

Annual Audit Letter

The Police and Crime Commissioner for Hampshire and
the Chief Constable for Hampshire

October 2014

Ernst & Young LLP



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16 October 2014

Andy Marsh
Chief Constable
Office of the Chief Constable of Hampshire
Police Headquarters
West Hill
Romsey Road
Winchester
SO22 5DB

Dear Simon and Andy,

Annual Audit Letter

The purpose of this Annual Audit Letter is to communicate to the Police and Crime Commissioner for Hampshire (the PCC), the Chief Constable for Hampshire (the CC) and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to your attention.

We have already reported the detailed findings from our audit work to those charged with governance of the PCC and CC in the following reports:

2013/14 Audit Results Report for the Office of the Police and Crime Commissioner for Hampshire; and	Issued on 24 September 2014
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2013/14 Audit Results Report for the Office of the Chief Constable for Hampshire	Issued on 24 September 2014
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The matters reported here are the most significant.



I would like to take this opportunity to thank the officers of both the PCC and the CC for their assistance during the course of our work.

Yours faithfully

A handwritten signature in black ink, which appears to read 'Helen Thompson', is located below the 'Yours faithfully' text.

Helen Thompson
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 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 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 2013/14 audit work has been undertaken in accordance with the Audit Plan we issued on 18 June 2014 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 (PCC) and Chief Constable (CC) are responsible for preparing and publishing their respective Statement of Accounts, accompanied by their Annual Governance Statements. The PCC and CC report publicly through the Annual Governance Statement on the extent to which they comply with their own codes 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 PCC and CC are also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in their respective use of resources.

As auditors we are responsible for:

- ▶ forming an opinion on the financial statements of the PCC and CC;
- ▶ reviewing the Annual Governance Statements of the PCC and CC;
- ▶ forming a conclusion on the arrangements that the PCC and CC has in place to secure economy, efficiency and effectiveness in its use of resources; and
- ▶ undertaking any other work specified by the Audit Commission.

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

	Office of the Police and Crime Commissioner	Office of the Chief Constable
Audit the financial statements of the PCC and Group and the CC for the financial year ended 31 March 2014 in accordance with International Standards on Auditing (UK & Ireland).	On 25 September 2014 we issued an unqualified audit opinion in respect of the PCC and Group.	On 25 September 2014 we issued an unqualified audit opinion in respect of the CC.
Form a conclusion on the arrangements the PCC and CC have made for securing economy, efficiency and effectiveness in their use of resources.	On 25 September 2014 we issued an unqualified value for money conclusion.	On 25 September 2014 we issued an unqualified value for money conclusion.
Report to the National Audit Office on the accuracy of the consolidation pack the PCC is required to prepare for the Whole of Government Accounts.	We reported our findings to the National Audit Office on 25 September 2014.	N/A – Whole of Government accounts is prepared at the group level.

	Office of the Police and Crime Commissioner	Office of the Chief Constable
Consider the completeness of disclosures in the PCC and CC 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 / SOLACE guidance.	No issues to report.	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.	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.	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 25 September 2014 we issued our audit completion certificate for the PCC.	On 25 September 2014 we issued our audit completion certificate for the CC.

Audit fees

The table below sets out the scale fee and our final proposed audit fees.

	Planned fee	Scale fee	Final
Code audit work – PCC	£54,980	£54,980	£54,980
Code audit work – CC	£25,000	£25,000	£25,000
Non-Code work	Nil	N/A	Nil

Our actual fees are in line with the agreed fees for the Code audit work.

We confirm that we have not undertaken any non-audit work.

2. Key findings

Financial statements audit

We audited the PCC's and CC's Statement 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 25 September 2014 on both sets of Statements of Accounts.

In our view, the process for producing the accounts, including the supporting working papers was good. We worked proactively and co-operatively with officers to ensure changes to the presentation of the financial statements were agreed.

The main issues identified as part of our audit were:

Significant risk 1: Risk of misinterpretation of Local Authority Accounting Panel (LAAP) bulletin and accounts format guidance.

Risk

CIPFA issued a LAAP bulletin in March 2014 which provided additional clarification guidance to assist with the accounting arrangements in the single entity financial statements of the Police and Crime Commissioners and Chief Constables.

There was a risk that management might misinterpret the guidance, leading to the production of a set of financial statements which were not compliant. Our audit work was designed to review how management ensured expenditure was shown within the relevant accounts relating to who had control over it being incurred.

Conclusion

We completed our planned procedures and appropriate amendments to the financial statements were agreed with management before the accounts were submitted for audit.

Significant risk 2: Fraud and Management Override Risk

Risk

As identified in International Standard on Auditing (UK & 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.

Conclusion

There were no findings that indicated a risk of misstatement due to fraud or error.

Value for money conclusion

We are required to carry out sufficient work to conclude on whether the PCC and the CC has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

In accordance with guidance issued by the Audit Commission, in 2013/14, our conclusion was based on two criteria:

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

We issued an unqualified value for money conclusion on 25 September 2014.

Financial resilience

The PCC and CC have robust arrangements in place to ensure financial resilience. The Force has a history of good financial management and a strong record in the delivery of budgets. The Force delivered its 2013/14 budget.

A balanced budget has been set for 2014/15 with a contribution from reserves of £1.1 million. The future is more challenging and the current medium term financial strategy (MTFS) highlights savings to be identified of £8.4 million in 2015/16, rising to £29.1 million in 2017/18.

There are a number of projects in place which the PCC and Force believe will contribute to bridging the gap. However, there is also a possibility that general fund balances will need to be used. The Force currently does not know what funding will be granted 2016/17 and beyond. The MTFS will be updated as this information becomes available.

The Joint Audit Committee has reviewed and revised its terms of reference in line with CIPFA's best practice guidance.

Risk Management procedures are being reviewed and improved.

Securing economy, efficiency and effectiveness

The PCC and CC have demonstrated they have effective arrangements in place for securing economy, efficiency and effectiveness. They continue to:

- ▶ use cost and performance information to make decisions, including the use of comparative and benchmarking data to challenge economy, efficiency and effectiveness of services; and
- ▶ challenge costs, in order to reduce these without adversely affecting public safety.

Objections received

We did not receive any correspondence or formal objections to the 2013/14 accounts for either the PCC or the CC from members of the public.

Whole of government accounts

We reported to the National Audit office, on 25 September 2014, the results of our work performed in relation the accuracy of the consolidation pack the PCC is required to prepare for the whole of government accounts.

We did not identify any areas of concern.

Annual governance statement

We are required to consider the completeness of disclosures in the respective PCC's and CC's Annual Governance Statements, identify any inconsistencies with other information of which we are aware from our work, and consider whether it complies with CIPFA / SOLACE 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 of internal control we are required to communicate to those charged with governance any significant deficiencies in internal control.

We had no matters to report.

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