

Office of the Police & Crime Commissioner and Chief Constable for Hampshire

Annual Audit Letter for the year ended 31 March 2015

October 2015

Ernst & Young LLP





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15 October 2015

Dear Simon and Andy

Annual Audit Letter 2014-15

The purpose of this annual audit letter is to communicate the key issues arising from our work to the Police and Crime Commissioner (PCC) for Hampshire, the Chief Constable (CC) of Hampshire, the Members of the Joint Audit Committee and external stakeholders, including members of the public.

We have already reported the detailed findings from our audit work in our 2014-15 annual results report to the PCC and the CC (who are those charged with governance) and the Joint Audit Committee. We do not repeat them here.

The matters reported here are those we consider most significant for the Office of the Police and Crime Commissioner for Hampshire and the Office of the Chief Constable for Hampshire

We would like to take this opportunity to thank officers for their assistance during the course of our work.

Yours sincerely

Helen Thompson
Director
For and on behalf of Ernst & Young LLP
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Relevant parts of the Audit Commission Act 1998 are transitionally saved by the Local Audit and Accountability Act 2014 (Commencement No. 7, Transitional Provisions and Savings) Order 2015 for 2014/15 audits.

The Audit Commission's 'Statement of responsibilities of auditors and audited bodies' (Statement of responsibilities). It is available from the accountable officer of each audited body and via the [Audit Commission's website](#).

The Statement of responsibilities serves as the formal terms of engagement between the Audit Commission's appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The Standing Guidance serves as our terms of appointment as auditors appointed by the Audit Commission. The Standing Guidance sets out additional requirements that auditors must comply with, over and above those set out in the Code of Audit Practice 2010 (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Annual Audit Letter is prepared in the context of the Statement of responsibilities. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

1. Executive summary

Our 2014-15 audit work was undertaken in accordance with the Audit Plan issued on 25 June 2015 and was 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.

The Police and Crime Commissioner (PCC) and the Chief Constable (CC) are responsible for preparing and publishing separate Statement of Accounts, accompanied by an Annual Governance Statement (AGS). In their AGS, the PCC and the CC report publicly each year on how far they comply with their own code of governance, including how they have monitored and evaluated the effectiveness of their governance arrangements in year, and any changes planned in the coming period.

The PCC and the CC are also responsible for having proper arrangements to secure economy, efficiency and effectiveness in their use of resources.

As auditors we are responsible for:

- forming an opinion on the financial statements, including the Police Pension Fund, and on the consistency of other information published with them;
- reviewing and reporting by exception on both the PCC's and the CC's AGSs;
- forming a conclusion on the arrangements the PCC and the CC have to secure economy, efficiency and effectiveness in their use of resources; and
- undertaking any other work specified by the Audit Commission and the Code of Audit Practice.

Summarised below are the results of our work across all these areas:

| Area of work | Result |
|---|---|
| Audit the financial statements of the Police and Crime Commissioner and the Chief Constable for the financial year ended 31 March 2015 in accordance with International Standards on Auditing (UK & Ireland). | On 28 September 2015 we issued unqualified audit opinions in respect of the financial statements for the Police and Crime Commissioner and for the Chief Constable. |
| Form a conclusion on the arrangements that the Police and Crime Commissioner and the Chief Constable have made for securing the economy, efficiency and effectiveness in their use of resources. | On 28 September 2015 we issued an unqualified value for money conclusion for both the Police and Crime Commissioner and the Chief Constable. |
| Report to the National Audit Office on the accuracy of the consolidation pack prepared for the Whole of Government Accounts. | We reported our findings to the National Audit Office on 28 September 2015. There were no issues to report. |
| Consider the completeness of disclosures on the PCC's and the CC's AGS, identify any inconsistencies with other information which we know about from our work and consider whether it complies with CIPFA/ SOLACE guidance. | No issues to report. |
| Consider whether we should make a report in the public interest on any matter coming to our notice in the course of the audit. | No issues to report. |

Area of work

Result

Determine whether we need to take any other action in relation to our responsibilities under the Audit Commission Act.

No issues to report.

As a result of the above we have also:

Issued a report to those charged with governance with the significant findings from our audit.

Our Audit Results Report was presented on 21 September 2015 to the PCC and the CC, as those charged with governance, and also to the Joint Audit Committee.

Issued 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.

Issued on 28 September 2015.

2. Key findings

2.1 Financial statement audit

The PCC's and the CC's Statements of Accounts are an important tool to show both how the PCC and the CC have used public money and how they can demonstrate their financial management and financial health.

We audited the Statements of Accounts for the PCC and the CC in line 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 issued an unqualified audit report on both sets of financial statements on 28 September 2015.

In our view, the quality of the financial statements was good, and we identified only a small number of errors, all of which were corrected. We have agreed to hold a debrief session with officers during the autumn to identify how we can work together to streamline the audit process next year.

Our detailed findings were reported to the 21 September 2015 Joint Audit Committee and the main issues identified as part of our audit were:

Significant risk 1: Risk of management override

As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of their ability to directly or indirectly manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement. This risk applies to the Office of the PCC, Office of the CC and the Group.

From the work completed on journals, accounting estimates and unusual transactions we did not identify any evidence of management override of controls.

Significant risk 2: New accounting system implemented during 2014-15:

At the end of October 2014, the key corporate systems moved to a single system, as part of the move to the H3 Integrated Business Centre. This is a fundamental system which records the PCC's and CC's income and expenditure for the year.

Our testing verified that the data migration from the old system to the new system was materially complete and accurate.

Significant risk 3: H3 Partnership

The PCC and CC entered into the H3 Partnership with Hampshire County Council and Hampshire Fire and Rescue Service. We sought assurance that appropriate legal, governance and financial arrangements have been put in place by the PCC and CC.

We did not identify any issues in terms of legal, governance and financial arrangements.

Other key findings:

Disclosure of Milne v GAD - Post Balance Sheet Adjusting Event

During our audit, the Home Office agreed to accept the outcome of the Milne v GAD court case and its applicability in respect of historical police pension payments. This is now reported as an adjusting post balance sheet event as it arose after the Balance Sheet date of 31 March 2015. The 2014-15 financial statements were amended to remove the previously disclosed contingent liability with a post balance sheet event with an estimated calculation of £10.5 million, using information provided by GAD, which will be funded by the Home Office.

Focus of the Joint Audit Committee

The CC Chief Finance Officer produced an assurance framework for the Joint Audit Committee (JAC) in June 2015 outlining the main sources of assurance that underpin the Annual Governance Statement. The JAC may wish to use this as a tool to focus their future discussions as to where they have sufficient assurance and where there are gaps in the assurances provided by officers. This will assist the JAC in their reporting on the effectiveness of the PCC's and the CC's governance framework.

Looking ahead, the earlier deadline for producing and auditing the financial statements provide challenges for both the finance team preparing the accounts, and ourselves as your auditors.

| Description | Impact |
|---|--|
| <p>The Accounts and Audit Regulations 2015 were laid before Parliament in February 2015. A key change in the regulations is that from the 2017-18 financial year, the timetable for the preparation and approval of accounts will be brought forward.</p> <p>As a result, the PCC and CC will need to produce draft accounts by 31 May and these accounts will need to be audited by 31 July.</p> | <p>The Chief Financial Officers are aware of this challenge and the need to start planning for the impact of these changes. This will include review of the processes for the production and audit of the accounts, including areas such as the production of estimates, particularly in relation to pensions and the valuation of assets, and the year-end closure processes.</p> |

2.2 Value for money conclusion

As part of our work we must also conclude whether the PCC and CC have proper arrangements to secure economy, efficiency and effectiveness in the use of resources. This is known as our value for money conclusion.

In accordance with guidance issued by the Audit Commission, our 2014-15 value for money conclusion was based on two criteria. We considered whether the PCC and CC had proper arrangements in place for:

- ▶ securing financial resilience, and
- ▶ challenging how they secure economy, efficiency and effectiveness.

We issued an unqualified value for money conclusion for the PCC and the CC on 28 September 2015. We noted the following issues as part of our audit.

1. Financial Resilience - Delivery of a Sustainable Medium Term Financial Plan

We identified one significant risk in relation to this criterion: delivery of a sustainable medium term financial plan. We note the following specific findings regarding this risk:

- ▶ Hampshire Constabulary is required to save some £53 million over the next four years. We noted that there is a current budget gap of some £26 million over the next three years.
 - ▶ We have considered this position against the current level of usable reserves, including earmarked reserves and balances at the disposal of Hampshire Constabulary. As at 31 March 2015 we calculated these to be £72 million.
 - ▶ We note that Hampshire Police has a culture of delivering its saving plans and carries out ongoing financial planning to identify, and deliver, the savings needed to close the
-

cumulative budget gap in 2018-19.

- ▶ Her Majesty's Inspectorate of Constabulary (HMIC) acknowledged in its Police, Efficiency, Effectiveness and Legitimacy (PEEL) assessment, published in November 2014, that the Constabulary had risen to the funding challenge extremely well and assessed planning for the future as good.

2. Arrangements for securing economy, efficiency and effectiveness

We reviewed the findings from the first formal HMIC PEEL assessment, in November 2014, which showed that Hampshire Police was ranked as good for efficiency. The PEEL assessment also noted that the Constabulary is good in the following three areas that were assessed:

- ▶ preventing crime and reducing offending;
- ▶ tackling anti-social behaviour; and
- ▶ investigating offending.

Our work did not identify any other matters relating to aspects of your corporate performance and financial management framework which are not covered by the scope of the two specified criteria.

2.3 Whole of Government Accounts

We performed the procedures required by the National Audit Office on the accuracy of the consolidation pack prepared by the PCC and CC for Whole of Government Accounts purposes.

We had no issues to report.

2.3 Annual Governance Statement

We are required to consider the completeness of disclosures in both the PCC's and the CC's AGS, identify any inconsistencies with the other information which we know about from our work, and consider whether it complies with relevant guidance.

We completed this work and did not identify any areas of concern.

2.4 Objections received

We did not receive any objections to the 2014-15 financial statements from members of the public.

2.5 Other powers and duties

We identified no issues during our audit that required us to use powers under the Audit Commission Act 1998, including reporting in the public interest.

2.6 Independence

We communicated our assessment of independence to those charged with governance and the Joint Audit Committee on 21 September 2015. In our professional judgement the firm is independent, and the objectivity of the audit engagement director and audit staff has not been compromised within the meaning of regulatory and professional requirements.

3. Control themes and observations

As part of our work, we obtained enough understanding of internal control to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control, we must tell the PCC and CC about any significant deficiencies in internal control we find during our audit.

We did not identify any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in either the PCC's or the CC's financial statements.

4. Fees

Our fee for 2014-15 is in line with the scale fee set by the Audit Commission and reported in our 21 September Annual Results Report.

| | Final fee 2014-15 | Planned fee 2014-15 | Scale fee 2014-15 | Final fee 2013-14 |
|-----------------------------------|----------------------|------------------------|----------------------|----------------------|
| Total Audit Fee – PCC Code work * | £54,980* | £54,980 | £54,980 | £54,980 |
| Total Audit Fee – CC Code work * | £25,000* | £25,000 | £25,000 | £25,000 |

* The audit took longer than planned, due primarily to the change of financial system in year and the national issues resulting from Milne V GAD. We are discussing the implications of this with officers. Any scale fee variation will also need to be agreed with Public Sector Appointments Ltd.

We have undertaken a small piece of non-audit work on the Constabulary's Risk Register, for a fee of £2,100, outside of the Audit Commission's Audit Code requirements.

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