POLICE & CRIME COMMISSIONER FOR LEICESTERSHIRE
JOINT AUDIT, RISK & ASSURANCE PANEL

PAPER MARKED

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Report of	**CHIEF CONSTABLE / CHIEF FINANCE OFFICER**
Subject	**REPORT TO THOSE CHARGED WITH GOVERNANCE**
Date	**TUESDAY 24 SEPTEMBER 2013 – 2.00 P.M.**
Author :	**MR P DAWKINS / MR R VICKERS**

Purpose of Report

1. This report presents the report issued by the external auditors PricewaterhouseCoopers following completion of their work for the year ended 31 March 2013.

Recommendation

2. The Panel is recommended to note the Auditor's conclusions in the report and agree the management response, where appropriate.

Background

3. At the end of each financial year, once their work has been completed, the auditor publishes the "Report to Those Charged with Governance". The report for 2012-13 is attached and will be presented by the auditor at the meeting.

Implications

Financial: none. Legal: none. Equality Impact Assessment: none. Risks and Impact: The Auditor's Letter reflects many aspects of the organisation's financial governance arrangements. Link to Police and Crime Plan: none.

List of Attachments / Appendices
Appendix 1: Report to Those Charged with Governance

Background Papers
None.

Persons to Contact
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Office of the Police and Crime Commissioner for Leicestershire and the Chief Constable of Leicestershire

Report to those charged with governance

Report to the Joint Audit Risk and Assurance Panel (JARAP) on the audits for the year ended 31 March 2013 under the requirements of International Standard of Auditing (UK&I) 260 (ISA (UK&I)) 260)

Government and Public Sector

JARAP meeting: 24 September 2013

Code of Audit Practice and Statement of Responsibilities of Auditors and of Audited Bodies

In April 2010 the Audit Commission issued a revised version of the 'Statement of responsibilities of auditors and of audited bodies'. It is available from the Chief Executive of each audited body. The purpose of the statement is to assist auditors and audited bodies by explaining where the responsibilities of auditors begin and end and what is to be expected of the audited body in certain areas. Our reports and letters are prepared in the context of this Statement. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the audited body and no responsibility is taken by auditors to any member or officer in their individual capacity or to any third party.

Contents

An audit of the Statement of Accounts is not designed to identify all matters that may be relevant to those charged with governance. Accordingly, the audit does not ordinarily identify all such matters. We have issued a number of reports during the audit year, detailing the findings from our work and making recommendations for improvement, where appropriate.

A list of these reports is included at Appendix 1 to this report.

Executive summary

Background

This report tells you about the significant findings from our audits. Within this report we have included the findings that relate to the audits of the Police and Crime Commissioner for Leicestershire (PCC), the Chief Constable of Leicestershire (CC) and for the Group, which consolidates the PCC and CC accounts.

We presented our Audit Plan to you in March 2013; you will recall that it was a joint plan for the PCC, CC and Group audits. We have reviewed the Audit Plan throughout the audits and concluded that it remains appropriate.

For the purposes of our audits, 'those charged with governance' have previously been agreed to be the Joint Audit Risk and Assurance Panel (JARAP).

Audit Summary

We have completed the majority of our audit work and expect to be able to issue unqualified audit opinions on the Statements of Accounts and unqualified value for money conclusions for the audits of the PCC (and Group) and CC by the national deadline of 30 September 2013.

The key outstanding matters are as follows:

- receipt of outstanding bank and investment confirmations;
- completion of our checks on the final, post audit, sets of accounts;
- whether we receive any electors' questions or objections relating to the 2012/13 financial statements; final completion procedures, including subsequent events reviews; and
- receipt of approved Statements of Accounts and letters of representation.

There are some key judgments which require the attention of JARAP as 'those charged with governance' – further details are set out commencing on page 11.

Please note that this report will be sent to the Audit Commission in accordance with the requirements of its standing guidance.

We look forward to discussing our report with you at your meeting on 24 September. Attending the meeting from PwC will be Mark Jones and Sara Bagnall.

How we can add value throughout the audit process

Smart people

Smart approach

Smart technology

The PwC Audit

Audit approach

Smart People

We continue to deploy our best people on your audit, supported by a substantial investment in training and in our industry programme.

We have used a team with experience and continuity from prior years' audits of Leicestershire Police, with Sara Bagnall managing the audit team and Mark Jones leading the overall engagement, both of whom have worked on the audits of Leicestershire Police over a number of years.

Smart Approach

Data auditing

We use technology-enabled audit techniques to drive quality, efficiency and insight.

As part of our 2012/13 audits our work has included:

- Testing manual journals through data analytics, so we consider the complete population of manual journals and target our detailed testing on the items with the highest inherent risk.

We will continue to explore ways to extend our use of smart technology and data into other areas where we see an opportunity to add value, as well as for quality and efficiency.

Centre of Excellence

We have a Centre of Excellence in the UK for Local Government, which is a dedicated team of specialists that advises, assists and shares best practice with our audit teams in more complex areas of the audit.

Our team has been working side by side with the Centre of Excellence to ensure we are executing the best possible audit approach.

Delivery centres

We use dedicated delivery centres to deliver parts of our audit work that are routine and can be done by teams dedicated to specific tasks; for example these include consistency and casting checks of the Statements of Accounts.

Benefits for the audit

The key benefits of our approach for your audit have been a more efficient audit process with more time being spent on the accounting implications of the split between the Police and Crime Commissioner's accounts and the Chief Constable's accounts.

Smart Technology

We have designed processes that automate and simplify audit activity wherever possible. Central to this is PwC's Aura software, which has set the standard for audit technology. It is a powerful tool, enabling us to direct and oversee audit activities. Aura's risk-based approach and workflow technology results in a higher quality, more effective audit and the tailored testing libraries allow us to build standard work programmes for key local government audit cycles.

An update of our work against the risks identified at the planning stage

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Risk assessment

Our risk assessment forms the basis for planning and guiding all subsequent audit activities. It allows us to determine where our audit effort should be focused and whether we can place reliance on the effective operation of controls implemented by management. Risks are categorised as follows:

●	*Significant*	**Financial statements:** Risk of material misstatement due to the likelihood, nature and magnitude of the balance or transaction. These require specific focus in the year. **Use of resources (value for money):** Risk of impacting adversely on the use of resources (value for money) conclusion.
●	*Other*	**Financial statements:** Although not considered significant, the nature of the balance/area requires specific consideration. **Use of resources (value for money):** Relevant to our use of resources (value for money) conclusion and therefore requires specific attention.

We have summarised below the risks we identified in our Audit Plan and the audit work we have undertaken to address them.

Risk arising	PCC		CC			
Impact area	*Financial Statements*	*Value for Money*	*Financial Statements*	*Value for Money*	*Categorisation of risks*	*Audit approach*
Management override of controls	◆		◆		●	We updated our understanding of the Group's controls around journals and gained some comfort on the Groups' arrangements for dealing with staff leavers, in particular controls over physical security and access to systems. Our final accounts procedures included testing of: • the appropriateness of journals processed during the year; • key year-end control account reconciliations, including the bank reconciliation; • transactions recorded after the year-end; and • significant management estimates. No issues were identified during this work.
Fraud risk in income and expenditure recognition	◆		◆		●	We sought to understand, evaluate and validate the controls relating to income and expenditure and tested them to confirm they were operating effectively during our interim audit, liaising with and seeking to place reliance upon the work performed by Internal Audit wherever possible. During the final audit visit we evaluated the accounting policies for income and expenditure recognition and tested: • the appropriateness of journal entries and other adjustments; • accounting estimates for provisions, accruals, expenditure, deferred revenues and income; and • we undertook some specific testing around the changes to supplier bank accounts, which is discussed further on page 14. No issues were identified during this work.

Risk arising	*PCC*		*CC*			
Impact area	*Financial Statements*	*Value for Money*	*Financial Statements*	*Value for Money*	*Categorisation of risks*	*Audit approach*
Transition to Police and Crime Commissioner –- Accounting Arrangements	◆		◆		●	We reviewed your proposed approach to the new accounting arrangements based on your assessment of the governance arrangements established between the PCC and CC against the principles established within the Police LAAP Bulletin 95 and the Code of Practice on Local Authority Accounting. We provided comments on your proposed approach and assessment before the draft financial statements were produced. We then completed the audits of the single entity and group financial statements and assessed for each entity the governance arrangements and the accounting treatment of each item. No issues were identified during this work. More detail on this has been provided on pages 8 and 9.
Transition to Police and Crime Commissioner – Governance/Value for Money		◆		◆	●	We reviewed the governance arrangements established and how the transition has been managed, paying particular attention to the financial, governance and operational performance aspects of the transition. No issues were noted as a result of this work and specific details can be found in the Value for Money section of this report on page 18.
East Midlands Special Operations Unit (EMSOU)	◆				●	We have undertaken sufficient audit work to provide audit opinions on the PCC, CC and group accounts. We have gained an understanding of the arrangements that are in place and changes that have occurred during the financial year and the proposed accounting treatment for those arrangements. No issues were noted as a result of this work. At the time of writing this report we have not received any requests from the auditors of the other bodies that are part of these arrangements to ask for specific procedures to be undertaken in order to provide them with assurance over the information for which Leicestershire PCC is the lead body.

Risk arising	*PCC*		*CC*			
Impact area	*Financial Statements*	*Value for Money*	*Financial Statements*	*Value for Money*	*Categorisation of risks*	*Audit approach*
Property, Plant and Equipment: Capital Schemes and Valuation	◆	◆	◆	◆	●	Our final accounts procedures included testing of: • agreement of fixed asset balances to the general ledger and fixed asset register; • the Group's assumptions underlying the classification of properties; • recalculation of revaluations and impairment charged during the year; • consideration of external and internal factors that may have caused material changes in the fair value of properties and which have not been revalued during the year; and • review of the valuer's methodology, assumptions and underlying data and our access to these. No issues were identified during this work. We have provided additional information regarding the judgements undertaken regarding the treatment of assets held for sale on page 11.

Risk arising	PCC		CC			
Impact area	*Financial Statements*	*Value for Money*	*Financial Statements*	*Value for Money*	*Categorisation of risks*	*Audit approach*
Going Concern/Financial Climate: Short/Medium Term Financial Strategy and Financial Standing		◆		◆	●	We reviewed the papers prepared by the PCC and CC of the respective going concern assessments. As part of our use of resources work, as well as our work on financial standing, we considered the Group's savings plans and considered their robustness. We also considered the accounting implications of any savings plans. In particular, we considered the impact of the efficiency challenge on the recognition of both income and expenditure. We also updated our understanding and assessment of the Group's Medium Term Financial Plan (MTFP) and progress against delivery of required savings targets; this included consideration of the sensitivities within the plans. Although no significant concerns were identified for our going concern assessment or our value for money conclusion as a result of this work, it is clear that there are challenges to face over the period covered by the MTFP, particularly in the later years of the plan. Further information is included on page 18.

Matters noted which we are required to bring to the attention of 'those charged with Governance'

Significant audit and accounting matters

Auditing Standards require us to tell you about relevant matters relating to the audit of the Statements of Accounts sufficiently promptly to enable you to take appropriate action.

Accounts

We have completed our audit, subject to the following outstanding matters:

- receipt of outstanding bank and investment confirmations;
- completion of our checks on the final, post audit, sets of accounts;
- whether we receive any electors' questions or objections relating to the 2012/13 financial statements; final completion procedures, including subsequent events reviews; and
- receipt of approved Statements of Accounts and letters of representation.

Subject to the satisfactory resolution of these matters, we expect to issue unqualified audit opinions on the accounts of the PCC (and Group) and the CC.

Accounts production

We are pleased to report that the draft accounts of the PCC (and Group) and CC were provided to us within the agreed deadline and in advance of the audit visit.

Working papers were made available on the first day of the audit as agreed and were of a good quality (as we have come to expect from our involvement as auditors to Leicestershire Police over a number of years now).

We would like to commend the finance team on these positive aspects of the process, especially given the additional pressures faced in producing 2 sets of financial statements for the first time this year.

During the 2010/11 audit of the former Leicestershire Police Authority we noted the significant reliance which was placed upon the Corporate Accountant during the accounts production and audit processes. In the 2011/12 audit we noticed an improvement through the restructuring and increased delegation within the team. In 2012/13 we have noted further developments in this area, which we feel have improved arrangements still further and enabled greater resilience within the team responsible for the preparation of the accounts.

Accounting issues

Transition to Police and Crime Commissioner – Accounting Arrangements (PCC (and Group) and CC)

On 15 September 2011 the Police Reform and Social Responsibility Act 2011 received Royal Assent in Parliament, introducing a significant change in the way the police forces in England and Wales are governed and held accountable. On 22 November 2012, a Police and Crime Commissioner (PCC) was elected and appointed for Leicestershire and the Police Authority was abolished. The PCC and Chief Constable (CC) of Leicestershire became 'corporation sole' bodies at that date.

The 2012/13 audit required new accounting arrangements to be implemented with single entity and group financial statements being produced for the first time. The single entity financial statements were driven by the governance arrangements established between the PCC and the CC.

The finance team has been proactive in discussing with us proposals for the accounting treatment to be adopted for the accounts of the PCC (and Group) and the CC. A document was produced early in the process by the finance team which set out the proposals for Leicestershire and enabled PwC to undertake early consideration of the technical implications. The only changes to the document during the process were to add more detail and to consider later guidance which was released, such as the CIPFA LAAP Bulletin 95.

Further papers were provided which gave additional detail showing the finance team's analysis of how the governance arrangements had determined the conclusions reached and specific additional information in areas of national debate, such as the treatment of pensions, fixed assets and depreciation.

During our review of the accounts we identified a number of minor disclosure matters which have been discussed with management. Some of these have been amended within subsequent versions of the accounts while others have not. The fact that a number of the proposed disclosure changes have not been made will not impact adversely on our audit opinion.

Provisions – Cunningham Lindsey (PCC (and Group))

Cunningham Lindsey dealt with civil claims on behalf of the former Leicestershire Police Authority in previous years but are now only dealing with outstanding legacy claims.

A provision was included in the 2012/13 draft accounts of £167,000 which reflected the information provided by Cunningham Lindsey at the time that the accounts were prepared. However, the finance team identified that some payments were missing from the information which Cunningham Lindsey had provided and requested updated information from them. This matter was raised by the Corporate Accountant at the JARAP meeting in June 2013.

The amount of the required provision has now been clarified as £144,000; there is therefore a difference of £7,000 from the provision included in the draft accounts, which the finance team is not proposing to adjust for. As this difference is below our agreed reporting threshold it has not been included as an unadjusted misstatement in this report and there is no impact on our audit opinion.

Valuation of HQ site (PCC (and Group))

During the 2011/12 audit we identified a potential issue with the external valuation that was undertaken on the HQ site. This arose due to the use of component accounting, under which the valuation of the site had previously been split, however, it appeared to us that the total value of the site as at 31 March 2012 might have been allocated to only one component, which resulted in a (potentially erroneous) upward revaluation.

The potential error was not material to the 2011/12 accounts and therefore we requested that the matter be followed up with the external valuer during 2012/13 and prior to the 31 March 2013 valuation taking place.

It was subsequently confirmed that the HQ site had not been appropriately split between components in 2011/12 and an adjustment was made of £655,000 during 2012/13 to correct the previously overstated value.

Misstatements and significant audit adjustments (PCC (and Group) and CC)

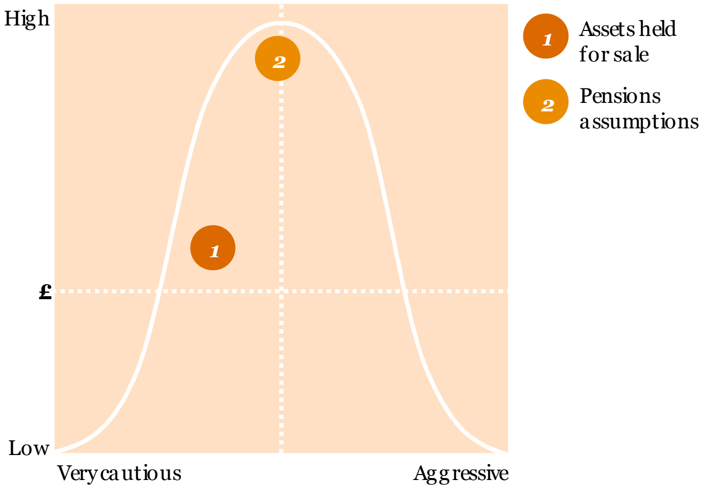
We have to tell you about all uncorrected misstatements we found during the audit, other than those which are trivial. We are pleased to say we have not found any uncorrected misstatements (or indeed corrected misstatements) above the agreed reporting levels of £200,000 for the CC or £250,000 for the PCC (and Group).

Significant accounting principles and policies (PCC (and Group) and CC)

Significant accounting principles and policies are disclosed in the notes to the Statements of Accounts for both the PCC (and Group) and the CC. We have noted that the policies of the PCC (and Group) and the CC are consistent. We will ask management to represent to us that the selection of, or changes in, significant accounting policies and practices that have, or could have, a material effect on the Statements of Accounts have been considered.

Judgments and accounting estimates (PCC (and Group))

We outline below a summary of our view of the key accounting judgments applied by management:



The following significant judgments or accounting estimates were used in the preparation of the Statement of Accounts

Treatment of assets held for sale (PCC (and Group))

There are a number of assets held for sale for which the circumstances of each needed to be assessed individually in order to ensure the correct accounting treatment in accordance with the Code:

1. It must be available for disposal in its current form, allowing for normal activities as part of the sale/vacation of a property.
2. The sale must be highly likely and an overt decision to dispose of the property must have been taken.
3. The property must be actively marketed at a price that is reasonable in relation to its current value.
4. The sale must be expected to be completed within one year of the date of classification.

The properties under consideration were:

- Hinckley
- Lutterworth
- Oakham

The finance team discussed the proposed treatment with PwC in advance of the year end and shared an update on each property at the clearance meeting in August 2013. Additional information was provided in the form of a paper which set out the conclusions reached and supporting evidence for Oakham. This was helpful to the audit process and once again the finance team is to be commended for its support in considering and documenting the conclusions for audit purposes at an early stage.

Disclosure of the assets and their treatment has been made in the Statement of Accounts and we have not identified any matters during our audit which we need to raise with you.

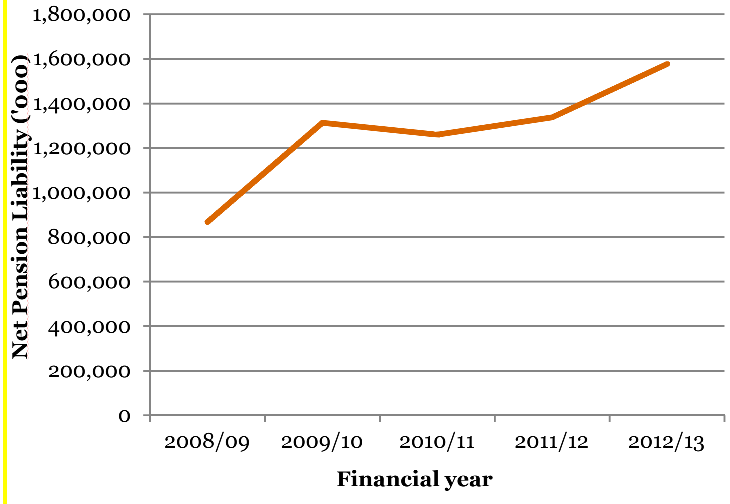
Pensions liability (PCC (and Group))

The most significant estimate in the Statement of Accounts is in the valuation of net pension liabilities for employees in the Leicestershire County Council Local Government Pension Scheme and the Police Pension Schemes. Your net pension liability at 31 March 2013 was £1,577 million
(2012 – £1,338 million).

The last formal valuation was undertaken in 2010 and the results have been projected forward to the date of valuation at 31 March 2013.

The chart below shows the significant movement in your net pension liability over the last few years.

Pension Liability between 2008/09 and 2012/13

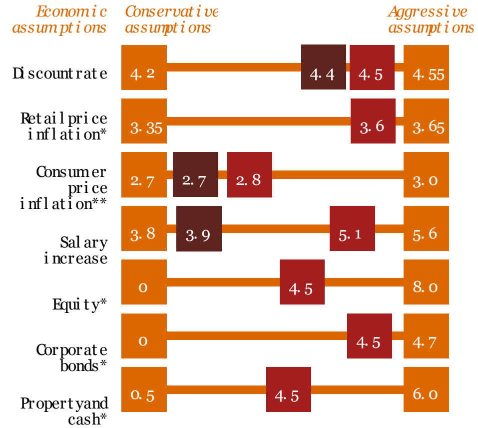


We reviewed the reasonableness of the assumptions underlying the pension liability, and we are comfortable that the assumptions are within an acceptable range. We validated the data supplied to the actuary on which to base their calculations.

Analysis of the assumptions being used by actuaries

LGPS – Hymans Robertson

Police schemes - Mercer



** These assumptions are not relevant for the Police Schemes*

*** 0.3% added to rate used as the actuary allows 0.2%-0.3% for an inflation risk premium.*

Changes to IAS 19: Employee Benefits

From 2013/14 there will be changes to the accounting for defined benefit schemes and termination benefits. For defined benefit schemes the net finance cost will be used. The net scheme liabilities/assets will be unwound using the discount rate for the pension liability and the costs of administering the scheme will be recognised directly in expenses.

The definition of termination benefits has changed and does not now include liabilities where there is a future service element. They do not include any 'voluntary' element.

The 2012/13 accounts need to include disclosure of standards issued but not adopted and estimates of their likely financial effect. As a result, estimates of the impact of IAS 19 (Revised) have been obtained from the actuary. The impact on the 2012/13 accounts is £592,000.

During our work we undertake a review of controls over key systems. Where significant weaknesses are noted we are required to report these. We may also choose to report other areas where there are opportunities for improvements to strengthen the systems in place.

Internal controls

Accounting systems and systems of internal control

Management are responsible for developing and implementing systems of internal financial control and putting in place proper arrangements to monitor their adequacy and effectiveness in practice. As auditors, we review these arrangements for the purposes of our audit of the Statement of Accounts and our review of the annual governance statement.

We have not identified any significant weaknesses in internal controls which require to be brought to your attention. However, we have discussed the following issue with management and wish to draw it to your attention also.

Journals work (PCC (and Group) and CC)

We have noted a change in the operation of the controls over journals and feel that this is a positive move worthy of comment.

Where all journals were previously processed manually and required a signature for authorisation, during 2012/13 the majority of journals now use the Codis system for authorisation. The system is semi-automated and enables a user to enter the journal on their system and for an email to be sent requesting authorisation from a short list of approved email addresses. Once authorised the finance team receives an email which enables the journal to be uploaded into the finance module.

We perceive the benefits of such a system to be:

- more efficient authorisation process;
- restrictions on authorisation via the email/delegation profiles; and
- reduction in the risk of error in entering the journal once authorised.

However, when undertaking our review of this area we identified a number of opportunities for future development and enhancement, which could/should be considered as they may provide opportunities for further strengthening of the controls already in place:

- manually authorised journals can still be entered into the system, which does still occur in some parts of the organisation, such as EMSOU
- once authorised, the journals are entered onto the system by one individual. We understand that this is due to IT issues with the system. Once the IT issues are resolved it is planned to make the software available to other authorised individuals to enable them to upload journals also.
- dates entered can be manually amended; this does not affect the period into which the journal is posted, as they can only be entered into the live period, and we understand is done for presentational purposes only; and
- IT superusers can enter journals without authorisation. Although as they are all within finance it is felt that the risk here is minimal.

We have undertaken specific testing in this area and can confirm that there are no matters of concern that we have noted during the year. Furthermore, a compensatory control exists where the Corporate Accountant, the Head of Finance and the Director of Finance all review the listing of journals posted during the month.

There are a number of 'other' matters which we are required to report to you in order to discharge our responsibilities. These include some key elements of the audit process:

- *Management representations*
- *Related parties*
- *Risk of fraud*
- *Going concern*

Other reporting matters (PCC (and Group) and CC)

Management representations

Separate representation letters will be requested for each 'corporation sole'. The final drafts of the representation letters that we will be asking the Chief Financial Officer (CFO) of the PCC and the Director of Finance of the CC to sign will be presented as a separate agenda item to the JARAP meeting on 24 September 2013.

We are aware that the Interim CFO for the PCC has recently left the organisation and the newly appointed CFO will not take up post until later in the calendar year, subject to completion of the usual security clearance checks. We have been informed that the Deputy CFO will undertake the Section 151 Officer's responsibilities and will sign the Statement of Accounts and Letter of Representation prior to the deadline for publishing of 30 September 2013. The Deputy CFO will need to ensure that he is able to discharge those responsibilities.

Related parties

We have undertaken relevant procedures to review the related parties of the PCC and CC and consider any transactions which have taken place during the year.

We have no matters to draw to your attention in this regard.

Risk of fraud

We discussed with you your understanding of the risk of fraud and corruption and any reported instances when presenting our Audit Plan.

In presenting this report to you we ask for your confirmation that there have been no changes to your view of fraud risk and that no additional matters have arisen that should be brought to our attention. A specific confirmation from management in relation to fraud is included in the letters of representation.

We have undertaken some unpredictable specific procedures during the audit process as follows:

Change to PCC contracts and bank accounts

No matters were noted in this area.

Supplier details changes

This test was performed given the prevalence of frauds in this area nationally. We reviewed the procedures in place within your organisations and considered if you were exposed to any risk in this area from the design of your controls.

We noted that a change has been made to strengthen the controls in place following a fraud alert which the Corporate Accountant received. Previously, the change to supplier bank details could be made based upon a request received on supplier's letterhead, however, an additional control has been introduced whereby the request should be confirmed using the stored telephone number.

We selected five changes to supplier bank details for testing. Those selected were not verified by telephone as they occurred prior to the change in the control being introduced. No issues were noted regarding the documentation which was held and the control was operating as expected.

As the additional telephone verification had not been sought in these cases, we suggested that this check be undertaken retrospectively to ensure that they were legitimate changes. For the 5 items in the sample follow up telephone calls to the suppliers have confirmed that these were legitimate changes.

Going concern

The PCC and CC have each undertaken a review of their respective going concern assumptions in the preparation of the accounts. We have undertaken a review of the draft papers provided. We understand that these papers will be presented to the JARAP meeting on 24 September 2013 for consideration.

We have no matters to report on the use of the going concern assumption for either the PCC or the CC at the time of writing this report. We will update our conclusions prior to signing the audit opinions as we consider any subsequent events.

Audit independence

We are required to follow both the International Standard on Auditing (UK and Ireland) 260 (Revised) "Communication with those charged with governance", UK Ethical Standard 1 (Revised) "Integrity, objectivity and independence" and UK Ethical Standard 5 (Revised) "Non-audit services provided to audited entities" issued by the UK Auditing Practices Board.

Together these require that we tell you at least annually about all relationships between PricewaterhouseCoopers LLP in the UK and other PricewaterhouseCoopers' firms and associated entities ("PwC") and the Group that, in our professional judgement, may reasonably be thought to bear on our independence and objectivity.

For the purposes of this report we have made enquiries of all PricewaterhouseCoopers' teams whose work we intend to use when forming our opinion on the truth and fairness of the Statements of Accounts.

Relationships between PwC and the Group

We are not aware of any relationships that, in our professional judgement, may reasonably be thought to bear on our independence and objectivity and which represent matters that have occurred during the financial year on which we are to report or up to the date of this document. We have reached this conclusion based upon consideration of the following:

Personal relationships

We have not identified any potential issues in respect of personal relationships with the Group held by individuals.

Employment of PricewaterhouseCoopers staff by the Group

We are not aware of any former PwC partners or staff being employed, or holding discussions in respect of employment, by the Group as a director or in a senior management position covering financial, accounting or control related areas.

Business relationships

We have not identified any business relationships between PwC and the Group.

Services provided to the Group

We have provided no services to the Group other than the external audits of PCC (and Group) and CC under the Audit Commission's Code of Audit Practice.

Fees

The analysis of our audit and non-audit fees for the year ended 31 March 2013 is included on page 21.

Services to Directors and Senior Management

PwC does not provide any services e.g. personal tax services, directly to any directors or senior management.

Our review of the Annual Governance Statements and Whole of Government Accounts work.

Rotation

It is the Audit Commission's policy that auditors at an audited body at which a full Code audit is required to be carried out should act for an initial period of five years. The Commission's view is that generally the range of regulatory safeguards it applies within its audit regime is sufficient to reduce any threats to independence that may otherwise arise at the end of this period to an acceptable level. Therefore, to safeguard audit quality, and in accordance with APB Ethical Standard 3, it will subsequently approve auditors for an additional period of up to no more than two years, provided that there are no considerations that compromise, or could be perceived to compromise, the auditor's independence or objectivity.

Gifts and hospitality

We have not identified any significant gifts or hospitality provided to, or received from, a member of the Group's senior officers, senior management or staff.

Conclusion

We hereby confirm that in our professional judgement, as at the date of this document:

- we comply with UK regulatory and professional requirements, including the Ethical Standards issued by the Auditing Practices Board; and
- our objectivity is not compromised.

We would ask the Joint Audit Risk and Assurance Panel to consider the matters in this document and to confirm that they agree with our conclusion on our independence and objectivity.

Annual Governance Statements

Police bodies are required to produce an Annual Governance Statement (AGS), which is consistent with guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Authority Chief Executives (SOLACE): "Delivering Good Governance in Local Government". A separate AGS has been included within each Statement of Accounts for the PCC (and Group) and the CC.

We reviewed the AGSs to consider whether they comply with the CIPFA/SOLACE "Delivering Good Governance in Local Government" framework and whether they are misleading or inconsistent with other information known to us from our audit work. We have found no areas of concern to report in this context.

Whole of Government Accounts (WGA)

As part of our work on the Statements of Accounts we have also examined the Whole of Government Accounts schedules submitted via the Data Collection Tool (DCT).

Guidance issued by the National Audit Office (NAO) states:

"Although Police and Crime Commissioners (PCCs) and Chief Constables (CCs) are separate reporting entities, it is only the group position that is being collected for WGA purposes consequently the PCC will complete a DCT on behalf of the group."

The NAO has updated its approach to the audit of WGA; the key change for 2012/13 is that the audit threshold for component auditors has been raised to ***£300 million*** (from £100 million in 2011/12). On this basis we have been required to undertake only specific procedures resulting in a shortform assurance report only.

The shortform report is expected to confirm that:

- pension liabilities disclosed in the consolidation pack are consistent with the audited statutory accounts; and
- property, plant and equipment (PPE) disclosures in the consolidation pack are consistent with the audited statutory accounts.

Overall there are clearly challenges ahead for the PCC and the Chief Constable in achieving Value for Money going forward.

Value for Money (PCC and CC)

Our value for money code responsibility requires us to carry out sufficient and relevant work in order to conclude on whether the PCC and CC have put in place proper arrangements to secure economy, efficiency and effectiveness in their use of resources.

The Audit Commission guidance includes two criteria for assessing whether organisations have proper arrangements to secure economy, efficiency and effectiveness in their use of resources as follows:

- the organisation has proper arrangements in place for securing financial resilience; and
- the organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

For police bodies outside London, for 2012/13, the Commission is continuing to disapply the specified value for money (VFM) conclusion criteria relating to financial resilience and prioritising resources. This is to enable auditors to focus on the key risks relating to the demise of police authorities and the transition to establishing Police and Crime Commissioners and Chief Constables as new corporate bodies.

We determined a local programme of audit work based on our audit risk assessment, informed by the guidance issued by the Audit Commission and our statutory responsibilities in relation to the local risks associated with abolition and transition. These risks did, however, include consideration of relevant aspects of the two specified VFM criteria, recognising that whilst police authorities have disappeared their functions have transferred to the new bodies.

Auditors will discharge their value for money duty for 2012/13 by:

- reviewing the police body's AGS (annual governance statement);
- reviewing the results of the work of the Commission and other relevant regulatory bodies or inspectorates, for example HMIC (Her Majesty's Inspectorate of Constabulary), to consider whether there is any impact on the auditor's responsibilities at the audited body; and
- undertaking local risk-based work, or any work mandated by the Commission.

We anticipate issuing unqualified value for money conclusions for both the PCC and the CC. The main findings from our work which underpin these conclusions are set out below.

The main findings from our value for money work that we wish to bring to your attention are:

- The Medium Term Financial Plan (MTFP) was updated in July 2013 to take account of the changes in the Comprehensive Spending Review (CSR) in 2013 and the impact of the Winsor Review and pensions' reforms. We have reviewed the assumptions included in the MTFP and these are in line with the expectations noted in the HMIC report "Policing in Austerity – Rising to the Challenge" and we have not identified any matters to report regarding its compilation.

- The MTFP covers the period to 2016/17 and demonstrates the scale of the financial challenge facing the PCC and CC as shown below:

	2013/14 £m	2014/15 £m	2015/16 £m	2016/17 £m
Budget Requirement	173.9	175.7	178.7	182.4
Estimated Funding[#]	173.5	169.6	165.7	161.8
Gross Funding Gap	**0.4**	**6.1**	**13.0**	**20.7**
Known Adjustments				
- Savings	(0.5)	(0.9)	(2.1)	(3.0)
- Pressures	-	0.1	0.1	2.1
- Home Office Funding Changes	-	(0.8)	(2.4)	0.1
Total	(0.5)	(1.7)	(4.4)	(0.8)
Use of Reserves / In Year Underspend	-	-	-	-
Residual Funding Gap	**(0.1)**	**4.4**	**8.6**	**19.9**

- In order to bridge the residual funding gap identified in the table above, the Change Team plans to identify recurrent savings equal to, or greater than, the residual funding gap in each of the years 2014/15, 2015/16 and 2016/17. The extent to which recurrent savings are identified reduces the funding gap shown in the table in subsequent years. If the recurrent savings are achieved in line with the phasing shown in the MTFP the cumulative savings requirement over the three year period 2014/15 to 2016/17 would be £19.9m.

- The Police and Crime Plan required that the Force should have in place a detailed savings plan for the MTFP period by 30 June 2013. This deadline was met. The Comprehensive Spending Review (CSR) impacted upon some of the assumptions in the MTFP and therefore an updated document was produced on 3 July 2013 to reflect the impact of the CSR.

- The Change Programme identifies options for cost reduction of £23m by 2016/17. Clearly a significant amount of work has gone into the development of the detailed plans in support of the savings required over the period of the MTFP. This is a significant development in the PCC's and CC's response to the financial challenge set out in the MTFP.

- A review of the costs against baseline for each of the collaborative arrangements shows that some forces are not making savings from their previous position, but across all of the collaborative arrangements, the overall cost of delivering the services through the arrangements in place across the regional forces in the collaboration is showing saving being delivered. For 2012/13 this totalled £9 million with a further £12 million anticipated for 2013/14. Leicestershire's share of the 12/13 savings is £1 million with a further £2 million expected in 2013/14 as new arrangements commence.

- We are aware from the audit work undertaken on Estates that there have been a number of disposals of police buildings over the past couple of years and an increase in the use of accommodation provided by other, particularly at a neighbourhood level. We have seen evidence that Leicestershire is aware of the impact of mobile working and the opportunities it affords for the future regarding the use of the estate, that the use of some buildings is not efficient and that you are acutely aware of the costs of the estates versus the services that are provided. It is possible that there are more opportunities in this area which could be explored further and this appears to be underway through your "An Estate for the Future Review".

- Overall crime rates have fallen compared to the previous year in most areas, but satisfaction levels have also dropped.

- There are a significant number of the target areas where performance has not reached the target, including user satisfaction. The Force should continue to pay particular attention to its operational performance during a period when performance may be expected to suffer as a result of cost reductions and the understandable focus upon the transition to PCC potentially distracting attention and effort from 'business as usual'.

- HMIC reviews that have taken place provide a useful comparison of the Force to others which are in its 'most similar group' and also nationally. The themes from the reviews indicate that forces should further consider opportunities for savings in the areas of:

  - estates;
  - technology;
  - collaboration (including private sector);
  - procurement; and
  - reducing sickness/absenteeism.

- HMIC also noted that there has been a considerable environment of change and this is expected to continue for the forseeable future. With this backdrop it is important to ensure that levels of morale are maintained in order to improve satisfaction levels. Leicestershire is monitoring the levels of sickness/absenteeism and should continue to focus upon this area given the national focus and the impact upon morale that could occur as a result of significant changes and pressures faced going forward.

Fees update

Fees update for 2012/13

We reported our fee proposals in our Audit Plan.

Our fees for the year are expected to be:

	2012/13 expected outturn PCC	2012/13 fee proposal PCC	2012/13 expected outturn CC	2012/13 fee proposal CC
Statement of Accounts (including Value for Money Conclusion and whole of government accounts)	48,000	48,000	20,000	20,000
Total scale fee (excluding work undertaken on EMSOU on behalf of other auditors)	**48,000**	**48,000**	**20,000**	**20,000**
Work undertaken on EMSOU on behalf of other auditors	0*	5,000	-	-
Total audit fee	**48,000**	**53,000**	**20,000**	**20,000**

Non - audit fees	**0**	**0**	**0**	**0**

*At the time of writing this report, we have not received any requests from other auditors regarding specific procedures on EMSOU.

Appendices

A summary of the audit reports issued during the year

Appendix 1: Audit reports issued in 2012/13

We have issued the following reports to the Audit Committee during 2012/13:

- 2012/13 Audit Plan – March 2013
- External Audit Progress Report – May 2013
- ISA 260 report to those charged with governance – September 2013.

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