

*Office of the Police and  
Crime Commissioner for  
Leicestershire and Office  
of the Chief Constable for  
Leicestershire*

*Annual Audit Letter*

2014/15

Government and  
Public Sector

October 2015

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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 management 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. Our audit does not ordinarily identify all such matters.

# Introduction

## The purpose of this letter

This letter summarises the results of our 2014/15 audit work for the Group (Police and Crime Commissioner for Leicestershire and Chief Constable of Leicestershire).

We have already reported the detailed findings from our audit work to JARAP in the following reports:

- External audit annual plan;
- Progress report;
- Audit opinion for the 2014/15 financial statements, incorporating conclusion on the proper arrangements to secure economy, efficiency and effectiveness in its use of resources; and
- Report to those charged with Governance (ISA (UK&I) 260).

The matters reported here are the most significant for the Group (Police and Crime Commissioner for Leicestershire and Chief Constable of Leicestershire).

## Scope of Work

The Group is responsible for preparing and publishing its Statement of Accounts, accompanied by the Annual Governance Statement. It is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Our 2014/15 audit work has been undertaken in accordance with the Audit Plan that we issued on February 2015 and is 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.

We met our responsibilities as follows:

Audit Responsibility	Results
<p><i>Perform an audit of the accounts in accordance with the Auditing Practice Board's International Standards on Auditing (ISAs (UK&amp;I)).</i></p>	<p>We reported our findings to the JARAP at its meeting on 22 September 2015 in our 2014/15 <i>Report to those charged with governance (ISA (UK&amp;I) 260)</i>.</p> <p><b>On 30 September 2015 we issued an unqualified audit opinion.</b></p>
<p><i>Report to the National Audit Office on the accuracy of the consolidation pack the Authority is required to prepare for the Whole of Government Accounts.</i></p>	<p>We reported our findings to the National Audit Office on 30 September 2015.</p> <p>We were required to issue an assurance statement to confirm your financial statements were below the audit threshold (£350million) above which we would be required to conduct full procedures on the return.</p> <p><b>We had no issues to report.</b></p>

Audit Responsibility	Results	Audit Responsibility	Results
<p>Form a conclusion on the arrangements the Authority has made for securing economy, efficiency and effectiveness in its use of resources.</p>	<p>We reported our findings to JARAP at its meeting on 22 September 2015 in our 2013/14 Report to those charged with governance (ISA (UK&amp;I) 260).</p> <p><b>On 30 September 2015 we issued an unqualified audit opinion</b></p>	<p>Consider whether, in the public interest, we should make a report on any matter coming to our notice in the course of the audit.</p>	<p><b>There were no issues to report in this regard.</b></p>
<p>Consider the completeness of disclosures in the Authority's annual governance statement, identify any inconsistencies with the other information of which we are aware from our work and consider whether it complies with CIPFA / SOLACE guidance.</p>	<p>We reported our findings to JARAP at its meeting on 22 September 2015 in our 2014/15 Report to those charged with governance (ISA (UK&amp;I) 260).</p> <p><b>There were no issues to report in this regard.</b></p>	<p>Determine whether any other action should be taken in relation to our responsibilities under the Audit Commission Act.</p>	<p><b>There were no issues to report in this regard.</b></p>

**Audit  
Responsibility**

**Results**

*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.*



**We issued our audit completion certificate on 30 September 2015**

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# Audit Findings

## Accounts

We audited the accounts in line with approved Auditing Standards and **issued an unqualified audit opinion on 30 September 2015.**

We noted issues arising from our audit within our Report to Those Charged with Governance (ISA (UK&I) 260). This report was presented to JARAP on 22 September 2015. We wish to draw the following points, included in that report, to your attention in this letter.

## Valuation of Property, Plant and Equipment

The accounts include property, plant and equipment with a net book value of £60.5 million, largely made up of land and buildings (£53.4 million). The total value of your land and buildings has increased slightly from £48.76 million in the prior year.

You have to keep the values of your own land and buildings up to date. The Police's accounting policy is to include land and buildings in the balance sheet at open market value for existing use or at depreciated replacement cost for specialised assets where there is no active market. You performed a revaluation of land and buildings at the balance sheet date. The work was completed by an external valuation team.

We engaged an internal PwC valuation specialist to review the work of your valuation expert. We considered the applicable professional requirements and industry standard indices used to revalue specialised assets, and the steps taken by the organisation to account for the full impact of these across all assets. We also challenged the assumptions you made in valuing your assets.

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**We identified no issues to report as a result of this work.**

## Pensions Liability

The most significant estimate in the accounts is in the valuation of net pension liabilities for employees in the Local Government Pension Scheme and the Police Pension Schemes. The net pension liability at 31 March 2015 was £1,850 million (2014 - £1,612 million).

We reviewed the reasonableness of the assumptions underlying the pension liability, and we are comfortable that the assumptions were within an acceptable range.

We utilised the work of actuarial experts to assess the assumptions applied by the Group for its Police Pension schemes and local government pension scheme.

We validated the data supplied to the actuary on which to base their calculations.

**We identified no issues to report as a result of this work.**

## GAD vs Milne - Police Pension

The Pensions Ombudsman's recently ruled on a complaint brought by Mr W Milne regarding Firefighters Pension payments, which was ruled as applicable to police pension schemes. The Government has ruled that additional payments are to be made to Scheme members whose pension commenced between 1 December 2001 and 30 November 2006 and who chose to commute pension for lump sum at retirement. This is to address the Ombudsman's conclusion

that the scheme's commutation factors should have been reviewed before 2006.

There are approximately 320 pensioners who will have revised calculations at Leicestershire. Based on initial calculations the additional 'lump sums' are estimated to be in the region of £4.5m and interest payments £1.0m.

The Home Office has advised that the Government will meet the immediate cost of the lump sum payments and interest through the existing top-up grant process and that the revised calculations should be completed by December 2015 and payments made by 31 March 2016.

Leicestershire accounted for this by putting a creditor into the accounts with a matching asset to the police pension fund. This shows that the organisation have an obligation to make the payments to the relevant pensioners but the bill is initially being funded by the Home Office.

Due to late technical guidance issued on 14 September 2015 which confirmed the final position of the NAO's technical view this has now been accounted for as **an adjusting post balance sheet event and through a prior period adjustment to correct a material error in the financial statements of an understated net pension liability.**

This was updated by officers verbally at the committee, before approving the accounts, to confirm the position since papers had been originally distributed.

### *Use of Resources*

We carried out sufficient, relevant work in line with the Audit Commission's guidance, so that we could conclude on whether you had in place, for 2014/15, proper arrangements to secure economy, efficiency and effectiveness in your use of the Authority's resources.

In line with Audit Commission requirements, our conclusion was based on two criteria:

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

To reach our conclusion, we carried out a programme of work that was based on our risk assessment.

**We issued an unqualified conclusion on the ability of the organisation to secure proper arrangements to secure economy, efficiency and effectiveness in its use of resources.**

We found the following matters which we wish to bring to your attention.

We reviewed your MTFS covering the period 2015/16 to 2017/8. Assumptions were concluded to be reasonable. Savings plans showed that the budget was cut by £6.5m in 2013-14; a further £8.2m was cut from 2014-15; £6.9m from 2015-16; and a need for £6.1m to be cut from 2016-17. The organisation still need to find £4m of the £6.1m for 2016-17.

In 2014-15 an underspend against budget of 0.26% was achieved (£0.448m) again demonstrating the strong financial management arrangements in place.

A major part of the savings plans is "Project Edison" which is looking at the way the organisation delivers operational policing and this project started in February 2015.

We recognised the track record of Leicestershire in delivering savings has been strong, supported by previous and recent HMIC work as well as our own views, there must be continued focus to ensure plans remain realistic.

Overall, we had no significant concerns to report over the assumptions and modelling used in your MTFs. We also supported your view that the MTFs needs to be kept under close review especially after the Comprehensive Spending Review in November, where further clarity around future funding will be determined.

### *Annual Governance Statement*

Local authorities (including police) are required to produce an Annual Governance Statement (AGS) that is consistent with guidance issued by CIPFA/SOLACE. The AGS accompanies 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*

We undertook our work on the Whole of Government Accounts consolidation pack as prescribed by the National Audit Office. **The Group were under the threshold of £350million set by the NAO and we submitted our assurance statement on 30 September 2015.**

### *Electors' questions and objections*

We did not receive any electors' questions or objections regarding the 2014/15 financial statements.

### *Summary of Recommendations*

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

### *Audit independence*

We confirmed that in our professional judgement:

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

# Fees

## Final Fees for 2014/15

We reported our fee proposals in our audit plan.

We are currently in the process of agreeing the fee over and above the scale element with Public Sector Audit Appointments Limited (PSAA) and will report the final position in due course.

Our estimated final fees are therefore:

### Police and Crime Commissioner/Group

	2014/15 estimated outturn	2014/15 fee proposal	2013/14 final outturn
<b>Audit work performed under the Code of Audit Practice</b>			
- Statement of Accounts	32,740	32,740	32,740
- Conclusion on the ability of the organisation to secure proper arrangements for the economy, efficiency and effectiveness in its use of resources	10,000	10,000	10,000
- Whole of Government Accounts	500	500	500
<b>Proposed variation *</b>	3,435	-	-
<b>TOTAL</b>	<b>46,675</b>	<b>43,240</b>	<b>43,240</b>

### Chief Constable

	2014/15 estimated outturn	2014/15 fee proposal	2013/14 final outturn
<b>Audit work performed under the Code of Audit Practice</b>			
- Statement of Accounts	15,000	15,000	15,000
- Conclusion on the ability of the organisation to secure proper arrangements for the economy, efficiency and effectiveness in its use of resources	5,000	5,000	5,000
- Whole of Government Accounts	-	-	-
<b>Proposed variation</b>	1,275	-	-
<b>TOTAL</b>	<b>21,275</b>	<b>20,000</b>	<b>20,000</b>

\* Variation is due to late confirmation and additional time spent on GAD v Milne Pension issues as reported earlier.



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