

**POLICE & CRIME
COMMISSIONER FOR
LEICESTERSHIRE**

**JOINT AUDIT, RISK &
ASSURANCE PANEL**

PAPER MARKED

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Report of	HEAD OF INTERNAL AUDIT
Subject	ANNUAL AUDIT LETTER 2012/13
Date	TUESDAY 3 DECEMBER 2013 – 1.00 P.M.
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Purpose of Report

1. This report introduces the Annual Audit Letter 2012/13.

Recommendation

2. The Panel is recommended to discuss the contents of the report.

Background

3. The Annual Audit Letter summarises the results of the 2012/13 audit.
4. It is pleasing to note that no significant matters of concern were raised that subsequently remained unresolved. Indeed, there are many complimentary comments about the work undertaken by the Force Finance Department, which will be of assurance to the JARAP.

Implications

Financial :	No direct implications.
Legal :	It is a requirement of various statutes to have an effective audit function.
Equality Impact Assessment :	None undertaken at this time.
Risks and Impact :	No direct implications.
Link to Police and Crime Plan :	An effective audit function will assist in supporting the organisation to deliver its objectives through identifying sound systems of control.

List of Attachments / Appendices

Appendix 1: Annual Audit Letter – 2012/13 Audit

Background Papers

None.

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Leicestershire Police

Annual Audit Letter

2012/13

Government and
Public Sector

31 October 2013

Annual Audit Letter for the audits of the Police and
Crime Commissioner for Leicestershire and the Chief
Constable of Leicestershire

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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.

An audit 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.

Introduction

The purpose of this letter

This letter summarises the results of our 2012/13 audits of the Police and Crime Commissioner for Leicestershire (PCC) and the Chief Constable of Leicestershire (CC). Where relevant we have indicated in the section headings throughout this Audit Letter whether the issues being reported upon relate to the PCC (and Group) and/or the CC.

We have already reported the detailed findings from our audit work to the Joint Audit, Risk and Assurance Panel in the following reports:

- 2012/13 External Audit Plan;
- External Audit Progress Report;
- Report on the results of our audits of the 2012/13 financial statements of the PCC, the CC and the Group, which consolidates the PCC and CC accounts, issued under the requirements of the International Standard on Auditing (ISA) (UK and Ireland) 260 (ISA (UK&I) 260); and
- a letter to the Chairman of the Joint Audit, Risk and Assurance Panel dated 11 October 2013 setting out how the outstanding matters referred to in the ISA (UK&I) 260 report that was presented to the Joint Audit, Risk and Assurance Panel meeting on 24 September 2013 were resolved before we signed the audit opinions on 26 September 2013 for the CC and on 30 September 2013 for the PCC (and Group).

Any work undertaken since the September 2013 meeting of the Joint Audit, Risk and Assurance Panel is reported in this Audit Letter.

We have set out in the rest of this Audit Letter what we consider to be the most significant matters arising from our audits of the PCC and CC.

Scope of work

The PCC and CC are responsible for preparing and publishing their respective Statement of Accounts, accompanied by the respective Annual Governance Statement. They are also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in their respective use of resources.

Our 2012/13 audit work has been undertaken in accordance with the Audit Plan that we agreed in March 2013 and has been 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.

How we met our audit responsibilities

We met our responsibilities as follows:

Audit Responsibility	Results
<p>▶ Perform an audit of the accounts in accordance with the Auditing Practice Board's International Standards on Auditing (ISAs (UK&I)).</p>	<p>We reported our findings to the Joint Audit, Risk and Assurance Panel Committee at its meeting on 24 September 2013 in our 2012/13 Report to those charged with governance (ISA (UK&I) 260).</p> <p>We issued unqualified audit opinions on the accounts of the CC and the PCC (and Group) on 26 September 2013 and 30 September 2013 respectively.</p>
<p>▶ Report to the National Audit Office on the accuracy of the consolidation pack that Leicestershire Police is required to prepare for the Whole of Government Accounts.</p>	<p>We reported our findings to the National Audit Office on 30 September 2013. We were only required to issue a 'Shortform' Assurance Report as the PCC's accounts fell below the audit threshold above which we would have been required to conduct full procedures on the return.</p> <p>We had no issues to report.</p>

Audit Responsibility

Results

▶ Form a conclusion on the arrangements the PCC and CC have made for securing economy, efficiency and effectiveness in their use of resources.

We reported our findings to the Joint Audit, Risk and Assurance Panel Committee at its meeting on 24 September 2013 in our 2012/13 Report to those charged with governance (ISA (UK&I) 260).

We issued unqualified conclusions on the arrangements for securing economy, efficiency and effectiveness of the CC and the PCC in their respective use of resources on 26 September 2013 and 30 September 2013 respectively.

▶ Consider the completeness of disclosures in the PCC's and CC's respective Annual Governance Statements, identify any inconsistencies with the other information of which we are aware from our work and consider whether they comply with CIPFA / SOLACE guidance.

There were no issues to report in this regard.

**Audit
Responsibility**

Results

<i>Consider whether, in the public interest, we should make a report on any matter coming to our notice in the course of the audit.</i>	▶	There were no issues to report in this regard.
<i>Determine whether any other action should be taken in relation to our responsibilities under the Audit Commission Act.</i>	▶	There were no issues to report in this regard.
<i>Issue 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.</i>	▶	We issued our completion certificates on the audits of the CC and the PCC on 26 September 2013 and 30 September 2013 respectively.

We issued unqualified audit opinions on the accounts of the PCC (and Group) and the CC.

We also issued unqualified value for money conclusions on the PCC's and CC's arrangements for securing economy, efficiency and effectiveness in their respective use of resources.

Audit Findings

Accounts

We audited the accounts in line with approved Auditing Standards and **issued unqualified audit opinions on the accounts of the CC and the PCC (and Group) on 26 September 2013 and 30 September 2013 respectively.**

We reported on the following issues arising from our audits of the accounts of the CC and the PCC (and Group) in our Report on the results of our audits of the 2012/13 accounts issued under the requirements of the International Standard on Auditing (ISA) (UK and Ireland) 260 (ISA (UK&I) 260).

Accounts production

We were 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.

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

Significant 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 was proactive in discussing with us proposals for the accounting treatment to be adopted for the accounts of the PCC (and Group) and the CC. This enabled us to consider the proposed approach and discuss and agree the accounting treatment to be adopted for the 2012/13 financial statements at the earliest possible opportunity.

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

We were pleased to report that our work did not identify any uncorrected or corrected misstatements above the agreed reporting levels of £200,000 for the CC or £250,000 for the PCC (and Group).

Financial standing/Going concern

The PCC and CC had each undertaken a review of their respective going concern assumptions in the preparation of their respective accounts.

We concluded that, in overall terms, both the PCC and CC had sufficient resources available to meet their respective commitments for at least a 12 month period after the date of our audit opinions. We therefore concluded that the use of the going concern assumption was appropriate in the preparation and presentation of both sets of financial statements.

Electors' questions and objections

We did not receive any electors' questions or objections regarding the 2012/13 financial statements of the PCC (and Group) or the CC.

Use of Resources/Value for Money

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

The Audit Commission guidance included 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.

However, for police bodies outside London, for 2012/13, the Audit Commission disappplied the specified value for money (VFM) conclusion criteria relating to financial resilience and prioritising resources. This was 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 no longer existed their functions had transferred to the new bodies.

Auditors of police bodies were required to 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 was 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 issued unqualified conclusions on the arrangements for securing economy, efficiency and effectiveness of the CC and the PCC in their respective use of resources on 26 September 2013 and 30 September 2013 respectively.

The main findings from our value for money work that supported our overall conclusions and 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 reviewed the assumptions included in the MTFP and these were in line with the expectations noted in the HMIC report "Policing in Austerity – Rising to the Challenge" and we did not identify 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. In order to bridge the residual funding gap identified in the MTFP, 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 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 £19.9 million.
- 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 £23 million by 2016/17. 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 of the collaborative arrangements in place showed that whilst some forces were not making savings as planned, the overall cost of delivering the services through the regional forces in the collaboration was showing savings 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 was £1 million with a further £2 million expected in 2013/14 as new arrangements commence.

- We were aware from the audit work undertaken on Estates that there had 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 parties, particularly at a neighbourhood level. We saw 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 had fallen compared to the previous year in most areas, but satisfaction levels had also dropped.
- There were a significant number of target areas where performance had not reached the target, including user satisfaction. We noted that 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 had taken place provided a useful comparison of the Force to others that are in its ‘most similar group’ and also nationally. The themes from the reviews indicated that forces should further consider opportunities for savings in the areas of; estates, technology, collaboration, procurement and reducing sickness/absenteeism.

- HMIC also noted that there had been a considerable environment of change and this was expected to continue for the foreseeable future. With this backdrop it is important to ensure that levels of morale are maintained in order to improve satisfaction levels. Leicestershire was already 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.

Annual Governance Statement

Local authorities 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”. The AGS is included with the Statement of Accounts.

We reviewed the AGS to consider whether it complied with the CIPFA/SOLACE guidance and whether it might be misleading or inconsistent with other information known to us from our audit work. **We found no areas of concern to report in this context.**

Whole of Government Accounts

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

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

“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 updated its approach to the audit of WGA for 2012/13; the key change being that the audit threshold for component auditors was raised to £300 million (from £100 million in 2011/12). On this basis we were required to undertake only specific procedures resulting in the issue of a 'Shortform' Assurance Report.

We issued our Shortform Assurance Report on 30 September 2013 confirming that:

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

Summary of Recommendations

Our audit identified no significant matters that we wish to bring to your attention in this Audit Letter.

We have reported upon a number of recommendations that we have made throughout the year to the Joint Audit, Risk and Assurance Panel within our External Audit Progress Report and our Report to those charged with Governance (ISA (UK&I) 260). Progress in implementing agreed actions in response to any recommendations made will be reported to, and monitored by, the Joint Audit, Risk and Assurance Panel.

Final Fees

Final Fees for 2012/13

We reported our fee proposals in our 2012/13 Audit Plan. Our final fees were actually less than our original proposals for the reasons explained in the table below:

	2012/13 outturn PCC	2012/13 outturn CC	2012/13 plan PCC	2012/13 plan CC
Audit work performed under the Code of Audit Practice	48,000	20,000	48,000	20,000
- Statement of Accounts				
- Conclusion on the use of resources				
- Whole of Government Accounts				
Work on EMSOU on behalf of other auditors	0*	0	5,000*	0
Non Audit Work	0	0	0	0
TOTAL	48,000	20,000	53,000	20,000

*We did not receive the anticipated requests from other auditors regarding specific procedures on the East Midlands Special Operations Unit (EMSOU) and therefore this work was not required.

For comparison purposes we have shown in the table below the 2011/12 outturn for the former Leicestershire Police Authority:

	2011/12 outturn
Audit work performed under the Code of Audit Practice	74,152
- Statement of Accounts	
- Conclusion on the arrangements to secure economy, efficiency and effectiveness in the use of resources	
- Whole of Government Accounts	
Work undertaken on EMSOU on behalf of other auditors	7,500
Non Audit Work	0
TOTAL	81,652



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