

Office of the Chief Constable for Hampshire

Audit Committee Summary

For the year ended 31 March 2014

Audit Results Report – ISA (UK & Ireland) 260

24 September 2014



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Key findings

Audit results and other key matters

The Audit Commission's Code of Audit Practice (the Code) requires us to report to those charged with governance – the Chief Constable - on the work we have carried out to discharge our statutory audit responsibilities together with any governance issues identified.

This report summarises the findings from the 2013-14 audit which is substantially complete. It includes the messages arising from our audit of your financial statements and the results of the work we have undertaken to assess your arrangements to secure value for money in your use of resources.

Financial statements

- ▶ As of 12 September 2014, we expect to issue an unqualified opinion on the financial statements. Our audit results demonstrate, through the few matters we have to communicate, that the Office of the Police and Crime Commissioner for Hampshire (the PCC) and the Office of the Chief Constable for Hampshire (the CC) have prepared their financial statements well.

Value for money

- ▶ We expect to conclude that you have made appropriate arrangements to secure economy, efficiency and effectiveness in your use of resources .

Whole of Government Accounts

- ▶ We expect to issue an unqualified confirmation to the National Audit Office (NAO) regarding the Whole of Government Accounts submission.

Audit certificate

- ▶ The audit certificate is issued to demonstrate that the full requirements of the Audit Commission's Code of Audit Practice have been discharged for the relevant audit year. We expect to issue the audit certificate at the same time as the audit opinion.

The CC's responsibilities

The CC is responsible for preparing and publishing its Statement of Accounts, accompanied by the Annual Governance Statement. In the Annual Governance Statement, the CC reports publicly on the extent to which it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.

The CC is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Purpose of our work

Our audit was designed to:

- Express an opinion on the 2013/14 financial statements.
- Report on any exception on the governance statement or other information included in the foreword.
- Consider and report any matters that prevent us being satisfied that the CC had put in place proper arrangements for securing economy, efficiency and effectiveness in the use of resources (the value for money conclusion).

In addition, this report contains our findings related to the areas of audit emphasis, our views on the CC's accounting policies and judgments and significant deficiencies in internal control.

As a component auditor, we also follow the group instructions and send to the National Audit Office our group assurance certificate, audit results report and auditor's report on the consolidation schedule.

This report is intended solely for the information and use of the CC. It is not intended to be and should not be used by anyone other than the specified party.

Addressing audit risks

Significant audit risks

We identified the following audit risks during the planning phase of our audit, and reported these to you in our Audit Plan. Here, we set out how we have gained audit assurance over those issues.

Audit risk identified within our Audit Plan	Audit procedures performed	Assurance gained and issues arising
Significant audit risks (including fraud risks)		
<p>CIPFA issued a LAAP bulletin in March 2014. There is a risk of management misinterpreting the guidance leading to the production of a set of financial statements which are not compliant. Management should ensure expenditure is shown within the relevant accounts relating to who has control over it being incurred.</p>	<p>Our approach focussed on:</p> <ul style="list-style-type: none"> • reviewing the CIPFA guidance in conjunction with the Audit Commission views; • considering managements justification for the format adopted in relation to the issue of control and who (PCC or CC) has incurred relevant expenditure; and • reviewing the supporting documentation for the justifications provided. 	<ul style="list-style-type: none"> • All our planned procedures are complete. Any amendments to the financial statements have been agreed with management.
<p>As identified in ISA (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.</p>	<p>Our approach focussed on:</p> <ul style="list-style-type: none"> • testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements; • reviewing accounting estimates for evidence of management bias; and • evaluating the business rationale for any significant unusual transactions. 	<ul style="list-style-type: none"> • All our planned procedures are complete. There are no findings that are indicate a risk of misstatement due to fraud or error.

Addressing audit risks

Other audit risks

We identified the following audit risks during the planning phase of our audit, and reported these to you in our Audit Plan. Here, we set out how we have gained audit assurance over those issues.

Audit Risk identified within our Audit Plan	Audit Procedures performed	Assurance gained and issues arising
Other audit risks		
<p>Arrangements for securing economy, efficiency and effectiveness</p> <p>The PCC and the CC are addressing the significant strategic, financial and operational challenges facing them both now and in the medium term. The two corporations face a significant challenge in meeting the expectations for a more visible and responsive policing service with reduced resources.</p>	<p>Our approach focussed on whether:</p> <ul style="list-style-type: none"> Challenging targets are set and the PCC and CC are working with others to achieve their priorities. Alternative and innovative approaches to delivering services are being considered to achieve efficiencies while keeping services at a level that will satisfy local people. Costs and productivity of key services are consistent with or better than other forces providing similar levels and standards of services. 	<p>All our planned procedures are complete. No issues have been identified in relation to Arrangements for securing economy, efficiency and effectiveness.</p>
<p>Delivery of a sustainable medium term financial plan</p> <p>The significant financial management challenges for police over the coming years will be:</p> <ul style="list-style-type: none"> managing the implications of the current economic climate; and the significant reductions in the level of future central government funding. <p>To meet these challenges, forces must improve their efficiency and productivity, reduce their costs, and have sustainable financial plans to ensure they are financially resilient.</p>	<p>Our approach focussed on:</p> <ul style="list-style-type: none"> Reviewing the progress made in achieving the planned savings in 2013/14. Assessment of whether the PCC and the CC have good systems and processes in place to manage their financial risks and opportunities effectively. Assessing the robustness of financial plans. Evaluating the quality of financial governance and leadership at the PCC and the CC. 	<p>All our planned procedures are complete. No issues have been identified in relation to the delivery of a sustainable medium term financial plan.</p>

Issues and misstatements arising from the audit

Progress of our audit

The following areas of our work programme remain to be completed. We will provide an update of progress at the Joint Audit Committee:

- ▶ Receipt of a letter of representation
- ▶ Police pension fund
- ▶ Whole of government accounts

Subject to the satisfactory resolution of the above items, we propose to issue an unqualified audit report on the financial statements.

Uncorrected Misstatements

We have not identified any misstatements within the draft financial statements, which management has chosen not to adjust.

Corrected Misstatements

Our audit identified a small number of misstatements which we have highlighted to management for amendment. All these have been corrected during the course of our work.

We consider a minor number of these misstatements to be significant and we set out the context and nature of them in Appendix 1 to this report.

Other Matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we are required to communicate to you significant findings from the audit and other matters that are significant to your oversight of the CC's financial reporting process including the following:

- ▶ qualitative aspects of your accounting practices, estimates and disclosures;
- ▶ matters specifically required by other auditing standards to be communicated to those charged with governance. For example, issues about fraud, compliance with laws and regulations, external confirmations and related party transactions;
- ▶ any significant difficulties encountered during the audit; and
- ▶ other audit matters of governance interest.

We have no such matters to report.

Financial statements audit (continued)

Item 7

Internal Control, Written Representations & Whole of Government Accounts

Internal Control

It is the responsibility of the CC to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the CC has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

We have tested the controls of the CC only to the extent necessary for us to complete our audit. We are not expressing an opinion on the overall effectiveness of internal control.

We have reviewed the Annual Governance Statement and can confirm that:

- ▶ it complies with the requirements of CIPFA/SOLACE Delivering Good Governance in Local Government Framework; and
- ▶ it is consistent with other information that we are aware of from our audit of the financial statements.

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware.

Request for written representations

We have requested a management representation letter to gain management's confirmation in relation to a number of matters.

Whole of Government Accounts

Alongside our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of our review and the nature of our report are specified by the National Audit Office.

We are currently concluding our work in this area and will report any matters that arise to the Joint Audit Committee.

Arrangements to secure economy, efficiency and effectiveness Item 7

The Code of Audit Practice (2010) sets out our responsibility to satisfy ourselves that the CC has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. In examining the CC's corporate performance management and financial management arrangements, we have regard to the following criteria and focus specified by the Audit Commission.

Criterion 1 - Arrangements for securing financial resilience

“Whether the CC has 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”

- ▶ We identified one significant risk in relation to this criterion: delivery of a sustainable medium term financial plan. The significant financial management challenges for police over the coming years will be:
 - ▶ Managing the implications of the current economic climate and the significant reductions in the level of future central government funding.
 - ▶ To meet these challenges, forces must improve their efficiency and productivity, reduce their costs, and have sustainable financial plans to ensure they are financially resilient.
- ▶ Our approach focussed on:
 - ▶ Reviewing the progress made in achieving the planned savings in 2013/14.
 - ▶ Assessing whether the PCC and the CC have good systems and processes in place to manage their financial risks and opportunities effectively.
 - ▶ Assessing the robustness of financial plans.
 - ▶ Evaluating the quality of financial governance and leadership at the PCC and the CC.

Our findings:

- ▶ 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.

We have no issues to report in relation to this criterion.

We have no other issues to report.

Arrangements to secure economy, efficiency and effectiveness Item 7

The Code of Audit Practice (2010) sets out our responsibility to satisfy ourselves that the CC has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. In examining the CC's corporate performance management and financial management arrangements, we have regard to the following criteria and focus specified by the Audit Commission.

Criterion 2 - Arrangements for securing economy, efficiency and effectiveness

"Whether the CC is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity."

- ▶ We identified one significant risk in relation to this criterion: arrangements for securing economy, efficiency and effectiveness. The PCC and the CC are addressing the significant strategic, financial and operational challenges facing them both now and in the medium term. The two corporations face a significant challenge in meeting the expectations for a more visible and responsive policing service with reduced resources.
- ▶ Our approach focussed on the extent to which:
 - ▶ Challenging targets are set and the PCC and CC are working with others to achieve their priorities.
 - ▶ Alternative and innovative approaches to delivering services are being considered to achieve efficiencies while keeping services at a level that will satisfy local people.
 - ▶ Costs and productivity of key services are consistent with or better than other forces providing similar levels and standards of services.

Our findings:

- ▶ Good progress has been made on collaboration and joint working to achieve priorities.
- ▶ Innovation projects and bids have been put in for a number of areas over the coming year demonstrating innovative approaches to delivering services.
- ▶ Her Majesty's Inspectorate for Constabulary (HMIC) value for money profiles show Hampshire Police as the 6th lowest cost per head of population. This demonstrates the cost-effectiveness of the Force.

We have no issues to report in relation to this criterion.

We have no other issues to report.

Independence

- ▶ We confirm there are no changes in our assessment of independence since our confirmation in our Audit Plan dated 18 June 2014.
- ▶ We complied with the Auditing Practices Board's Ethical Standards for Auditors and the requirements of the Audit Commission's Code of Audit Practice and Standing Guidance. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.
- ▶ We confirm that we are not aware of any relationships that may affect the independence and objectivity of the firm that we are required by auditing and ethical standards to report to you.
- ▶ We consider that our independence in this context is a matter that should be reviewed by both you and ourselves. It is therefore important that you consider the facts of which you are aware and come to a view.

If you wish to discuss any matters concerning our independence, we will be pleased to do so at the forthcoming meeting of the Audit Committee on 24 September 2014.

- ▶ We confirm that we have met the reporting requirements to the Audit Committee, as 'those charged with governance' under International Standards on Auditing (UK&I) 260. Our communication plan to meet these requirements were set out in our Audit Plan of 18 June 2014.

Audit fees

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

	Proposed final fee 2013-14	Scale fee 2013-14	Variation comments
	£s	£s	
Total audit fee - Code work	25,000	25,000	n/a

- ▶ Our actual fee is in line with the agreed fee at this point in time, subject to the satisfactory clearance of the outstanding audit work.
- ▶ We confirm that we have not undertaken any non-audit work outside of the Audit Commission's Audit Code requirements.

Appendix 1 - Corrected audit misstatements Item 7

- The following misstatements, have been identified during the course of our audit and in our professional judgement warrant communicating to you.
- These items have been corrected by management within the revised financial statements.

Disclosures

Disclosure	Description of misstatement
1. Note 11: Officer and Staff Remuneration	Minor errors were corrected
2. CIES - SERCOP Headings	Client identified the need to reclassify the IAS 19 settlement credit between Policing SERCOP headings and Non Distributed Costs line

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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 Audit Results 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.

