

Office of the Police & Crime Commissioner for Essex and Chief Constable of Essex

Annual Audit Letter for the year ended 31 March 2015

October 2015

Ernst & Young LLP



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Office of the Police & Crime Commissioner for Essex
Office of the Chief Constable of Essex
Joint Audit Committee
3 Hoffmans Way
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15 October 2015

Dear Nick and Stephen

Annual Audit Letter 2014/15

The purpose of this annual audit letter is to communicate the key issues arising from our work to the Office of the Police and Crime Commissioner for Essex and the Office of the Chief Constable of Essex, committee members of the Joint Audit Committee and external stakeholders, including members of the public.

We have already reported the detailed findings from our audit work in our 2014/15 Audit Results Report presented to the 18 September 2015 Joint Audit Committee and in an addendum issued on 30 September 2015 to the Police and Crime Commissioner for Essex (the PCC) and Chief Constable of Essex (the CC), as those charged with governance. We do not repeat those findings here.

The matters reported here are those we consider most significant for the Offices of the PCC and the CC.

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

Yours sincerely

Debbie Hanson
Director
For and on behalf of Ernst & Young LLP
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Relevant parts of the Audit Commission Act 1998 are transitionally saved by the Local Audit and Accountability Act 2014 (Commencement No. 7, Transitional Provisions and Savings) Order 2015 for 2014/15 audits.

The Audit Commission's 'Statement of responsibilities of auditors and audited bodies' (Statement of responsibilities). It is available from the accountable officer of each audited body and via the [Audit Commission's website](#).

The Statement of responsibilities serves as the formal terms of engagement between the Audit Commission's appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The Standing Guidance serves as our terms of appointment as auditors appointed by the Audit Commission.

The Standing Guidance sets out additional requirements that auditors must comply with, over and above those set out in the Code of Audit Practice 2010 (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Annual Audit Letter is prepared in the context of the Statement of responsibilities. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

1. Executive summary

Our 2014/15 audit work was undertaken in accordance with our Audit Plan issued in April 2015 and was conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

The PCC Group is responsible for preparing and publishing two Statements of Accounts, one for the Police and Crime Commissioner Group and one for the Chief Constable, accompanied by a joint Annual Governance Statement (AGS). In the joint AGS, the PCC and the CC report publicly each year on how far they comply with their own code of governance, including how they have monitored and evaluated the effectiveness of their governance arrangements in year, and on any planned changes in the coming period.

The Offices of the PCC and the CC are also responsible for having proper arrangements to secure economy, efficiency and effectiveness in their use of resources.

As auditors we are responsible for:

- forming an opinion on the financial statements of the PCC Group, the PCC and the CC and on the consistency of other information published with them
- reviewing and reporting by exception on the joint AGS
- forming a conclusion on the arrangements that the Offices of the PCC and the CC have to secure economy, efficiency and effectiveness in their use of resources
- undertaking any other work specified by the Audit Commission and the Code of Audit Practice.

Summarised below are the results of our work across all these areas for both the Offices of the PCC and the CC:

Area of work	Office of the Police and Crime Commissioner	Office of the Chief Constable
Audit of the financial statements of the PCC Group, the PCC and the CC for the financial year ended 31 March 2015 in accordance with International Standards on Auditing (UK & Ireland)	On 30 September 2015 we issued an unqualified audit opinion on the PCC Group's and the PCC's financial statements, and the Police Pension Fund	On 30 September 2015 we issued an unqualified audit opinion on the CC's financial statements and the Police Pension Fund
Form a conclusion on the arrangements the Offices of the PCC and the CC have made for securing economy, efficiency and effectiveness in their use of resources	On 30 September 2015 we issued an unqualified value for money conclusion on the PCC	On 30 September 2015 we issued an unqualified value for money conclusion on the CC
Report to the National Audit Office on the accuracy of the consolidation pack the PCC Group needs to prepare for the Whole of Government Accounts	We reported our findings on the PCC Group consolidation pack to the National Audit Office on 7 October 2015. This was after the deadline of 2 October 2015.	Not applicable – Whole of Government accounts is prepared at the group level
Consider the completeness of disclosures in the joint AGS, identify any inconsistencies with other information which we know about from our work and consider	No issues to report	No issues to report

whether it complies with CIPFA/
SOLACE guidance

Consider whether we should
make a report in the public
interest on any matter coming to
our notice in the course of the
audit

No issues to report

No issues to report

Determine whether we need to
take any other action in relation to
our responsibilities under the
Audit Commission Act

No issues to report

No issues to report

***As a result of the above we
have also:***

Issued a report to those charged
with governance of the Offices of
the PCC and CC communicating
the significant findings from our
audit

Our Audit Results Report
was presented to the Joint
Audit Committee on 18
September 2015 and an
addendum was issued on
30 September 2015 to the
PCC, as those charged
with governance

Our Audit Results Report
was presented to the Joint
Audit Committee on 18
September 2015 and an
addendum was issued on
30 September 2015 to the
CC, as those charged
with governance

Issued a certificate that we have
completed the audit in
accordance with the requirements
of the Audit Commission Act
1998 and the Code of Practice
issued by the Audit Commission

We issued our certificate
on the PCC on 7 October
2015, following the
completion of our audit of
the Whole of Government
Accounts consolidation
pack

We issued our certificate
on the CC on 30
September 2015

2. Key findings

2.1 Financial statement audit

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

We audited the PCC Group's, the PCC's and the CC's Statement of Accounts in line with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission. We issued an unqualified audit opinion on 30 September 2015 in respect of the PCC Group, PCC and CC sets of Statements of Accounts and the Police Pension Fund.

Our detailed findings were reported to the Joint Audit Committee on 18 September 2015 and an addendum was issued on 30 September 2015 to the PCC and CC.

In our view, the Offices of the PCC and the CC had prepared their financial statements adequately. However, we identified a number of amendments, three of which were material, in the PCC Group's, PCC's and CC's Statements of Accounts. These were corrected in the audited accounts. These items did not impact the General Reserve.

Four misstatements in the PCC Group's and PCC's Statements of Accounts were not corrected by management. These items were not material individually or in total to the accounts.

The main issues identified as part of our audit were:

Significant risk 1: Risk of management override

As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.

For police bodies, the potential for the incorrect classification of revenue spend as capital is a particular area where there is a risk of management override.

We designed and performed appropriate audit procedures to obtain reasonable assurance that the financial statements as a whole are free of material misstatement.

Findings:

- ▶ We did not identify any material errors in our sample testing of journal entries or management bias in accounting estimates.
 - ▶ We did not identify any significant unusual transactions.
 - ▶ We did not identify any material errors in our sample testing of additions on property, plant and equipment.
-

We have no other matters to report.

2.2 Value for money conclusion

As part of our work we must also conclude whether the Offices of the PCC and the CC have proper arrangements to secure economy, efficiency and effectiveness in the use of resources. This is known as our value for money conclusion.

In accordance with guidance issued by the Audit Commission, our 2014/15 value for money conclusion was based on two criteria. We consider whether the Offices of the PCC and the

CC had proper arrangements in place for:

- ▶ securing financial resilience, and
- ▶ challenging how they secure economy, efficiency and effectiveness.

We issued an unqualified value for money conclusion on the PCC and the CC on 30 September 2015.

We noted the following as part of our audit:

Arrangements to secure financial resilience: significant risk

We identified a significant risk in relation to the arrangements to secure financial resilience, as a result of the level of the future budget gap in the medium term financial strategy (MTFS) issued in November 2014.

The PCC identified a cumulative budget gap of £46 million over the next three years to 2017/18. The MTFS recognised that there is likely to be a reduction in the level of Government grant, which is needed to meet national public sector spending targets. It acknowledged that a continued reduction in this, or any other Government funding source in future years, could present a risk to the achievement of future budgets.

To address the specific risk we undertook a more detailed review of the MTFS and the key assumptions within this. We also liaised with Her Majesty's Inspectorate of Constabulary (HMIC) and placed appropriate reliance on the police effectiveness, efficiency and legitimacy (PEEL) reviews that were undertaken in April 2015.

Findings:

Essex Police has delivered annual recurring savings of £47.3m over the 4 year period ending 31 March 2015 through its Reform and Evolve change programmes. In addition, the Evolve team has been working on a programme of business cases, which will be needed to meet the future savings targets and will be presented in forthcoming budget reports.

HMIC's 'Responding to Austerity' report published in July 2014 gave Essex Police a "good" overall judgement. The report stated that Essex Police had detailed plans to achieve most of the required savings required for 2015/16 and is finalising its work to close the remaining gap.

A range of assumptions have been used within the MTFS, including estimates of the future levels of funding from areas such as precepts and government grants. The MTFS assumes a reduction in government grant of 4.7% in 2015/16, 2016/17 and 2017/18.

A maximum of 2% increase in precept had been assumed for 2015/16. We also noted that when compared with the other 32 shire forces in England and Wales, for 2014/15, Essex had the second lowest precept for a Band D property. However, this is subject to referendum rules and we are aware that some Police and Crime Commissioners are now actively consulting the public for their views on potential precept increases.

Essex Police has an ageing police estate and it is continuing to challenge how space is being used. They are also looking at making significant long-term investments to ensure IT infrastructure remains fit for purpose and identifying new ways of working. Essex Police are assessing the benefits and costs of new technologies such as mobile communications, use of the control room and contact with the public and updating their strategies to meet the changing needs of the public.

In addition to the financial challenges, Essex Police continues to scrutinise its effectiveness in the delivery of its service. An important aspect to achieving the anticipated savings and meeting changing demands is through the growth and evolution of collaboration and working with partners, in particular Kent Police.

The Office of the PCC and Office of the CC have continued to respond well to the financial challenges they, along with other public sector bodies, are facing. The size of the challenge that Essex Police is facing should not be underestimated and there are a number of significant uncertainties that may require some difficult decisions to secure continued sound financial standing.

2.3 Whole of Government Accounts

We performed the procedures required by the National Audit Office on the accuracy of the consolidation pack prepared by the PCC Group for Whole of Government Accounts purposes.

We reported our findings to the National Audit Office on 7 October 2015, which was after the deadline of 2 October 2015. We had no issues to report.

2.4 Annual Governance Statement

We are required to consider the completeness of disclosures in the joint AGS, identify any inconsistencies with the other information which we know about from our work, and consider whether it complies with relevant guidance.

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

2.5 Objections received

We did not receive any objections to the PCC Group's, the PCC's or the CC's 2014/15 financial statements from members of the public.

2.6 Other powers and duties

We did not identify any issues during our audit that required us to use powers under the Audit Commission Act 1998, including reporting in the public interest.

2.7 Independence

We communicated our assessment of independence to the Joint Audit Committee on 18 September. In our professional judgement the firm is independent and the objectivity of the audit engagement director and audit staff has not been compromised within the meaning of regulatory and professional requirements.

3. Control themes and observations

As part of our work, we obtained enough understanding of internal control to plan our audit and determine the nature, timing and extent of testing performed. We have tested the controls of the Office of the PCC and Office of the CC only to the extent necessary for us to complete our audit. We sample tested the key controls within the payroll and pensions systems. We are not expressing an opinion on the overall effectiveness of internal control.

Although our audit was not designed to express an opinion on the effectiveness of internal control, we are required to tell the Office of the PCC and Office of the CC about any significant deficiencies in internal control we find during our audit.

We did not identify any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in the financial statements.

4 Looking ahead

There are a number of changes in accounting and auditing requirements that could have a significant impact on the Office of the PCC's and Office of the CC's arrangements for the production of its financial statements. We have outlined what we think is the main challenge below.

Description	Impact
<p>Earlier deadline for production and audit of the financial statements from 2017/18</p> <p>The Accounts and Audit Regulations 2015 were laid before Parliament in February 2015. A key change in the regulations is that from the 2017/18 financial year the timetable for the preparation and approval of accounts will be brought forward.</p> <p>As a result, the Office of the PCC and Office of the CC will need to produce draft accounts by 31 May and these accounts will need to be audited by 31 July.</p>	<p>These changes provide challenges for both the preparers and the auditors of the financial statements.</p> <p>The Office of the PCC and Office of the CC are aware of this challenge and the need to start planning for the impact of these changes. This will necessarily include review of the processes for the production and audit of the accounts, including areas such as the production of estimates, particularly in relation to pensions and the valuation of assets, and the year end closure processes.</p>

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