | | | | |

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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>Following a number of amendments made, we are satisfied that the other information in the Narrative Report is consistent with the financial statements and our knowledge.</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>We have no matters to report in relation to the consistency of the Annual Governance Statement with the financial statements and our knowledge.</p> |

WHOLE OF GOVERNMENT ACCOUNTS

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The PCC and Chief Constable are required to prepare a Data Collection Tool (DCT) return for use by the Department for Levelling Up, Housing and Communities (DLUHC) for the consolidation of local government accounts, and by HM Treasury at Whole of Government Accounts level.

Auditors are required to review Whole of Government Accounts (WGA) information prepared by component bodies that are over a prescribed threshold in any of: assets (excluding property, plant and equipment); liabilities (excluding pension liabilities); income or expenditure.

The OSCAR II system for submission of the 2020/21 WGA DCT is not yet available and HM Treasury has not yet confirmed the thresholds or timetable for audit review. The Group Audit Instructions, which include the required programme of work for auditors, have therefore not yet been issued.

In the prior year, the threshold was £500 million and the PCC and Chief Constable both fell below the threshold for review.



USE OF RESOURCES OVERVIEW

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New Code of Audit Practice (“Code”)

The Comptroller & Auditor General has determined through a new Code and guidance that the key output from local audit work in respect of value for money (VFM) arrangements is a commentary as reported in the Auditor’s Annual Report, not a VFM arrangements ‘conclusion’ or ‘opinion’. There may be matters referred to in the auditor’s commentary that do not represent significant weaknesses in arrangements and where significant weaknesses are reported we are required to also report recommendations.

As auditors we need to gather sufficient evidence and document our evaluation of arrangements to enable us to draft our commentary under three reporting criteria. These criteria are:

- **Financial sustainability** - How the PCC and Chief Constable plan and manage their resources to ensure they can continue to deliver their services
- **Governance** - How the PCC and Chief Constable ensure that they make informed decisions and properly manage their risks
- **Improving economy, efficiency and effectiveness** (‘Improving 3Es’) - How the PCC and Chief Constable use information about their costs and performance to improve the way they manage and deliver their services.

Risk of Significant Weakness

We have not yet completed our work on the PCC and Chief Constable’s value for money arrangements. To comply with requirements of the Code of Audit Practice 2020/21 a letter has been issued to the Joint Audit Committee Chair stating this and the reason for the delay.

In line with Auditor Guidance Note 3 (AGN 03) *Auditors’ Work on Value for Money (VFM) Arrangements* issued by the Comptroller and Auditor General in April 2021, we will report a commentary on value for money arrangements in our Auditor’s Annual Report and include exception reporting in respect of any identified significant weaknesses in our audit certificate.

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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 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 has not identified any significant deficiencies in internal control.



OTHER DEFICIENCIES

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| Area | Observation & implication | Recommendation | Management response |
|---|--|--|---------------------|
| Leavers in e-financials | <p>From a sample of 11 leavers tested from the e-financials system, we noted two instances where leavers were not deactivated in a timely manner. These leavers both left in 2019 but were not deactivated until 2020 and 2021 respectively.</p> <p>We have confirmed that neither leaver logged into the system after leaving. However, there is a risk that they could have committed fraudulent activity in the period in which they retained access.</p> | A review of the user access list should be undertaken on a regular basis to ensure that only appropriate personal retain access to the system. | [xx] |
| Review of land and buildings valuations | <p>The valuations produced by the valuer were reviewed by management prior to inclusion of the values in the statement of accounts. No documentation was retained to evidence this review.</p> <p>If a review is not documented, there is a risk that no one would notice if it were not performed.</p> | Control is to be documented going forward. | |

FOLLOW UP OF PRIOR YEAR DEFICIENCIES

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| Area | Issue and impact | Original recommendation | Progress | Management response |
|--|---|--|--|---------------------|
| iTrent new starter forms | <p>The process for requesting access rights for iTrent should be for an individual's line manager to complete a new starter access request form, which will then be processed by a system administrator. We identified one instance where a new starter was set up without this process being followed.</p> <p>This creates a risk that inappropriate access rights which could be used to amend payroll parameters could be provided to an individual within the PCC or Chief Constable.</p> | The appropriate new starter request forms are filled out for all new access rights granted. | No issues were identified with the new starters tested in the current year. | [xx] |
| Checking of user access rights in iTrent | <p>It was identified that monthly checks are performed over the user access rights on iTrent, but this is a visual check only and the individuals involved do not document anything to evidence that this check has been performed.</p> <p>If the check is not documented, then there is a risk that if it wasn't performed on a particular month, then this may not be noticed. No assurance can therefore be obtained that the procedure operated as expected.</p> | The check is documented each month to evidence that it has been performed. | Confirmed that this remains a visual check and there was no retained evidence of the check in 2020/21. | [xx] |
| Useful economic lives | <p>A review of the fixed asset register identified a number of plant and equipment and vehicles assets which were still actively in use, but had exceeded their useful economic life (UEL).</p> <p>The UELs are potentially too low resulting in the depreciation charge in the financial statements being overstated.</p> | A review of UELs is undertaken by the finance team to confirm that they are all appropriate. | | [xx] |

FOLLOW UP OF PRIOR YEAR DEFICIENCIES

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| Area | Issue and impact | Original recommendation | Progress | Management response |
|--|--|--|---|---------------------|
| Related party declarations | <p>Related party declarations were not obtained for all individuals who were required to complete them. Additional resource was put into obtaining these, and there was only one leaver for which the PCC and Chief Constable were unable to obtain the declaration.</p> <p>There is the potential for related parties to go undisclosed in the financial statements if individuals do not complete the returns.</p> | The PCC and Chief Constable ensures that all declarations are completed, and incorporates the completion of a declaration into the leavers process for when an individual leaves the PCC or Chief Constable. | Related party declarations were obtained for all individuals as required in the current year. | Not applicable |
| Floor areas used in valuation calculations | <p>The floor areas were identified to be input to the valuation calculation incorrectly for some of the assets valued in year.</p> <p>Due to the material nature of individual asset values, the incorrect inputting of one value could lead to the value of an asset being materially incorrect, although this was not the case here.</p> | All floor areas are checked against the floor plans as part of the valuation process | Differences have been noted on the floor areas used again in the current year. The valuations were however performed as at 1 April 2020, which was before this recommendation was raised. | [xx] |
| Evidence for land values | <p>The valuer did not retain the evidence obtained from their agents to support the land values used in the valuation calculations.</p> <p>The information retained consisted of a spread sheet detailing the evidence obtained. There is a possibility that values could have been input into this spread sheet incorrectly, and without retaining the source documentation, there is no way of checking for such issues. The split of valuations between land and buildings is a key judgement used to determine the depreciation charges, and if this is incorrect, then the depreciation charge will be incorrect.</p> | Supporting documentation evidencing all inputs in the valuation calculation is retained. | There was one asset where we were unable to obtain evidence again in the current year. | [xx] |

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| Area | Issue and impact | Original recommendation | Progress | Management response |
|--|---|--|--|---------------------|
| Review of membership data | <p>A control is in place that the membership data submitted to the actuary is prepared by one officer and reviewed by another prior to being submitted to the actuary. No documentation is maintained to evidence that this control is taking place.</p> <p>If the control is not documented, then there is a risk that non-performance of the control could go undetected.</p> | Documented evidence of the reviews taking place is maintained going forward. | We have confirmed that this review was undertaken in the current year. | Not applicable |
| Management review of valuation of the net pension liability. | <p>Management engage an actuary to value the net pension liability, which is a significant accounting estimate.</p> <p>Management have not evidenced that they undertaken a review of the outcome of the above engagement to ensure that it is consistent with their expectations.</p> | <p>As part of the accounts preparation process, identify significant accounting estimates and set high level expectations regarding movements in the associated assets and liabilities.</p> <p>Compare expectations to outputs generated by management's expert. Challenge the expert where outputs are inconsistent with management's expectation, and document this process.</p> | The force did not retain any evidence to document this control, and we could not therefore confirm it was operational in the current year. | [xx] |

FOLLOW UP OF PRIOR YEAR DEFICIENCIES

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| Area | Issue and impact | Original recommendation | Progress | Management response |
|----------------------|--|--|---|---------------------|
| Employment contracts | <p>Employment contracts could not be located for individuals included in the Senior Officers Remuneration note.</p> <p>The contract which confirms the starting salary and terms or conditions of employment for an individual in a high profile role, is an important document which protects both the employer, and the employee if ever a dispute arose. It also confirms the employee is a valid employee.</p> <p>If there was ever a dispute over pay or performance the employer would not have evidence or supporting documentation to back up their claims against the employee.</p> | Ensure that easily obtainable signed contracts are in place for all employees. | Documentation was successfully obtained for all senior officers in the current year. It should however be noted that the officers for which we were unable to obtain contracts in the prior year audit left the force in 2019/20, and contracts were not therefore requested for these individuals in the current year audit. | [xx] |

AUDIT REPORT OVERVIEW

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Opinion on financial statements

We anticipate issuing an unmodified opinion on the PCC and Chief Constable financial statements.

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

Conclusion relating to going concern

We have nothing to report in respect of the applicability of the going concern basis of accounting or the PCC or Chief Constable’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.

Irregularities, including fraud

Our report will contain an explain to what extent the audit was considered capable of detecting irregularities, including fraud. Irregularities in this context means non-compliance with laws or regulations.

Other information

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

Annual Governance Statement

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

Use of resources

We have not yet completed our work on the PCC or Chief Constable’s value for money arrangements. We will report a commentary on value for money arrangements in our Auditor’s Annual Report and include exception reporting in respect of any identified significant weaknesses in our audit certificate.

INDEPENDENCE

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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 2020.

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

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

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

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

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

FEES

Fees summary

| | 2020/21 | 2019/20 |
|---|----------------------|----------------------|
| Police and Crime Commissioner Cambridgeshire and Peterborough | £23,360 ² | £23,360 |
| The Chief Constable of Cambridgeshire Constabulary | £11,550 ² | £11,550 |
| Additional audit fee: recurring | £16,414 ¹ | £16,414 ¹ |
| Additional audit fee: non-recurring | - | £7,834 ¹ |
| Total audit fees | TBC | £59,158 |
| Fees for non-audit services | - | - |
| Total non-audit services fees | - | - |
| Total fees | TBC | £59,158 |

Fee variances

¹Recurring increase to Scale Fee

The Public Sector Audit Appointments Limited (PSAA) scale fee is largely based on the historical position and so, it does not reflect any of the changes in audit scope and depth linked to current audit requirements for property, plant and equipment or pensions liability valuation work. An additional fee has been proposed for 2019/20 to cover the costs associated with increased regulatory requirements. A further additional fee has also been proposed for one off overrun events in 2019/20, which has been agreed with management. This fee is a proposal and is currently being agreed with PSAA.

²Use of resources fee variance

The audit fee is based on audit scope under the Code of Audit Practice. A new Code is effective for periods commencing 1 April 2020, which significantly increases the work of auditors for reporting on a body's use of resources. We will propose a fee variation in respect of this once additional procedures have been fully scoped.



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RESTORING TRUST IN AUDIT AND CORPORATE GOVERNANCE

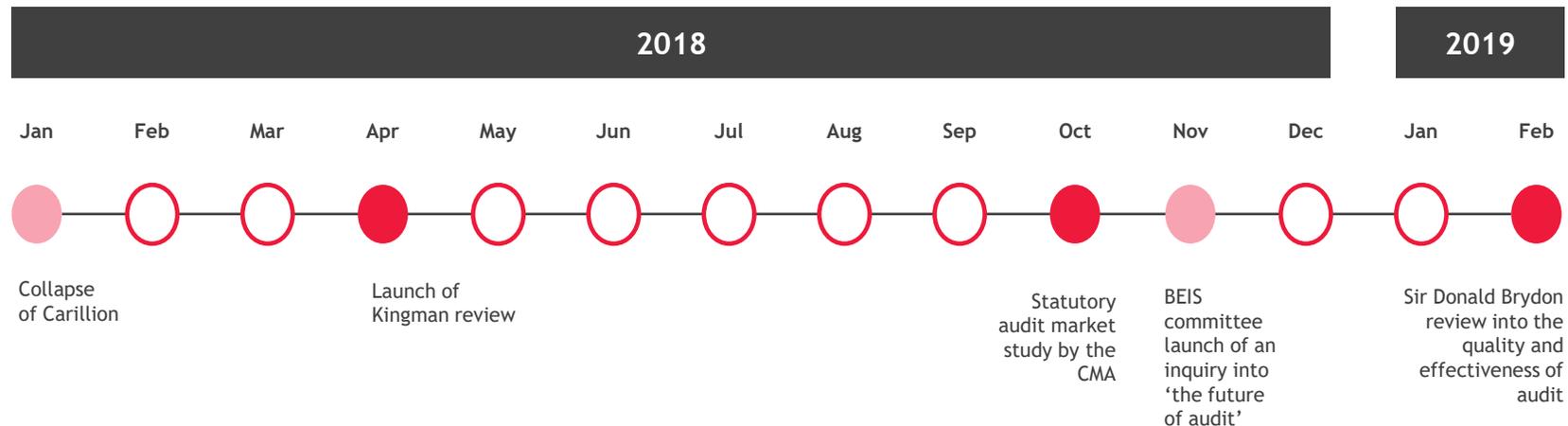
BEIS consultation issued March 2021

The collapse of Carillion at the beginning of 2018 precipitated a root and branch review of how the audit market works with three main components, all reporting to the Secretary of State for Business Energy and Industrial Strategy. The latest BEIS consultation as published in March 21 outlines proposals to increase choice and quality in the audit market, establish clearer responsibilities for the detection and prevention of fraud, and ensure the audit product and audit profession are fit for the future. The consultation aims to present measures that balance the need for meaningful reform with proportionate impacts on business, both now and for the future. The next pages aim to summarise the key areas of the consultation but for more information please refer to the [consultation](#) directly.

Although the consultation is only closed in July 2021, changes have already begun: There are already a number of changes being made by the market participants themselves such as increased operational separation of audit from consulting and voluntary restriction of non-audit services. At BDO we support the aims of operational separation of audit practices. Without being complacent we do not have a large consulting practice like some of our rivals and we have always run our audit business to be independently and sustainably profitable, therefore the main causes of concern that this seeks to address namely cultural contamination and cross subsidisation are less relevant for us. We do however recognise that the profession needs to restore the confidence of users and operational separation or ring fencing is an important step on that journey. We have drawn up plans for how we would implement this and are currently consulting with stakeholders. Whilst full compliance is not required until 2024 we are likely to implement a number of aspects particularly around governance and financial transparency by July 2021.

Whilst there is some uncertainty regarding the timeline post the close of the consultation it is our understanding that the implementation of the Audit, Reporting and Governance Authority (ARGA) is likely to be in 2023.

HISTORIC CONSULTATIONS TIMELINE



BEIS CONSULTATION AT A GLANCE

Issued March 21

| Key Area of the BEIS consultation | Summary |
|---|--|
| 1. Resetting the scope of regulation by expanding the definition of Public Interest Entities to include large private companies and “large” AIM quoted companies. | <p>The government proposes two possible tests to extend the scope of PIEs:</p> <p>To adopt the test used to identify companies already required to include a corporate Annual Governance Statement in their directors’ report, or adopt a narrower test which incorporates the threshold for additional non-financial reporting requirements for existing PIEs. This would cover companies with both: Over 500 employees and a turnover of more than £500 million as their consolidated position.</p> <p>The Government is also proposing that any new definition of PIE should also include companies on the exchange-regulated AIM market with market capitalisations above €200m.</p> |
| 2. Increasing the accountability of directors | <p>The consultation sets out a couple of options relating to directors accountability for internal controls and then indicates a tentative preferred option which would require a directors’ statement about the effectiveness of the internal controls. Unlike the US’s approach to internal controls which mandates external auditor attestation in most cases this option would leave the decision on whether the statement should be assured by an external auditor to the directors, audit committee and shareholders.</p> <p>This section of the consultation also includes proposals to require companies to report on their distributable reserves and for directors to be required to make a formal statement about the legality and affordability of proposed dividends.</p> |
| 3. New corporate reporting requirements | <p>Introducing a requirement for PIEs to produce an annual Resilience Statement. This new statement consolidates and builds upon the existing going concern and viability statements and would apply initially to Premium Listed companies.</p> <p>Introducing an Audit and Assurance Policy where directors have to describe their approach to seeking assurance. For publicly quoted entities, this would be subject to an advisory shareholder vote at the time of its publication,</p> |
| 4. Strengthening the supervision of corporate reporting | <p>Giving the Audit, Reporting and Governance Authority (ARGA) (which replaces the Financial Reporting Council) more power to direct changes to company reports and accounts.</p> <p>Creating increased transparency for the Corporate Reporting Review (CRR) process and an extension of the CRR process to the whole of the annual report and accounts.</p> <p>The Government proposes to broaden the regulator’s review powers so that it can scrutinise the entire contents of a company’s Annual Report and Accounts.</p> |

BEIS CONSULTATION AT A GLANCE 2

| Key Area of the BEIS consultation | Summary |
|---|---|
| 5. Provisions concerning company directors | <p>Giving the regulator investigation and enforcement powers in relation to wrongdoing by all directors of Public Interest Entities. Due to the principles of collective responsibility and a unitary board, all directors of Public Interest Entities would be in scope.</p> <p>Strengthening malus and clawback provisions within executive director remuneration.</p> |
| 6. Changes to audit purpose and scope | <p>The Government will seek to introduce a regulatory framework to cover both audits of financial statements (statutory audit) and other types of information which companies decide to have audited through the Audit and Assurance Policy process. It also proposes to legislate to require directors of Public Interest Entities to report on the steps they have taken to prevent and detect material fraud.</p> |
| 7. Changes to audit committee oversight and engagement with shareholders | <p>ARGA to establish a standards and supervision regime. ARGA will write the standards by which Audit Committees will need to operate and they will monitor compliance against these standards. Initially this will only apply to FTSE 350 Audit Committees.</p> <p>Additional requirements for audit committees in the appointment and oversight of auditors, which is intended to ensure the committee acts effectively as an independent body responsible for safeguarding the interests of shareholders.</p> <p>Increased engagement between a company and its shareholders. The Government agrees with Brydon's recommendation that the audit committee's annual report should set out which shareholder suggestions put forward for consideration had been accepted or rejected by the auditor.</p> |
| 8. Improved competition, choice and resilience in the audit market | <p>The implementation of a managed shared audit regime for companies audited by the Big Four.</p> <p>The operational separation of certain accountancy firms.</p> <p>Statutory powers for the regulator to monitor the resilience of the audit market.</p> |
| 9. Greater supervision of audit quality | <p>Making the regulator responsible for approving the auditors of PIEs and improving the transparency of Audit Quality Review reports by allowing AQR reports on individual audits to be published without consent.</p> |
| 10. A new and strengthened regulator; the Audit, Reporting and Governance Authority | <p>The regulator will be given the power to make rules requiring market participants to pay a levy to meet the regulator's costs of carrying out its regulatory functions.</p> |
| 11. Additional changes to the regulator's responsibilities | <p>The regulator will have the power to require an expert review where it has identified significant concern regarding a PIEs corporate reporting and auditing.</p> |

FRC ETHICAL STANDARD

Issued in December 2019

In December 2019 the FRC published the Revised Ethical Standard 2019 ('ES'), which is applicable from 15 March 2020. There are some transitional provisions for services and arrangements that are not currently prohibited under the existing Standard. The ES aims to further strengthen auditor independence and enhance confidence in the profession. The table below provides a high level summary of the key headlines.

| Key headlines | Impact |
|--|---|
| The objective, reasonable & informed third party test | Reinforcement that ethical principles take priority over rules. A need to take care where particular facts and circumstances are either not addressed directly by the rules or might appear to 'work around' the rules, or result in an outcome that is inconsistent with the general principles. |
| Extra-territorial impact | For group audits where the audited entity has overseas operations, the ES will require all BDO Member firms to be independent of the UK audited entity and its UK and overseas affiliates in accordance with the UK Ethical Standard, irrespective of if their audit work is relied upon. |
| Contingent fees | Non-audit services with contingent or success-based fee arrangements will be prohibited for audited entities. |
| Secondments | All secondments/loan staff to audited entities are prohibited with the exception of secondments to public sector entities. |
| Recruitment and remuneration services | Prohibition on providing remuneration services to audited entities such as advising on the quantum of the remuneration package or the measurement criteria for calculation of the package. In addition, the prohibition on providing recruitment services to an audited entity that would involve the firm taking responsibility for, or advising on the appointment of, any director or employee of the entity. |
| Non-audit services to a public interest entity (PIE) | Moving to a "white-list" of permitted non-audit services for PIEs. The white-list largely consists of services which are either audit-related or required by law and/or regulation. The provision of services not on the white-list are prohibited. The ES separates those permitted services which are exempt from the 70% fee cap and those services which are subject to the fee cap. |
| Other entities of public interest ('OEPI') | <p>OEPI is a new term in the Ethical Standard. The FRC have imposed the 'white-list' applicable to PIE audited entities to also apply to OEPIs. OEPIs are entities which, according to the FRC, do not meet the definition of a PIE but nevertheless are of significant public interest to stakeholders. They include AIM listed entities which exceed the threshold to be an <i>SME listed entity</i> - generally those with a market cap of more than €200m; Lloyd's syndicates; Private sector pension schemes with more than 10,000 members and more than £1billion of assets; Entities that are subject to the governance requirements of The Companies (Miscellaneous Reporting) Regulations 2018 (SI/2018/860), excluding fund management entities which are included within a private equity or venture capital limited partnership fund structure. These would be entities which:</p> <ul style="list-style-type: none">- Have more than 2000 employees; and / or- Have a turnover of more than £200 million and a balance sheet total of more than £2 billion. <p>The FRC have noted that the rules applicable to OEPIs will apply from periods commencing on or after 15 December 2020.</p> |

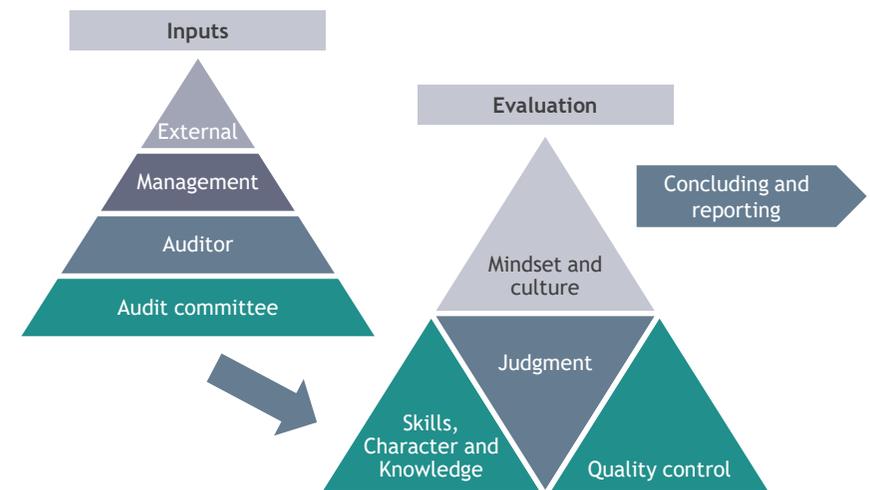
FRC PRACTICE AID FOR AUDIT COMMITTEES

The Financial Reporting Council (FRC) issued an updated practice aid for audit committees in December 2019 and a full copy can be found on the [FRC website](#). In their practice aid the FRC note: 'The directors of a company (the Board as a whole) are responsible for ensuring its financial statements are prepared in accordance with the applicable financial reporting framework and for overseeing the company's internal control framework. A high-quality audit provides investors and other stakeholders with a high level of assurance that the financial statements of an entity give a true and fair view and provide a reliable and trustworthy basis for taking decisions.'

The practice aid then discusses how the role of audit committees in serving the interests of investors and other stakeholders is through their independent oversight of the annual corporate reporting process including the audit. The FRC highlight that the responsibility for appointing the external auditor, approving their remuneration and any non audit services work, ensuring their independence and challenging them over the quality of their work falls to the audit committee and can play a key role in facilitating a high quality audit (see note below).

It gives guidance for Audit Committees in the following areas:

- Audit tenders and the tender process including audit fee negotiations and auditor independence
- A model for use by audit committees in making an overall assessment of an external auditor including inputs, evaluations and concluding



- Transparency - reporting to the Board on how the audit committee has discharged these responsibilities
- Some guidance on key areas of audit judgement

The provision of high quality audits are a key focus of FRC and the new Executive Director of Supervision, David Rule, sent a letter to all audit firms in November 2019 explaining the factors he would expect to see in place in order to facilitate the delivery of high quality audits. A copy of the letter can be found on the [FRC website](#)

OUR RESPONSIBILITIES

Responsibilities and reporting

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 had 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. | No exceptions to note. |
| 5 | Significant matters in connection with related parties. | No exceptions to note. |

COMMUNICATION WITH YOU

Those Charged with Governance (TCWG)

References in this report to Those Charged With Governance are to the PCC and Chief Constable 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 Planning Report | April 2021 | Joint Audit Committee |
| Audit Progress report | October 2021 | Joint Audit Committee |
| Audit Completion report | January 2022 | Joint Audit Committee |
| Auditor’s Annual Report | TBC | Joint Audit Committee |

BDO LLP
55 Baker Street
London
W1U 7EU

Dear Sirs

Financial statements of Police and Crime Commissioner Cambridgeshire and Peterborough for the year ended 31 March 2021

We confirm that the following representations given to you in connection with your audit of the Group and the PCC's financial statements for the year ended 31 March 2021 are made to the best of our knowledge and belief, and after having made appropriate enquiries of other officers and members of the PCC and other Group entities.

The Chief Finance Officer has fulfilled his responsibilities for the preparation and presentation of the Group and 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 the PCC as of 31 March 2021 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 the PCC's ability to continue as a going concern for a period of at least twelve months from the date on which the financial statements were approved for release. As a result of our assessment we consider that the Group and the PCC 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 and the PCC's ability to continue as a going concern.

Laws and regulations

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

Post balance sheet events

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

Fraud and error

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

We have considered the risk that the financial statements may be materially misstated due to fraud and have 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:

| | LGPS |
|--|-------------|
| Rate of increase in salaries | 3.3% |
| Rate of increase in pensions | 2.8% |
| Rate of discounting scheme liabilities | 2.1% |

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 officer and member has taken all the steps that they ought to have taken as an officer 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]

Darryl Preston
Police and Crime Commissioner

[date]

BDO LLP
55 Baker Street
London
W1U 7EU

Dear Sirs

Financial statements of The Chief Constable of Cambridgeshire Constabulary for the year ended 31 March 2021

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 2021 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 his 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 2021 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 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:

| | LGPS | Police schemes |
|--|------|----------------|
| Rate of increase in salaries | 3.3% | 4.2% |
| Rate of increase in pensions | 2.8% | 2.4% |
| Rate of discounting scheme liabilities | 2.1% | 2.0% |

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 officer and member has taken all the steps that they ought to have taken as a officer 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

Jon Lee
Chief Finance Officer

[date]

Nick Dean
Chief Constable

[date]

AUDIT QUALITY



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 FRC’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

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 company and may not be quoted nor copied without our prior written consent. No responsibility to any third party is accepted.

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