

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

Progress Report to the Joint Audit Committee

26 March 2014



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Joint Audit Committee
Office of the Police and Crime Commissioner
for Hampshire
St George's Chambers
St George's Street
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17 March 2014

Audit Progress Report - 2013/14

We are pleased to attach our Audit Progress Report.

This report summarises the work we have undertaken to date and our plans for the remainder of the 2013/14 year. Its purpose is to provide the Joint Audit Committee with an overview of the stage we have reached in the 2013/14 audit and ensure our audit is aligned with the Committee's service expectations.

Our audits are undertaken in accordance with the requirements of the Audit Commission Act 1998, the Code of Audit Practice, the Audit Commission Standing Guidance, auditing standards and other professional requirements.

We welcome the opportunity to discuss this report with you as well as understand whether there are other matters which you consider may influence our audits.

Yours faithfully

Helen Thompson
Ernst & Young LLP
United Kingdom
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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 Executive 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 report 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.

Work completed

Financial Statements

We are required to give an audit opinion on whether the financial statements of The Office of the Police & Crime Commissioner for Hampshire (the PCC) and The Office of the Chief Constable for Hampshire Constabulary (the CC) give a true and fair view of the financial position as at 31 March 2014 and of the income and expenditure for the year then ended.

We recognise the manner in which these two bodies are inter-linked and operate based on the governance documents and scheme of consents that have been adopted. Therefore, whilst each is a separate audit engagement, this update recognises the programme of work required has much in common.

We adopt a risk based approach to the audit and as part of our ongoing continuous planning we continue to meet key officers and other stakeholders:

Planning visit

We have completed planning procedures required by both our audit approach and international standards on auditing. This includes substantial completion of our work to document and walkthrough the PCC's and CC's material systems. Where possible we are additionally starting early substantive procedures to reduce the level of work at year end.

At this stage our work has not identified any issues that we need to bring to your attention as those charged with governance.

Post statements visit

We have agreed dates for our audit visit, and have had early discussions on the working papers required.

We will also review and report to the National Audit Office, to the extent and in the form required by them, on your whole of government accounts return.

Our detailed audit plan, setting out the risks we have identified and the work we will undertake in response, will be presented to the Joint Audit Committee in June 2014.

Value for money assessment

We are required to give a statutory conclusion on the PCC's and CC's arrangements to secure economy, efficiency and effectiveness. The Audit Commission has reapplied the two specified criteria for the value for money conclusion for the 2013/14 audit. Our work will therefore focus on:

- ▶ arrangements for securing financial resilience - whether the PCC and CC have robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future; and
- ▶ arrangements for securing economy, efficiency and effectiveness - whether the PCC and CC are prioritising resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

Our planning work to support our initial value for money risk assessment, informed by the criteria and our responsibilities under the Code, is ongoing.

Other issues of interest

In addition to our formal reporting and deliverables we provide practical business insights and updates on regulatory matters through our Sector Briefings. The most recent Briefing is included on today's agenda. However, we would like to draw your attention to our new initiative to provide a forum for police sector matters to be considered in more depth.

EY Police Reference Group

EY held its first Police Reference Group on 27 January 2014, a group which will meet on a regular basis. Attendees included; CFOs/Head of Finance/Chief Accountant representatives from PCCs and CCs audited by EY; EY Audit Directors and Audit Managers.

We agreed the purpose of the reference group as:

- ▶ Understanding PCC and CC questions, issues and challenges in preparing for Stage 2 transfers.
- ▶ Updating all on EY's approach to audit of accounts and VFM.
- ▶ Ensuring consistency in application and approach.
- ▶ Collecting shared questions and views to discuss with CIPFA, Audit Commission and stakeholder groups.
- ▶ Identify those areas where PCCs, CCs and auditors would welcome further guidance and support.

Our first meeting was a useful and wide ranging discussion focusing on the accounting questions, issues and challenges that will face CFOs and finance teams in preparing PCC and CC financial statements for the 2013/14 and 2014/15 financial years. This reflects both before and after stage 2 transfers. We reflected on the audit of your 2012/13 financial statements and the different approaches used nationally to recognise revenue and assets in either PCC or CC financial statements. We also did this because we are aware CIPFA intend to provide further guidance to practitioners and preparers of the accounts for 2013/14 and in due course 2014/15 financial year. We agreed that we wanted to engage and share where we can proactively with CIPFA and the Audit Commission what, as practitioners and auditors we see as the key questions to consider in any guidance.

The following key messages arose from the meeting:

- ▶ The importance of PCC and CC CFOs and preparers of accounts keeping up-to-date their method statements assessing the balance between control and derivation of economic benefit against applicable accounting standards to determine whether to recognise revenue, assets and contracts in the accounts of the PCC or CC. We agreed that at our next meeting in April 2014, PCCs and CCs would share their proposed method statements to discuss approaches and application of underlying accounting standards.
- ▶ For imminent Stage 2 transfers, the PCC and CC governing documents and scheme of consents are critical in confirming the intended relationship between PCC, CC, what transfers to and where for example CC has flexibility and latitude to act on their own behalf in entering into contracts, use of assets. This will be one key indicator amongst others that guides how PCC and CC prepare accounts in the future. We agreed that audit teams should have an early review of the governing documents to share any observations or concerns.

- ▶ CIPFA guidance could usefully provide more articulation on accounting considerations where local practices across PCCs and CCs do not vary, for example in recognising the cost of police officers. Here for example we felt that there should be clarification on whether there is almost a hierarchy of control, i.e. what is the right balance between the CC having operational direction and control but doing so in accordance with the PCCs strategic policing plan and predetermined limits on workforce numbers and budgets. In addition, that where in the vast majority of all of our PCC and CC audits, stage 2 will only see legal transfer of police officer contracts to the CC, does this change in legal form impact at all on practitioners and auditors view on the substance of the arrangements.
- ▶ Practically, PCC and CC CFOs wanted early dialogue with auditors on whether stage 2 transfers had implications for financial systems and processes. For example that in case of police officer contracts transferring to the CC, should there be a separate payroll system.
- ▶ Both PCC, CC CFOs and auditors are keen and intend to engage with CIPFA on the key questions, issues and approaches to consider for any updated guidance informing both 2013/14 and 2014/15 financial years. EY will be holding a Police final accounts workshop on 28 March 2014 at our EY More London Place office where we will explore this further alongside other accounts considerations to inform how your PCC and CC finance teams prepare the 2013/14 financial statements.

We intend to hold another Reference Group meeting during April 2014 and then again in September 2014. Either at this or a future meeting, we will extend an invite to Chairs of Joint Audit Committees so that you have an opportunity to share your perspectives on the questions, issues and opportunities we need to be considering from Stage 2 transfers.

Timetable

We set out below a timetable showing the key stages of the audit, including the value for money work, and the deliverables we will provide to you through the 2013/14 Joint Audit Committee cycle. We will provide formal reports to the Audit Committee throughout our audit process as outlined below.

Audit phase	EY Timetable	Deliverable	Associated Joint Audit Committee	Status
High level planning	Ongoing	Audit Fee Letter	March 2013	Completed - reported to the March 2013 Joint Audit Committee
Risk assessment and setting of scope of audit	Feb – March 2014	Audit Plan	June 2014	Completed
Testing of routine processes and controls	Feb – March 2014	Audit Plan	June 2014	In progress
Year-end audit	July - September 2014	Audit results report to those charged with governance Audit report (including our opinion on the financial statements and a conclusion as to whether the PCC and CC have put in place proper arrangements for securing economy, efficiency and effectiveness in their use of resources) Whole of Government Accounts Submission to NAO based on their group audit instructions Audit Completion certificate	September 2014	Work is planned to start on 23 June 2014.
Annual Reporting	October 2014	Annual Audit Letter	December 2014	

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