

Hampshire Police – Police and Crime Commissioner and Chief Constable

Year ending 31 March 2013

Annual Audit Letter

23 October 2013



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23 October 2013

Andy Marsh
Chief Constable
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Police Headquarters
West Hill
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SO22 5DB

Dear Simon and Andy

Annual Audit Letter

The purpose of this Annual Audit Letter is to communicate to those charged with governance and the Joint Audit Committee of Hampshire Police and its external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to their attention.

We have already reported the detailed findings from our audit work to those charged with governance of Hampshire Police in the following report:

2012/13 Audit Results Report for Hampshire Police – Police and
Crime Commissioner and Chief Constable

Issued 13 September 2013

The matters reported here are the most significant for Hampshire Police.

I would like to take this opportunity to thank the officers of both the Office of the Hampshire Police and Crime Commissioner and those of the Chief Constable of Hampshire Police for their assistance during the course of our work.

Yours faithfully

Kate Handy
Director
For and behalf of Ernst & Young LLP
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In March 2010 the Audit Commission issued a revised version of the 'Statement of responsibilities of auditors and audited bodies' (Statement of responsibilities). It is available from the Chief Financial Officer of the Police and Crime Commissioner and the Chief Financial Officer of the Chief Constable 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 Police and Crime Commissioner and the Chief Constable, 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 2012/13 audit work has been undertaken in accordance with the Audit Plan we issued on 25 June 2013 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.

The Police and Crime Commissioner and Chief Constable for Hampshire Police are responsible for preparing and publishing their Statements of Accounts, accompanied by their Annual Governance Statements. In the Annual Governance Statements, the Police and Crime Commissioner and Chief Constable for Hampshire Police report publicly on an annual basis on the extent to which they comply with their own code of governance, including how they have monitored and evaluated the effectiveness of their governance arrangements in the year, and on any planned changes in the coming period. The Police and Crime Commissioner and Chief Constable for Hampshire Police are also responsible for putting in place 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 for the Police and Crime Commissioner and the Chief Constable;
- ▶ reviewing the Annual Governance Statements;
- ▶ forming a conclusion on the arrangements that the Police and Crime Commissioner and the Chief Constable have in place to secure economy, efficiency and effectiveness in their use of resources; and
- ▶ undertaking any other work specified by the Audit Commission.

Summarised below are the conclusions from all elements of our work:

Audit requirement	Outcome
Audit the financial statements of the Police and Crime Commissioner and the Chief Constable for the financial year ended 31 March 2013 in accordance with International Standards on Auditing (UK & Ireland).	On 26 September 2013 we issued unqualified audit opinions in respect of the financial statements for the Police and Crime Commissioner and 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 26 September 2013 we issued an unqualified value for money conclusion for both the Police and Crime Commissioner and the Chief Constable.
Issue a report to those charged with governance (the Police and Crime Commissioner and the Chief Constable for Hampshire Police), and the Joint Audit Committee communicating significant findings resulting from our audit.	On 13 September we issued our report in respect of the Police and Crime Commissioner and the Chief Constable and reported our findings to the Joint Audit Committee on 24 September. Those findings are summarised in this Annual Audit Letter.

Audit requirement	Outcome
Report to the National Audit Office on the accuracy of the consolidation pack that the Police and Crime Commissioner and the Chief Constable for Hampshire are required to prepare for the Whole of Government Accounts.	We reported our findings to the National Audit Office on 26 September 2013. There were no issues to report.
Consider the completeness of disclosures in the Annual Governance Statements for the Police and Crime Commissioner and the Chief Constable, identify any inconsistencies with the other information of which we are aware from our work and consider whether it complies with CIPFA guidance.	No issues to report.
Consider whether, in the public interest, we should make a report on any matter coming to our notice in the course of the audit.	No issues to report.
Determine whether any other action should be taken in relation to our responsibilities under the Audit Commission Act.	No issues to report
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.	On 26 September 2013 we issued our audit completion certificate.

2. Key findings

2.1 Financial statement audit

We audited the Police and Crime Commissioner (PCC) and the Chief Constable (CC) for Hampshire Police's Statements of Accounts 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 26 September 2013.

In our view, the quality of the process for producing the accounts, including the supporting working papers was satisfactory.

The main issues identified as part of our audit were:

Significant risk: Preparation of the financial statements for the PCC and for the CC, including group accounting

Audit findings and conclusion

- ▶ The statements, for the PCC and the CC, complied with the proper practices contained in the CIPFA Code of Practice on Local Group Accounting.
- ▶ Assets, liabilities, income and expenditure are correctly recognised in the PCC's financial statements, as the PCC is parent of the Group.

Other financial statement risk: Impact of the Estates Strategy

Audit finding and conclusion

- ▶ Winchester HQ and Alpha Park were correctly classified in the 2012/13 accounts and valued by professional valuers
- ▶ The accounts were amended to reflect the correct accounting for the reduction in value of Alpha Park.

Other financial statement risk: Risk of misstatement due to fraud and error (standard risk)

Audit finding and conclusion

- ▶ We obtained reasonable assurance as to whether both sets of financial statements, for the PCC and the CC, as a whole are free of material misstatements whether caused by error or fraud.
- ▶ We have no issues to report.

2.2 Value for money conclusion

We are required to carry out sufficient work to conclude on whether the Police and Crime Commissioner and the Chief Constable have put in place proper arrangements to secure economy, efficiency and effectiveness in their use of resources.

Our 2012/13 work focussed on the management of the transition of functions from the Police Authority to the PCC and CC as new bodies on 22 November 2012. The review of this transition risk also included consideration of relevant aspects of the following two specified value for money (vfm) criteria:

1. whether there are proper arrangements in place for securing financial resilience at the PCC and the CC; and

2. whether there are proper arrangements in place at the PCC and the CC to secure economy, efficiency and effectiveness in the use of resources.

We issued an unqualified value for money conclusion for both the Police and Crime Commissioner and the Chief Constable on 26 September 2013. Our audit did not identify any significant matters, as reported below.

Significant risk: Effectiveness of the new governance arrangements for the PCC and the CC

Audit findings and conclusion

- ▶ The PCC's and CC's governance arrangements are generally effective and comply with the requirements of the Home Office's Code of Financial Management.
- ▶ The PCC's and CC's Joint Audit Committee needs greater clarity on how the Committee may best fulfill its responsibilities in supporting those charged with governance, the PCC and the CC.

Other risk: Delivery of a medium term financial plan

Audit finding and conclusion

- ▶ We found that the PCC and the CC have systems and processes in place to manage their financial risks and opportunities effectively and these have worked well to date.

Other risk: Arrangements for securing economy, efficiency and effectiveness

- ▶ We found that the PCC and the CC are working with partners to achieve the priorities set in the Police and Crime Plan and the costs and productivity of key services are consistent with or better than other forces.

2.3 Whole of government accounts

We reported to the National Audit Office, on 26 September 2013, the results of our work performed on the accuracy of the consolidation pack that the Police and Crime Commissioner and the Chief Constable are required to prepare for the whole of government accounts. We did not identify any areas of concern.

2.5 Annual governance statement

We are required to consider the completeness of disclosures in the Police and Crime Commissioner's and the Chief Constable's 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 guidance. We completed this work and did not identify any areas of concern.

3. Control themes and observations

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient 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 communicate to those charged with governance, as required, any significant deficiencies in internal control.

We had no significant matters to report to those charged with governance.

4. Challenges for the coming year

Whilst the PCC and the CC have performed well in 2012/13, they recognise that the significant challenges they faced during 2012/13 continue into 2013/14. The key challenges for the coming year are:

Key challenges

Challenge	Response required by the PCC and the CC
Continuing delivery of a robust medium term financial plan	
<p>The significant financial management challenges for police over the coming years continue to be:</p> <ul style="list-style-type: none"> managing the implications of the current economic climate; significant reductions in the level of future central government funding; and the outcome of the Winsor pay reform review. 	<ul style="list-style-type: none"> Continued delivery of significant savings required to meet the medium term financial plan; Further improvement in efficiency and productivity to reduce costs; Future funding agreements to be built into longer term financial planning, as far as possible.
Good arrangements for securing economy, efficiency and effectiveness	
<p>The PCC and the CC are addressing the significant strategic, financial and operational challenges facing them both now and in the medium term.</p> <p>The two corporations face a huge challenge in meeting the expectations for a more visible and responsive policing service with reduced resources.</p>	<ul style="list-style-type: none"> Continuing the drive to improve productivity and achieving value for money for both the CC and the PCC. Considering alternative and innovative approaches to delivering services to achieve efficiencies whilst keeping services at a level that will satisfy local people.
Enhancing the assurance role of the Joint Audit Committee	
<p>The Joint Audit Committee needs to consider how it can enhance its role and more robustly provide independent assurance on the adequacy of the risk management framework and the associated control environment.</p> <p>It also needs to consider how it can provide independent scrutiny of the PCC's and the CC's financial and non-financial performance to the extent that it has assurance that controls mitigate exposure to risk and the weakening of the control environment, whilst continuing to oversee the financial reporting process.</p>	<ul style="list-style-type: none"> Review the Joint Audit Committee's achievements and lessons learnt to date. Consider the key aspects of what makes an effective audit committee in terms of the assurance it can more fully provide. Improved oversight, by the Joint Audit Committee, of the challenges and issues facing the PCC and the CC and their response to managing risks.
Effective stage two governance and accounting arrangements	
<p>An effective stage two transition, required by the Police Reform and Social Responsibility Act 2011, with appropriate transfer of responsibility for staff, assets and liabilities from the PCC to the CC depending on local agreement.</p>	<ul style="list-style-type: none"> Implementation of proper accounting treatment and effective governance for the new local arrangements. Clarity of strategic and operational roles between the PCC and the CC.

We will be following up the PCC's and CC's response to the above challenges as part of our 2013/14 audit.

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