

The Police and Crime Commissioner and Chief Constable for Hampshire

Annual Audit Letter for the year ended 31 March 2017

October 2017

Ernst & Young LLP

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Public Sector Audit Appointments Ltd (PSAA) have issued a "Statement of responsibilities of auditors and audited bodies". It is available from the Chief Executive of each audited body and via the PSAA website (www.psaa.co.uk)

The Statement of responsibilities serves as the formal terms of engagement between 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 "Terms of Appointment (updated 23 February 2017)" issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (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.

A hand with white nail polish is writing on a document with a blue pen. In the background, there is a calculator, a white cup, and a laptop. A yellow rectangular box is overlaid on the left side of the image.

Executive Summary

Executive Summary

We are required to issue an annual audit letter to The Police and Crime Commissioner (PCC) and Chief Constable (CC) for Hampshire following completion of our audit procedures for the year ended 31 March 2017.

Below are the results and conclusions on the significant areas of the audit process.

Area of Work	Conclusion
Opinion on the PCC and CC's ▶ Financial statements	Unqualified - the two sets of financial statements give a true and fair view of the financial position of the PCC Group, the PCC single entity, the CC single entity and the Police Pension Fund as at 31 March 2017 and of its expenditure and income for both the PCC and CC for the year then ended.
▶ Consistency of other information published with the financial statements	Other information published with the financial statements was consistent with the Annual Accounts.
Concluding on the PCC and CC's arrangements for securing economy, efficiency and effectiveness	We concluded that PCC and CC put in place proper arrangements to secure value for money in your use of resources.

Area of Work	Conclusion
Reports by exception:	
▶ Consistency of Governance Statement	The Governance Statement was consistent with our understanding of the PCC and CC.
▶ Public interest report	We had no matters to report in the public interest.
▶ Written recommendations to the PCC or CC, which should be copied to the Secretary of State	We had no matters to report.
▶ Other actions taken in relation to our responsibilities under the Local Audit and Accountability Act 2014	We had no matters to report.

Area of Work	Conclusion
Reporting to the National Audit Office (NAO) on our review of the PCC Group's Whole of Government Accounts return (WGA).	We had no matters to report

As a result of the above we have also:

Area of Work	Conclusion
Issued a report to those charged with governance of the PCC and CC communicating significant findings resulting from our audit.	Our Audit Results Report was issued on 1 September 2017
Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2015 Code of Audit Practice.	Our certificate was issued on 21 September 2017

We would like to take this opportunity to thank the PCC and CC's staff for their assistance during the course of our work.

Maria Grindley

Associate Partner
For and on behalf of Ernst & Young LLP

Purpose



Purpose

The Purpose of this Letter

The purpose of this annual audit letter is to communicate to Members and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to the attention of the PCC and CC.

We have already reported the detailed findings from our audit work in our 2016/17 Audit Results Report to the 21 September 2017 Joint Audit Committee and those charged with governance. We do not repeat those detailed findings in this letter. The matters reported here are the most significant for the PCC and CC.



Responsibilities

Responsibilities

Responsibilities of the Appointed Auditor

Our 2016/17 audit work has been undertaken in accordance with the Audit Plan that we issued on 19 January 2017 and is conducted in accordance with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office.

As auditors we are responsible for:

- ▶ Expressing an opinion:
 - ▶ On the 2016/17 financial statements; and
 - ▶ On the consistency of other information published with the financial statements.
- ▶ Forming a conclusion on the arrangements the PCC and CC has to secure economy, efficiency and effectiveness in its use of resources.
- ▶ Reporting by exception:
 - ▶ If the annual governance statement is misleading or not consistent with our understanding of the PCC and CC;
 - ▶ Any significant matters that are in the public interest;
 - ▶ Any written recommendations to the PCC and CC, which should be copied to the Secretary of State; and
 - ▶ If we have discharged our duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

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

Responsibilities of the PCC and CC

The PCC and CC are responsible for preparing and publishing its statement of accounts accompanied by an Annual Governance Statement. In the AGS, the PCC and CC reports publicly each year on how far it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in year, and any changes planned in the coming period.

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

The background is a blurred office scene. In the foreground, there are several clear glass tumblers filled with water on a wooden desk. Behind them, a laptop screen displays a financial chart. To the left, a pen and some papers are visible. The overall lighting is bright and natural, suggesting a window nearby.

Financial Statement Audit

Financial Statement Audit

Key Issues

The Statement of Accounts is an important tool for the PCC and CC to show how it has used public money and how it can demonstrate its financial management and financial health.

We audited the PCC and CC's Statement of Accounts in line with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office and issued an unqualified audit report on 21 September 2017.

Our detailed findings were reported to the 21 September 2017 Joint Audit Committee.

The key issues identified as part of our audit were as follows:

Significant Risk	Conclusion
<p>Management override of controls</p> <p>A risk present on all audits is that management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly, and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</p> <p>Auditing standards require us to respond to this risk by testing the appropriateness of journals, testing accounting estimates for possible management bias and obtaining an understanding of the business rationale for any significant unusual transactions.</p>	<p>Our testing of journal entries did not identify adjustments which were outside of the normal course of business. All journals tested had an appropriate business rationale. We did not identify any significant unusual transactions.</p> <p>We reviewed accounting estimates for evidence of management bias. We undertook audit procedures on accruals, provisions and prepayments and did not identify any evidence of management override.</p> <p>We performed sample testing on the existence and valuation of prepayments, the completeness and valuation of accruals and completeness of provisions and found no indication of management bias.</p> <p>We did not identify any material weaknesses in controls or evidence of material management override.</p> <p>We did not identify any instances of inappropriate judgements being applied.</p> <p>We did not identify any other transactions during our audit which appeared unusual or outside the PCC and CC's normal course of business</p>

Expenditure and funding analysis and Comprehensive income and expenditure statement (Group, PCC, CC)

We reviewed the expenditure and funding analysis, CIES and new notes and found the disclosures are in line with the code

Financial statement presentation

We agreed the restated comparative figures back to the Group's segmental analysis and supporting working papers.

Amendments have been made to the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 (the Code) this year, changing the way the financial statements are presented.

The new reporting requirements impact the Comprehensive Income and Expenditure Statement (CIES) and the Movement in Reserves Statement (MiRS). They also include the introduction of the new 'Expenditure and Funding Analysis' note as a result of the 'Telling the Story' review of the presentation of local authority financial statements.

The Code no longer requires statements or notes to be prepared in accordance with SeRCOP. Instead the Code requires that the service analysis is based on the organisational structure under which the organisation operates. We expect this to show the Group, PCC and CC segmental analysis.

This change in the Code will require a new structure for the primary statements, new notes and a full retrospective restatement of impacted primary statements. The restatement of the 2015/16 comparatives will require audit review, which could potentially incur additional costs, depending on the complexity and manner in which the changes are made.

The PCC and CC's Statement of Accounts are an important tool for the PCC and CC to show how it has used public money and how it can demonstrate its financial management and financial health.

Our application of materiality

When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole.

Item	Thresholds applied
Planning materiality	<p>We determined planning materiality to be;</p> <ul style="list-style-type: none"> ▸ £7.617 million (2016: £7.8 million) for the Group, based on 2% of gross revenue expenditure; ▸ £6.499 million (2016: £6.1 million) for the PCC, based on 2% gross assets; and ▸ £6.742 million (2016: £7.1 million) for the CC, based on 2% of gross revenue expenditure. <p>We consider gross revenue expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the CC and Group.</p> <p>Gross assets are considered to be one of the principal considerations for stakeholders in assessing the financial performance of the PCC.</p>
Reporting threshold	<p>We agreed with the Joint Audit Committee that we would report to the Committee all audit differences in excess of;</p> <ul style="list-style-type: none"> ▸ £381,000 (2016: £392,000) for the Group; ▸ £322,000 (2016: £305,000) for the PCC; and ▸ £337,000 (2016: £355,000) for the CC

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations.

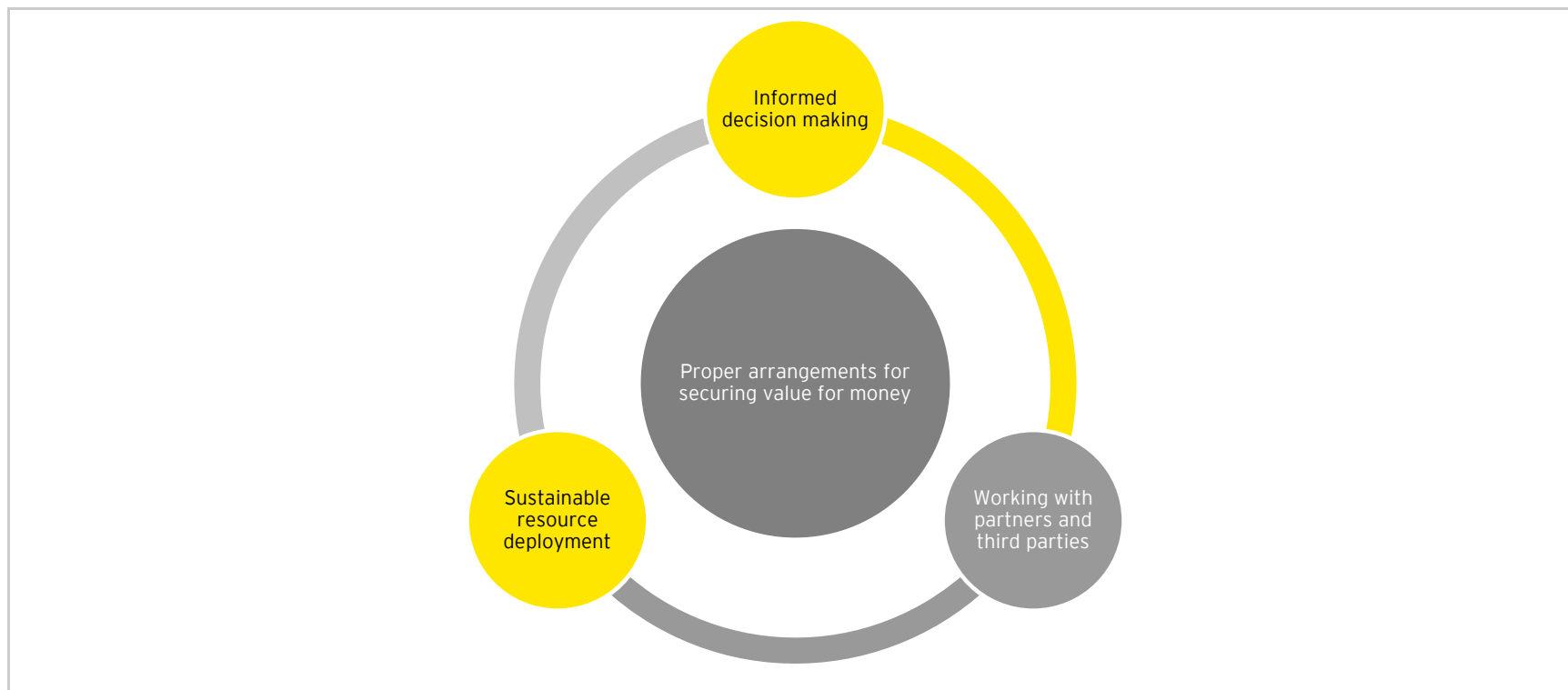
Value for Money

Value for Money

We are required to consider whether the PCC and CC put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. This is known as our value for money conclusion.

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- Take informed decisions;
- Deploy resources in a sustainable manner; and
- Work with partners and other third parties.



We did not identify any significant risks in relation to these criteria.

We performed the procedures outlined in our audit plan. We did not identify any significant weaknesses in the PCC and CC's arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

We therefore issued an unqualified value for money conclusion on 21 September 2017.

Other matters to report

The Office of the PCC and Office of the CC have continued to respond well to the financial challenges they, along with other public sector bodies, are facing. The size of that challenge however remains significant.

Hampshire Constabulary continues to challenge its ways of working, as well as continuing to develop wider collaboration with other organisations. Hampshire already shares support and some services predominantly with Thames Valley Police.

HMICFRS's (formally HMIC) 2016 report on police effectiveness, efficiency and legitimacy (PEEL) assessed Hampshire as good in relation to efficiency and legitimacy, however in relation to effectiveness the force was assessed as requires improvement, this is in relation to the force's practices relating to some victims of domestic abuse.

In their report HMICFRS recognises that since their inspection the force has taken active steps to address its falling arrest rates for perpetrators of domestic abuse, and is working hard to understand why approaching two thirds of investigations into domestic abuse do not progress because it is said that the 'victim does not support police action'. These steps have resulted in an increase in arrest rates in relation to these cases.

The PEEL assessment recognises that the force is working well with partner organisations to protect other vulnerable victims, including those suffering from mental illness and those vulnerable to sexual exploitation and the work they have done predicting future demand is outstanding and this has allowed it to identify where it needs enhance its capability to address future crimes, such as internet crime.

We are satisfied that the force is responding appropriately to the findings from HMICFRS PEEL assessment.



Other Reporting Issues

Other Reporting Issues

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 for Whole of Government Accounts purposes. We had no issues to report.

Annual Governance Statement

We are required to consider the completeness of disclosures in the PCC and CC's annual governance statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it is misleading.

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

Report in the Public Interest

We have a duty under the Local Audit and Accountability Act 2014 to consider whether, in the public interest, to report on any matter that comes to our attention in the course of the audit in order for it to be considered by the PCC or CC, or brought to the attention of the public.

We did not identify any issues which required us to issue a report in the public interest.

Written Recommendations

We have a duty under the Local Audit and Accountability Act 2014 to designate any audit recommendation as one that requires the PCC or CC to consider it at a public meeting and to decide what action to take in response.

We did not identify any issues which required us to issue a written recommendation.

Objections Received

We did not receive any objections to the 2016/17 financial statements from member of the public.

Other Powers and Duties

We identified no issues during our audit that required us to use our additional powers under the Local Audit and Accountability Act 2014.

Independence

We communicated our assessment of independence in our Audit Results Report to the Joint Audit Committee on 21 September 2017. 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 regulatory and professional requirements.

Control Themes and Observations

As part of our work, 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 are required to communicate to you significant deficiencies in internal control identified during our audit.

Our audit did not identify any controls issues to bring to the attention of the Joint Audit Committee.

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