

**POLICE & CRIME  
COMMISSIONER FOR  
LEICESTERSHIRE**

**JOINT AUDIT, RISK &  
ASSURANCE PANEL**

PAPER MARKED

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Report of           **OFFICE OF THE POLICE AND CRIME COMMISSIONER AND  
OFFICE OF CHIEF CONSTABLE**

Subject             **EXTERNAL AUDIT PROGRESS REPORT**

Date                **TUESDAY 3 DECEMBER 2013 – 1.00 P.M.**

Author :           **MR M JONES, PRICEWATERHOUSECOOPERS**

**Purpose of Report**

1. This report provides an update of work completed to date against the external audit plan for 2013/14.

**Recommendation**

2. The Panel is recommended to discuss progress on the External Audit Plan 2013/14.

**External Audit Plan**

3. At each meeting of the Panel the external auditor presents a progress report. A representative of the external auditor, PricewaterhouseCoopers, will introduce the attached paper.

**Implications**

Financial :                            Audit fees are contained within the budget

Legal :                                 Effective audit is a statutory requirement

Equality Impact Assessment :    None.

Risks and Impact :                 Effective audit will identify risks and impact; not having such audit may allow risks to the financial probity of the organisation to go undetected

Link to Police and Crime Plan :   None direct

**List of Attachments / Appendices**

Appendix 1: PWC External Audit Progress Report 2013/14

**Background Papers**

None

**Person to Contact**

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*Police and Crime  
Commissioner for  
Leicestershire and  
Chief Constable of  
Leicestershire Police  
External audit progress report*

*Joint Audit, Risk and  
Assurance Panel*

*Report date:  
21 November 2013*

*Meeting date:  
2 December 2013*

## ***Introduction***

In this report we provide JARAP with an update on external audit activity since the last meeting on 24 September 2013, including the completion of the 2012/13 audit and planning for the 2013/14 audit.

### ***Key points to be raised with JARAP***

We discussed the issues contained in our Audit Plan with JARAP at the meeting in March 2013, and provided updates on our work at JARAP's meetings in May and June 2013. This culminated in the presentation of our ISA 260 report to the JARAP meeting on 24 September 2013 on the results of our audit of the financial statements and our use of resources conclusion.

The following sections to this report highlight activity undertaken by external audit since the last JARAP meeting. In particular, we report on:

- how we concluded on the small number of issues that were reported as outstanding in our ISA 260 Report;
- our 2012/13 Audit Letter, which summarises our work on the 2012/13 audits of the PCC and CC;
- our 2013/14 planning letters, which included indicative audit fees for the audits of the PCC and CC;
- plans for presenting our 2013/14 Audit Plan to JARAP; and
- details of some proposed non-audit work that we have been asked to undertake for the PCC/CC.

## 2012/13 audit

### ISA 260 update

We presented our report on the audit under the requirements of the International Standard on Auditing (ISA) 260 to you at your meeting on 24 September 2013. This highlighted that we were planning to issue unqualified audit opinions on the financial statements of the PCC (and Group) and CC and unqualified use of resources (value for money) conclusions for both the PCC and CC, subject to the resolution of a small number of matters. We provided an update against these matters in a letter to the Chairman of JARAP dated 11 October 2013. The key elements of that letter are also summarised below:

Matter outstanding	Resolution	
	PCC	CC
Receipt of outstanding bank and investment confirmations.	Outstanding bank and investment confirmations received. No audit issues arising.	
Completion of our checks on the final, post audit sets of accounts.	All required review procedures and checks on the final financial statements were completed without any further audit issues being noted.	
Whether we receive any electors' questions or objections relating to the 2012/13 financial statements.	No electors' questions or objections received as at date of giving our audit opinion on 30 September 2013.	No electors' questions or objections received as at date of giving our audit opinion on 26 September 2013.
Final completion procedures, including subsequent events.	All final completion procedures were completed without any further audit issues being noted.	
Receipt of approved Statements of Accounts and letters of representation.	All relevant documents were received on 30 September 2013 prior to signing our opinion later that day.	All relevant documents were received on 24 September 2013 prior to signing our opinion on 26 September 2013.

### 2012/13 Audit Letter

Our 2012/13 Audit Letter, which summarises our work on the 2012/13 audits of both the PCC and CC, is included as a separate item on the agenda for the JARAP meeting on 3 December 2013.

## 2013/14 audit

### 2013/14 planning letters

We issued our 2013/14 planning letters, which set out our 2013/14 indicative audit fees, to the PCC and CC in April 2013. An update to our planned fees for 2013/14 will be included in our Audit Plan (see below).

### 2013/14 Audit Plan

Since the completion of the 2012/13 audit, we have begun our planning for the 2013/14 audits of the PCC and CC. We will be bringing our detailed Audit Plan to the next meeting of JARAP, for your consideration and approval. As was the case for the 2012/13 audits, we propose issuing a joint Audit Plan that will include an outline of our approach to the audits of the financial statements of the PCC (and Group) and CC and to our conclusion on the PCC's and CC's respective use of resources, together with our assessment of the relevant audit risks.

### Non-audit work

Leicestershire Police has approached PwC to work with it to critically examine options to remove circa £25m of operating budget expenditure by 2015/16 because of PwC's track record of successfully completing similar assignments with Greater Manchester Police, West Midlands Police and with the National Policing Counter Terrorism Network.

The proposed scope of the assignment will involve:

- creating a costed baseline of the services delivered by Leicestershire Police;
- identifying how changes in external demands on Leicestershire Police will impact on the volume of the services that will need to be delivered and the costs associated with those changes;
- identifying potential efficiencies in how services are delivered and the potential cost savings that could be generated by them;
- creating costed options to reduce the levels of services provided by the Force, articulating the risks associated with any reduction in service levels and the resulting cost savings that can be realised; and
- supporting the Chief Constable's Command Team by presenting service level options in a way that will allow them to prioritise their spending.

The fact that PricewaterhouseCoopers is the appointed auditor for both the PCC and CC means that we can only undertake the work if we have satisfied ourselves that the work does not impact on our independence. The scale of the proposed work, with fees estimated to be in excess of £200,000, means that we also have to demonstrate to the Audit Commission that the work does not impact on our independence.

In accordance with the Audit Commission's Standing Guidance for auditors, we have written to the Audit Commission setting out the reasons why we are satisfied that this work will not impair our independence as the appointed auditor to the PCC and CC. We have considered each of the six potential threats to our independence as set out in General Principles: paragraphs 3.21 to 3.30 of the Standing Guidance as well as considering our profession's ethical standards. Our detailed analysis of the threats and safeguards to our independence are included as an appendix to this progress report.

At the date of this progress report the position is that having considered our request the Audit Commission has raised a number of comments and queries with us which we are currently in the process of responding to.

## APPENDIX

### NON-AUDIT WORK: ASSESSMENT OF THREATS AND SAFEGUARDS TO AUDITOR INDEPENDENCE

Threat	Safeguard
Self interest	<p>The fees that will be charged are significantly in excess of the Audit Commission’s de minimis reporting threshold and more than 50% of the external audit fees for 2013/14. However, we do not consider that the size of the fees, in themselves, will undermine our audit objectivity or independence as neither the audit engagement leader nor any of the audit team will be involved in the work. In addition, the estimated fees are not sufficiently large, in the context of the overall fee income of either PwC or the relevant assignment engagement leader, to affect his behaviour in completing the assignment such that our independence, objectivity or judgement would be impaired. Fees will be based on time spent on the assignment and are not contingent.</p> <p><b>We are therefore satisfied that there is no risk of self interest in relation to this work.</b></p>
Self-review	<p>Our audit reports on the statements of accounts of the PCC and CC require us to express an opinion on whether the accounts have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom supported by the Service Reporting Code of Practice for the year of account subject to audit. The work for 2013/14 and thereafter is not expected to be dependent in any way on the work outlined in the scope of the proposed work.</p> <p>In relation to the Value for Money responsibilities under the Code of Audit Practice, we need to consider whether the advisory work would have a bearing on our conclusions concerning the Audit Commission’s two criteria for assessment of the PCC’s and CC’s Value for Money. To achieve this we have considered the 2013/14 guidance for auditors on reaching their VFM conclusions at police bodies; in particular we have considered the characteristics of proper arrangements for securing financial resilience and securing economy, efficiency and effectiveness set out in that guidance. We do not believe that our ability to independently assess the arrangements for securing financial resilience and economy, efficiency, and effectiveness criteria in the way currently envisaged within that guidance will be affected by PwC carrying out this work; however, naturally it will be taken into consideration that the purpose of this work is to support Leicestershire Police to identify savings that will help ensure its continued financial viability and to obtain value for money.</p> <p>There are adequate and effective ethical walls between the audit team and the team conducting the advisory work that is to be commissioned by Leicestershire Police. Neither the audit engagement leader, nor any member of the audit engagement team, are to be involved in the advisory work. Furthermore, the separate audit and advisory teams have different reporting lines within PwC.</p> <p><b>We are therefore satisfied that there is not a risk of self-review in relation to this work.</b></p>
Management	<p>In delivering the work, PwC will not participate in the management or decision making processes of Leicestershire Police. We will ensure that the client staff involved in the assignment are appropriately experienced, such that they can and will make decisions, and they will not seek such decisions from PwC. Furthermore, we will make it clear in writing that Leicestershire Police recognises its full responsibility for the data that it provides and any decision which is made based on the work undertaken and facilitated by PwC, and that it is Leicestershire Police’s duty to bring its own judgements to bear and to consider all related matters before reaching any management decision in respect of its services.</p> <p>The engagement letter will emphasise that our findings are not the only factor that Leicestershire Police should take into account when deciding whether or not to proceed with a course of action and it is their decision alone as to whether or not to proceed. PwC will not be responsible for making any decisions in relation to this assignment.</p>

Threat	Safeguard
	<p><b>We are therefore satisfied that there is not a risk of PwC acting in a management capacity in relation to this assignment.</b></p>
Advocacy	<p><b>This assignment will not involve any advocacy role.</b></p>
Familiarity	<p>Neither the audit engagement leader, nor any member of the audit team, are to be involved in the advisory work. We do not therefore believe that the advisory work impacts upon our ability to be objective, as the appointed auditor, and sceptical within our role.</p> <p><b>We are therefore satisfied that there is no familiarity risk in relation to this work.</b></p>
Intimidation	<p>Based on the scope of our proposed work and our knowledge of Leicestershire Police we do not believe an intimidation threat exists and therefore it will not influence our conduct.</p> <p><b>We are therefore satisfied there is not an intimidation risk in relation to this work.</b></p>



*In March 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 and on the Audit Commission's website. 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 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.*

*In the event that, pursuant to a request which the Police and Crime Commissioner for Leicestershire and/or the Chief Constable of Leicestershire Police have received under the Freedom of Information Act 2000, they are required to disclose any information contained in this report, they will notify PwC promptly and consult with PwC prior to disclosing such report. The Police and Crime Commissioner for Leicestershire and the Chief Constable of Leicestershire Police agree to pay due regard to any representations which PwC may make in connection with such disclosure and the Police and Crime Commissioner for Leicestershire and the Chief Constable of Leicestershire Police shall apply any relevant exemptions which may exist under the Act to such report. If, following consultation with PwC, the Police and Crime Commissioner for Leicestershire and/or the Chief Constable of Leicestershire Police disclose this report or any part thereof, they shall ensure that any disclaimer which PwC has included or may subsequently wish to include in the information is reproduced in full in any copies disclosed.*

This report has been prepared for and only for the Police and Crime Commissioner for Leicestershire and the Chief Constable of Leicestershire Police in accordance with the Statement of Responsibilities of Auditors and of Audited Bodies (Local Government) published by the Audit Commission in March 2010 and for no other purpose. We do not accept or assume any liability or duty of care for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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