

**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 28 JANUARY 2014 – 1.00 P.M.**

Author :           **MR M JONES, PRICEWATERHOUSECOOPERS**

**Purpose of Report**

1. This report provides an update of activity undertaken by external audit since the last JARAP meeting in particular, progress with planning for the 2013/14 audit including discussion on audit risks and an update of the proposed non-audit work discussed at the last JARAP meeting.

**Recommendation**

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

**Progress Report**

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 dated 16 January 2014.

**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:  
16 January 2014*

*Meeting date:  
28 January 2014*

## ***Introduction***

In this report we provide JARAP with an update on external audit activity since the last meeting on 2 December 2013, which includes planning for the 2013/14 audit and an update on non-audit work.

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

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

- progress with planning for the 2013/14 audit, including a discussion on audit risks; and
- an update on the proposed non-audit work that we discussed at the last JARAP meeting.

## **2013/14 audit**

### **2013/14 audit planning**

Following the completion of the 2012/13 audit, we began our planning for the 2013/14 audits of the PCC and CC. We had hoped to bring our detailed Audit Plan to this meeting of JARAP, but unfortunately this has not been possible, in part because of the time it has taken for the Audit Commission to consider and conclude on the request to undertake non-audit work, which is considered further below. However, now that this issue has been concluded, we expect to issue a draft 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, for your consideration and approval, in the near future.

### **Audit risks for the 2013/14 audit**

Our audit is risk based, which means that we focus on the areas that matter. As always, our assessment of the relevant audit risks is central to the development of the Audit Plan. Whilst we have not been able to share the detailed Audit Plan with you at this meeting, we have set out in the Appendix to this progress report our current thinking on the relevant audit risks to be included in the Audit Plan, on which it would be good to get JARAP's initial thoughts and comments.

### **Non-audit work**

As we reported in our last progress report to JARAP, Leicestershire Police had 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 fact that PricewaterhouseCoopers is the appointed auditor for both the PCC and CC means that we can only undertake non-audit work if we can satisfy ourselves that the work would not impact on our independence. The scale of the proposed work, with fees estimated to be in excess of £200,000, meant that we would also have to demonstrate to the satisfaction of the Audit Commission that the work would not impact on our independence.

In accordance with the Audit Commission's Standing Guidance for auditors, we reported to you that we had written to the Audit Commission setting out the reasons why we were satisfied that this work would not impair our independence as the appointed auditor to the PCC and CC. We 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 was included as an appendix to our last progress report.

At the date of our last progress report the position was that, having considered our initial request, the Audit Commission had raised a number of comments and queries with us which we were in the process of responding to. Following further exchanges of correspondence, the Audit Commission has this week rejected our request. The Audit Commission's latest correspondence included the following:

*“.....We cannot see how you can plan the required work to reach a VFM conclusion, which, inter alia, requires you to assess the organisations' arrangements for securing financial resilience without considering the proposed additional work which addresses the lack of capacity to deliver the scale of spending reductions required, particularly in light of the HMIC assessment of the significant difficulty of the task.*”

*We also note that your firms' previous experience of carrying out the proposed work is with bodies where the firm is not the appointed auditor and where the conflicts of interest, and so the need to manage them, did not arise.*

We are therefore not minded to approve your request given the risks that carrying out this work in the way described in your proposal would raise, including that the firm would not then be able to continue with the audit. In that circumstance, the Commission would need to replace the firm as appointed auditor.

We acknowledge that this view is not what the firm may have hoped for but it is important for the Commission to maintain the independence of its auditors.....”

Given the Audit Commission’s comments above, we have decided not to pursue this request further. As you know, without the Audit Commission’s approval we will not be able to support Leicestershire Police on this assignment.

## APPENDIX – AUDIT RISKS

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:

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- **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.

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  - **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.
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Risk	Categorisation	Audit approach
<p><b>Management override of controls</b></p> <p>ISA (UK&amp;I) 240 requires that we plan our audit work to consider the risk of fraud, which is presumed to be a significant risk in any audit. In every organisation, management may be in a position to override the routine day to day financial controls. Accordingly, for all of our audits, we consider this risk and adapt our audit procedures accordingly.</p>	<p>Financial statements/Significant</p> <ul style="list-style-type: none"> <li>●</li> </ul>	<p>As part of our assessment of your control environment we will consider those areas where management could use discretion outside of the financial controls in place to misstate the financial statements.</p> <p>We will perform procedures to:</p> <ul style="list-style-type: none"> <li>- review the appropriateness of accounting policies and estimation bases, focusing on any changes not driven by amendments to reporting standards;</li> <li>- test the appropriateness of journal entries and other year-end adjustments, targeting higher risk items such as those that affect the reported year-end position;</li> <li>- review accounting estimates for bias and evaluate whether judgment and estimates used are reasonable (for example pension scheme assumptions, valuation and impairment assumptions);</li> <li>- evaluate the business rationale underlying significant transactions outside the normal course of business; and</li> <li>- perform unpredictable procedures.</li> </ul> <p>We may perform other audit procedures if necessary.</p>

<p><b>Risk of fraud in revenue and expenditure recognition</b></p> <p>Under ISA (UK&amp;I) 240 there is a presumption that there are risks of fraud in revenue recognition.</p> <p>We extend this presumption to the recognition of expenditure in local government. This is because the opportunities to perpetrate fraud, which the ISA considers are usually present in relation to revenue, are more likely to present themselves through manipulation of expenditure in the public sector. Accounting policies or the treatment of income and expenditure may lead to material misstatements in the reported revenue position.</p>	<p>Financial Statements/Significant</p> <p>●</p>	<p>We will obtain an understanding of revenue and expenditure controls.</p> <p>We will evaluate and test the accounting policies for income and expenditure recognition to ensure that they are consistent with the requirements of the Code of Practice on Local Authority Accounting.</p> <p>We will also perform detailed testing of revenue and expenditure transactions, focussing on the areas we consider to be of greatest risk. In particular, we will examine the existence and completeness of amounts recognised to ensure the accounts are fairly stated.</p>
<p><b>Stage 1 and Stage 2 transfers</b></p> <p>New accounting arrangements, including the production of single entity and group financial statements, were implemented in 2012/13. The single entity financial statements are driven by the governance arrangements established within individual policing areas (reflecting the relative roles and responsibilities of the PCC and the CC).</p> <p>Confirmation has been received from the Home Office that the Stage 2 transfers will take place on 1 April 2014. The impact of the transfer will need to be considered when producing the 2013/14 financial statements.</p>	<p>Financial statements/Other</p> <p>●</p>	<p><b>Stage 1 Transfer</b></p> <p>The Audit Commission is currently undertaking a review of the varying accounting treatments adopted nationally in 2012/13 and further guidance may be issued as a result, which could impact the accounting requirements with respect to the 2013/14 financial statements.</p> <p><b>Stage 2 Transfer</b></p> <p>There will need to be a robust assessment of the possible impact on the 2013/14 financial statements following confirmation from the Home Office for Stage 2 transfers to take place on 1 April 2014.</p>



<p><b>Going Concern / Financial Climate: Short / Medium Term Financial Strategy and Financial Standing</b></p> <p>During 2011/12 and 2012/13 you continued to deliver significant savings. However, significant challenges continue around reducing costs over the next few years. The scale of the challenge within Leicestershire Police is to remove circa £25m of operating budget expenditure by 2015/16.</p>	<p>Use of resources (value for money)/Other ●</p>	<p>For 2013/14, the auditors of PCCs and CCs are required to give their statutory conclusion on arrangements to secure VFM based on the following two criteria specified by the Commission:</p> <ul style="list-style-type: none"> <li>• The organisation has proper arrangements in place for securing financial resilience.</li> <li>• The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.</li> </ul> <p>The Audit Commission has produced new guidance for auditors on applying the criteria specified by the Commission for the auditor's conclusion on arrangements to secure VFM. The guidance includes examples of the characteristics of proper arrangements police bodies might have in place to secure financial resilience and challenge their arrangements for securing economy, efficiency and effectiveness. The guidance applies to both PCCs and chief constables and is available on the Audit Commission's website.</p>
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*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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