



PAPER AC14/1

AUDIT COMMITTEE

A meeting of the Audit Committee was held in Meeting Room 6, Police Headquarters, Martlesham on Tuesday, 24 September 2013 at 9.30 am.

PRESENT:

Members

Sandra Cox, Liz Harlaar, David Rowe and Annie Tyler (Chair).

Office of the Police and Crime Commissioner

Chris Bland (PCC Chief Finance Officer), Christopher Jackson (Chief Executive), Sarah McNulty (Business Co-ordinator) and Tim Passmore (Police and Crime Commissioner).

Suffolk Constabulary

Ivan Fearn (Head of Financial Accounting and Specialist Services), Peter Jasper (Head of Joint Finance) and Douglas Paxton (Chief Constable).

Present by invitation

Peter Frost (Interim Head of Audit Services, Suffolk County Council), Linda Goldsmith (Senior Auditor, Audit Services, Suffolk County Council), Neil Harris (Audit Director, Ernst and Young) and Chris Hewitt (Audit Manager, Ernst and Young).

PUBLIC AGENDA

1. DECLARATION OF INTERESTS

1.1 Members declared an interest in agenda Item 3 'Appointment of Permanent Members to the Audit Committee' due to the recruitment process which was in progress.

2. MINUTES OF THE MEETING HELD ON 13 JUNE AND MATTERS ARISING (Paper AC13/12)

2.1 The minutes of the meeting held on 13 June 2013 were agreed as an accurate record.

2.2 Members requested an update on progress with regard to the development of the Chief Constable's Code of Corporate Governance, as referred to at paragraph 2.4, and were advised that it would be published shortly and a copy would be circulated. It was noted that the Police and Crime Commissioner's (PCCs) Code of Corporate Governance had been agreed on 4 March 2013 and was published as PCC Decision. 18/2013.

2.3 With regard to paragraph 4.5 and the Money Laundering Policy, the PCC Chief Finance Officer advised that he was due to meet with Superintendent Neil Lockett, Head of Professional Standards (who had recently taken over from Superintendent Louisa Pepper following her move to Ipswich), to progress that matter.

3. APPOINTMENT OF PERMANENT MEMBERS TO THE AUDIT COMMITTEE

3.1 The PCC Chief Finance Officer provided an oral update on progress with the appointment process. He advised that there had been an encouraging response to the advert and a shortlisting process had been carried out which had been signed-off by the PCC and Chief Constable. It was noted that the interview panel would comprise the PCC Chief Executive, the PCC Chief Finance Officer and Constabulary Chief Finance Officer. It was intended that the Committee would first meet early in the new year.

3.2 Members asked how many members would be appointed and were advised that the intention was to appoint four members in line with the CIPFA Guidance for Local Authorities on Audit Committees (2005).

4. INTERNAL AUDIT – INTERIM AUDIT REPORT – 2013/14

4.1 The Interim Head of Internal Audit Services introduced Linda Goldsmith, Senior Auditor, who he said was taking over the day-to-day running of the contract but he would remain the contract lead with oversight of the work. He explained that the change had been made due to an increase in duties for the Interim Head and with a view to controlling costs.

4.2 In view of the fact that the Statement of Accounts were being considered, members were reminded that the Internal Audit Annual Report 2012/13 presented in June had concluded that there were effective controls in the main financial systems. That position had also been reflected in the PCC's Annual Governance Statement.

4.3 The Senior Auditor presented Paper AC13/13 which outlined progress against the planned programme of internal audit work for 2013/14 and the conclusions reached. The paper confirmed that the audit in respect of Declarations of Gifts, Hospitality and Business Interests, Interpreters and Translation and the Bury St Edmunds Station had all resulted in 'effective' opinions. She advised that the Facilities Contract Management and IT Governance audits were taking place and initial indications were that they would also result in 'effective' outcomes.

4.4 Members were advised that, in view of the level of collaboration between Norfolk and Suffolk, the internal auditors for Suffolk and the internal auditors for Norfolk (PricewaterhouseCoopers) worked closely to avoid duplication. They were also able to take assurance from each other in areas of similar processes and learn about the best approach to take. When planning audits the work of the other county was taken into consideration. It was noted that Norfolk were charged per audit whereas Suffolk agreed a total amount for audit work at the start of the year based on the agreed number of audit days.

4.5 The other audits planned for 2013/14 were discussed and it was noted that consideration was being given to carrying out a joint audit for Norfolk and Suffolk with regard to Risk Management.

4.6 Members asked if consideration had been given to the position of the PCC in terms of the Declarations of Gifts, Hospitality and Business Interests audit. It was recognised that at the time of agreeing the scope of the audit there might not have been any information for the PCC. The Chief Executive assured members that the data for the PCC and his team was now available on the website. It was agreed that in future

consideration should be given to relevant PCC areas of work when considering Constabulary audits to save duplication.

- 4.7 It was acknowledged that the target date for completion of the recommendations arising from the Declarations of Gifts, Hospitality and Business Interests audit was approaching at which point some follow-up work would be carried out by the auditors to assess the progress made.
- 4.8 It was agreed that the wording in the table at paragraph 1.5 was misleading given that there were two sets of definitions of audit opinions. It was agreed that in future just the definitions of the internal auditors would be included and the definitions of the Chartered Institute of Auditors, which were listed in brackets, would not be included.
- 4.9 Members were pleased to note that the indicative opinion of the Head of Audit Services was that 'overall, systems of control are acceptable and financial administration systems are effective'. A member asked whether there should be any concern about the statement that the 'assurance could not be absolute'. It was explained that the wording was routinely added because the audit was carried out within a specific number of audit days and therefore not every possible assurance check could be given.
- 4.10 The PCC Chief Finance Officer explained that the interpreters and translation work, referred to at paragraph 1.19, which referred to charges for a service which were not part of the original contract, had been reviewed and those costs were being recovered. He said that the work to address the recommendations from the audit would be complete in October.
- 4.11 The Committee was advised that a meeting would take place in early October to discuss the work for the remainder of 2013/14 and also start planning the audits for 2014/15.
- 4.12 **The Committee acknowledged from the internal work undertaken to date for 2013/14, that it could take assurance in the operation of internal controls.**

[Peter Frost and Linda Goldsmith left the meeting at 10.09 am]

5. MONITORING OFFICER REPORT - ACCOUNTS

- 5.1 Paper AC13/14 was introduced by the Chief Executive who explained that he had written the report in his capacity as the Monitoring Officer, under Section 5 of the Local Government and Housing Act 1989, because of a failure to fully comply with an enactment in relation to the close-down of the PCC's and Chief Constable's accounts.
- 5.2 Members noted the Monitoring Officer's conclusion that notwithstanding the omission, the close-down of the accounts had not been invalidated and that steps to avoid a repetition of the omission had been agreed.
- 5.3 **The Committee endorsed the recommendations made to the PCC:**
- (i) To note the omission with regard to the proper advertising of the public rights in the respect of the accounts;**
 - (ii) To note the opinion of the Monitoring Officer which would enable the PCC to proceed to consider the accounts for approval by 30 September 2013;**
 - (iii) To support the actions proposed to prevent a similar omission in the future.**

6. STATEMENT OF ACCOUNTS 2013/14

- 6.1 The PCC's Chief Finance Officer introduced Paper AC13/15 which included the PCC's Annual Governance Statement, the Chief Constable's Annual Governance Statement, the PCC's Group Statement of Accounts and the Chief Constable's Statement of Accounts.

Appendix A – PCC Annual Governance Statement

- 6.2 The Chief Executive presented that PCC's Annual Governance Statement which had been updated since the last meeting. He reminded members that the most significant governance issue related to the "Stage 2" transfer of staff to be completed by 1 April 2014. He said that Norfolk and Suffolk had agreed the same approach given the level of collaboration and were awaiting comments back from the Home Secretary on the proposed scheme. It was acknowledged that new governance arrangements and a scheme of consent would need to be established in readiness for the transfer date.

- 6.3 Members asked if the issue should be included on the Risk Register but were assured that the steps being taken to address the risk meant it would not be classified as 'high risk'. It was recognised that there might be implications for audit work in looking at the governance of the "Stage 2" transfers.

Appendix B – Chief Constable Annual Governance Statement

- 6.4 No questions were raised regarding the Chief Constable's Annual Governance Statement.

Appendix C – PCC Group Statement of Accounts

- 6.5 As a matter of accuracy it was noted that the references to 'Appendix A' at paragraphs 3.7 and 3.8 of the covering report should have referred to 'Appendix C'.

- 6.6 It was acknowledged that it was the first time that accounts had been produced separately for the PCC and Chief Constable and there had been no clear guidance at a national level about what should be included in both sets of accounts. The Head of Financial Accounting and Specialist Services also explained that most PCCs and Chief Constables had accounted for establishment of the police bodies using merger accounting principles set out in the Financial Reporting Standard (FRS) 6 – Acquisitions and Mergers.

- 6.7 In terms of the PCC Statement of Accounts the Head of Financial Accounting and Specialist Services advised that there had been no significant changes to the draft set of accounts that had been provided to the external auditors on 30 June and there were no significant additional disclosure notes or amendments. He advised that some minor changes had been made in respect of contractual capital commitments, a change to the prior period adjustment for the 2011/12 accounts, a re-classification made in respect of a council tax debtor and a change to an asset disclosure note.

- 6.8 A question was raised regarding the Comprehensive Income and Expenditure Statement on page 10, regarding the reduction in 'non-distributed costs' which had reduced from £10,523,000 in 2011/12 to £230,000 in 2012/13. The Head of Financial Accounting and Specialist Services explained that those costs related to past service costs/credits arising from the pension fund obligations. Those costs mainly arose from actuarial assumptions made by the pension actuaries. Members were advised that the difference in the previous year was even greater and the movement primarily arose from a change to the Retail Price Index from the Consumer Price Index in calculating annual pension increases. In addition to past service costs, 'non-distributed costs' related to those items that could not be assigned to specific policing activities, for example an impairment on a police house.

- 6.9 The Chair queried whether the payment of £402k to the West Yorkshire PCC in respect of the provision of the National Police Air Service (NPAS) detailed on page 53 was the cost for a whole year. The Head of Financial Accounting and Specialist Services advised that the payment was Suffolk's contribution from 1 October 2012 when NPAS became operational. As part of the NPAS agreement those former Police Authorities who owned helicopters had transferred ownership to the PCC for West Yorkshire as West Yorkshire Police were the lead force for NPAS. The £2.24m sale proceeds of the helicopter itself were being paid back to Suffolk by annual instalments up until 2024/25.
- 6.10 It was noted that in some cases reference was made to the 'PCC' and sometimes to the 'Office of the PCC' and it was not always clear which items related to the PCC himself or the PCC as a corporation sole. The example discussed was on page 35 relating to pension schemes. It was agreed that those references would be made clearer.
- 6.11 There were concerns regarding the increased costs of Project Athena detailed on page 55 and members sought reassurance that these costs were being controlled. The PCC expressed his frustration at the delays in rolling out the project and said that he was attending an Athena Board meeting the next day so would be updated on progress.

Appendix D – Chief Constable's Statement of Accounts

- 6.12 The Head of Financial Accounting and Specialist Services advised that only minor changes had been made to the Chief Constable's Statement of Accounts and the reference to it being a 'dormant' account had been removed. No questions were raised in relation to Appendix D.
- 6.13 Members agreed that should the Statements require any further amendment following the meeting, authority be delegated to the PCC and Chief Finance Officers, in consultation with the Chair of the Committee, to make the necessary changes.
- 6.14 The Chair thanked all those involved in preparation of the accounts and the associated reports.
- 6.15 **The Committee endorsed the Statements of Accounts and supported the adoption of the Annual Governance Statements of the PCC and Chief Constable.**

7. SUFFOLK POLICE – AUDIT RESULTS REPORT FOR THE YEAR ENDED 31 MARCH 2013

- 7.1 Neil Harris, Audit Director for Ernst Young, introduced Paper AC13/16 which summarised their preliminary audit conclusions in relation to the financial position for the PCC and Chief Constable for 2012/13.
- 7.2 The Audit Director thanked officers of the PCC and Chief Constable for their assistance and co-operation with the auditors throughout the year. He advised that an unqualified audit opinion and Value For Money conclusion would be issued by 30 September 2013.
- 7.3 The PCC's Chief Finance Officer advised that, following the Chancellor's spending review announcements in June, the financial plan had been updated and assumptions revisited. He explained that it resulted in a gap of up to an additional £5.5m in the Medium Term Financial Plan between 2014/15 and 2017/18. The financial implications of not increasing the precept level or increasing it by a small percentage were both being evaluated.

- 7.4 The Chief Constable advised that delivering the savings would be a challenge and any halt in recruitment would make it very difficult to maintain levels of service. Members were advised that a 15 point plan to achieve the savings was being scoped to see how the savings might be achieved over a broader base. It was anticipated that for 2016/17 and 2017/18 more radical action might be needed to achieve the savings.
- 7.5 The PCC assured members that work on 'zero based budgeting' was being considered to review everything done across the Constabulary. He said that the Estates Strategy was being reviewed with a view to ensuring it was fit for purpose for the next 25 to 30 years. A review of ICT systems and the implementation of Project Athena were also planned. He also said that the costs and savings resulting from collaboration had not been fully tested. Other developments in terms of public sector collaboration and the Government's decision around victims commissioning would also impact on plans for the coming years.
- 7.6 The Chair asked if income generation initiatives were being explored. As an example reference was made to charges for firearms licensing but members were advised that fees could only be charged to the point of break even and the Home Office would not sanction any measures to make a profit.
- 7.7 The Audit Director referred to the draft Letters of Representation from the PCC and Chief Constable which provided the auditors with assurance to enable them to form their opinion in the knowledge that both corporations had undertaken their own inquiries in relation to the Audit of the 2012/13 Financial Statements.
- 7.8 **The Committee noted the content of the external auditors' audit results report and approved the draft Letters of Representation.**
8. POLICE AND FIRE SECTOR UPDATE – POLICING IN AUSTERITY: RISING TO THE CHALLENGE
- 8.1 The Audit Director introduced Paper AC13/17 which provided a Police and Fire Sector Update which included reference to the Her Majesty's Inspectorate of Constabulary work on 'Policing in Austerity: Rising to the Challenge' and how police forces had responded to the Comprehensive Spending Review.
- 8.2 It was noted that forces were generally rising to the financial challenge, crime was down and victim satisfaction was up. There were concerns over the reference that five forces were not rising to the challenge but members were assured that Suffolk was not one of those forces.
- 8.3 The Audit Director said that the updates helped shape the audit plan and value for money and financial resilience would certainly be included. He said that the Audit Plan for 2014/15 would be presented at the Committee at its meeting in spring 2014.
- 8.4 **The Committee noted the content of the report.**

The meeting closed at 11.32 am