

Chris Bland, PCC & CC Chief Finance Officer
Police Headquarters, Martlesham Heath
Ipswich, Suffolk, IP5 3QS

Your Ref:
Our Ref:
Telephone No. 01473 782770
Email: chris.bland@suffolk.pnn.police.uk

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Dear Neil,

The Police and Crime Commissioner for Suffolk & Chief Constable of Suffolk Understanding your management processes and arrangements

Thank you for your letters of 7 April 2015.

Having given consideration as to how best to respond to the questions in the letters sent to both Phillip Clayton and myself (which are the same), I have concluded that as the PCC and CC share the same major finance and other systems (and therefore the same policies, procedures, processes and controls), have a joint Audit Committee, a single internal audit function and joint annual audit plan, together with the same external auditors, it is appropriate to reply jointly. Where relevant, individual PCC or CC comments have been included.

As you will be aware, the CC CFO role was undertaken by Phillip Clayton in the early part of 2014-15, following which, Peter Jasper fulfilled the role for the remainder of the financial year ending 31 March 2015 and up to 30 April 2015. With effect from 1 May 2015 I assumed responsibility for both CFO roles supporting the PCC and CC. I have discussed and agreed the content of this letter with Peter.

Please find below responses to the various questions contained within your letters.

1. What are the management processes in relation to:

- ▶ **Undertaking an assessment of the risk that the financial statements may be materially misstated due to fraud or error (including the nature, extent and frequency of these assessments).**

The financial statements are prepared in line with the IFRS Code of Practice and are subject to internal quality assurance arrangements that review areas of highest risk. The accounts are subject to analytical review that would identify major movements between years and seek explanations that would assess the likelihood for material misstatement. The PCC CFO and CC CFO provide managerial challenge throughout the preparation of the Statement of Accounts process, particularly in the areas of analytical review.

Key tasks in this area are covered within the agreed Closedown Timetable 2014-15, with responsibilities assigned to individuals and dates for action to be completed included. Compliance with the timetable is monitored throughout the year-end closedown period and reported to senior finance staff, with corrective action taken as required.

On an on-going basis checks are made at a corporate level through the management accounting processes to ensure the accuracy of financial coding.

The officers who prepare the statements are professionally qualified accountants who undertake CPD activities. Their work is segregated where feasible and they work to their

professional bodies codes of conduct. The officers will be present at the meeting of the Audit Committee on 25 September 2015 when the Statements of Accounts for 2014-15 are presented, and Audit Committee members' detailed questions will be answered.

Further explanations of controls in place are provided under item number 8 below.

- ▶ **Identifying and responding to risks of fraud in the Police and Crime Commissioner for Suffolk (PCC) and Chief Constable for Suffolk Constabulary (CC), including any specific risks of fraud which management have identified or that have been brought to its attention, or classes of transactions, account balances, or disclose for which a risk of fraud is likely to exist.**

Internal Audit reports their findings to the Audit Committee via 4 main reports (Internal Audit Plan; Annual report; Half-yearly progress report: Review of Effectiveness of the System of Internal Audit) – these reports encapsulate many of the management processes required and the annual report and half-yearly report both contain a paragraph on fraud and notified frauds.

Audits on the main accounting systems are conducted annually and reported to the Audit Committee. Fraud is deterred through the existence of policies and procedures (which include segregation of duties, two authorising signatories required for many transactions etc.) and provides more detail than Financial Regulations. Regular internal audits, vetting of employed or re-employed staff and a whistle blowing policy all contribute to deterring fraud.

The Anti-Fraud and Corruption Strategy approved by the former Monitoring and Audit Committee on 17 April 2009 brought together in a single document a number of inter-related strands covering the Police Authority and Constabulary's policies and procedures; the required standards of behaviour, the steps taken in preventing fraud and corruption; the detection and investigation arrangements in relation to suspected cases of fraud and corruption, and the arrangements in relation to suspected cases of fraud and corruption, and the arrangements for promoting awareness and commitment to providing relevant training.

In common with other strategies, policies and procedures of the former Police Authority which transferred to the PCC in November 2012, the head of the joint Professional Standards Department and PCC CFO has updated the Anti-Fraud and Corruption Policy. This draft policy was considered on 23 September 2014 by members of the Audit Committee, with suggested amendments being incorporated into a revised draft policy, which has since been through a period of formal consultation. It is anticipated that the policy will be considered and approved at the Joint Negotiating Consultative Committee (JNCC) on 23 June 2015.

In addition to training for all staff and officers, the intranet site is proactively used on a regular basis to remind all officers and staff of their various responsibilities as set out in the various policies and procedures relating to fraud, ethical behaviour and other related matters. The intranet also contains a highly confidential fraud reporting line.

All former and current Audit Committee members are familiar with the Anti-Fraud and Corruption Strategy, which sets out the process for identifying and responding to fraud.

The procedures for identifying and responding to the risk of fraud and possible breaches of internal control are clearly set out in the above-mentioned documents and any such instances would be dealt with accordingly and reported as necessary.

► **Communicating to employees its views on business practice and ethical behaviour (for example by updating, communicating and monitoring against the PCC and CC's codes of conduct).**

Consideration of the Code of Ethics Implementation Plan was given at the Accountability and Performance Panel meeting on 18 June 2014 (Paper AP14/47), and followed up by further consideration by the Audit Committee at its meeting on 23 September 2014 (Paper AC14/22)- Implementation and Embedding of the Code of Ethics within Suffolk Constabulary.

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In particular regard to standards of conduct, please refer to the PCC and CC Annual Governance Statements 2014-15 which will be considered at the Audit Committee on 26 June 2015.

► **Encouraging employees to report their concerns about fraud.**

The Anti-Fraud and Corruption Strategy approved by the former M&A Committee on 17 April 2009 brought together in a single document a number of inter-related strands covering the Police Authority and Constabulary's policies and procedures; the required standards of behaviour, the steps taken in preventing fraud and corruption; the detection and investigation arrangements in relation to suspected cases of fraud and corruption, and the arrangements in relation to suspected cases of fraud and corruption, and the arrangements for promoting awareness and commitment to providing relevant training.

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► **Communicating to the PCC and CC (i.e. those charged with governance) the processes for identifying and responding to fraud or error.**

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investigation arrangements in relation to suspected cases of fraud and corruption, and the arrangements in relation to suspected cases of fraud and corruption, and the arrangements for promoting awareness and commitment to providing relevant training.

The procedures for identifying and responding to the risk of fraud and possible breaches of internal control are clearly set out in the above-mentioned documents and any such instances would be dealt with accordingly and reported as necessary.

All former and current Audit Committee members are familiar with the Anti-Fraud and Corruption Strategy, which sets out the process for identifying and responding to fraud.

2. What are Management's views about whether there are areas within the organisation that are at risk of fraud?

Fraud is deterred through the existence of policies and procedures (which include segregation of duties, two authorising signatories required for many transactions etc.) and provides more detail than Financial Regulations. Regular internal audits, vetting of employed or re-employed staff and a whistle blowing policy all contribute to deterring fraud. I have not identified any particular areas within the respective organisations that are considered to have a higher risk of fraud than others.

3. Does Management have knowledge of any actual or suspected or alleged instances of fraud?

I have no knowledge of any actual or suspected or alleged instance of fraud in 2014-15.

4. Is Management satisfied that internal controls to prevent and detect fraud, including segregation of duties, exist and work effectively?

Audits on the main accounting systems are conducted annually and the results will be considered by the Audit Committee on 26 June 2015. The main financial systems audits covering the general ledger, treasury management, expenditure systems, income systems, payroll systems and procedures, and capital expenditure controls, were all assessed as 'high standard' (evidence of consistent and effective control framework). Other aspects of the annual audit planned work assess the effectiveness of internal controls, including segregation of duties, with any weaknesses being addressed following the audits.

Please refer to item number 2 above with regard to segregation of duties and item number 1 (bullet point 4) above in respect of controls in place to help prevent, deter, and detect fraud.

In the knowledge of the controls that are in place and the various positive audit conclusions that have been reached, I am satisfied that internal controls, including segregation of duties, exist and work effectively and that there are controls in place to prevent, deter and detect fraud.

5. Are there any deficiencies in internal control?

At its meeting on 26 June 2015 the Audit Committee will be considering two papers, a) Review of the Effectiveness of the System of Internal Control 2014-15, and b) Annual Internal Audit Report – 2014-15, which include recommendations that the review of the effectiveness of internal audit work can be relied upon as a source of evidence, and that the Audit Committee can take assurance in the operation of internal controls.

Subject to the relevant recommendations being considered and approved by the Audit Committee on 26 June 2015, I would conclude that there are no deficiencies in internal control.

6. Are you aware of any instances where controls have been overridden?

I am not aware of any instances where controls have been overridden.

7. Is there any organisational or management pressure to meet financial or operating targets?

The former Police Authority and Constabulary had a well-established annual service and financial planning process, which concluded with the approval of the 3-year plan and annual budget. Included within these documents are the approved organisational and operational targets, together with underpinning financial plans, which set out the means by which financial balance is planned to be achieved over the planning period. Achievement against the various organisational, operational and financial targets were monitored and formally reported to the relevant Police Authority Committees up to 21 November 2012, with corrective action jointly agreed as necessary.

Responsibility for monitoring achievement against the agreed targets for the remainder of 2012-13 and beyond became that of the Accountability and Performance Panel of the PCC.

I consider that the financial and operational targets are openly and jointly agreed between the PCC and Chief Constable, and I am not aware of any inappropriate organisational or management pressure, or incentives offered, either to me or my colleagues to meet such targets.

8. Are there any particular areas of the accounts that are more susceptible to false entries or omissions or other forms of manipulation? Are management aware of any such manipulation having occurred?

The financial statements are prepared in line with the IFRS code of Practice and are subject to internal quality assurance arrangements that review areas of highest risk. Both the PCC and CC Chief Finance Officers provide managerial challenge throughout the preparation of the Statement of Accounts process, particularly in areas of analytical review. Segregation of duties is rigorously applied across the Constabulary and PCC functions, ranging from the ordering and receipt of goods and services through to the authorisation of payments to staff and suppliers.

In regard to prepayments and accruals included in the draft Statement of Accounts, there is a clear audit trail for individual entries, including where appropriate, detailed calculations. There are no risk factors which are high risk of fraud. As a consequence of these (and other) controls being in place, we are confident that there are no accounting entries that we believe or suspect to be false or intentionally misleading in the draft Statement of Accounts.

9. How does management gain assurance that all relevant laws and regulations have been complied with? Have there been any instances of non-compliance during 2014-15?

Each year the PCC and Chief Constable, as corporation's sole and thereby separate legal entities, must by virtue of the Accounts and Audit Regulations 2015, each produce Annual Governance Statements (AGS). Draft PCC AGS and CC AGS covering 2014-15 will be considered at the Audit Committee on 26 June 2015.

The preparation and publication of an Annual Governance Statement in accordance with the publication "Delivering Good Governance in Local Government: Interim Guidance Notes for Police Authorities and Forces in England and Wales", published by the Chartered Institute of Public Finance and Accountancy (CIFA) is necessary to meet this statutory obligation.

The draft PCC AGS and CC AGS have been produced in accordance with the template provided for in the CIPFA Guidance. The template required a number of areas to be addressed, including:

- undertaking the core functions of an audit committee, as identified in CIPFA's Audit Committee – Practical Guidance for Local Authorities;
- ensuring compliance with relevant laws and regulations, internal policies and procedures and that expenditure is lawful;
- whistle blowing and for receiving and investigating complaints from the public and handling citizen and other redress;
- identifying the development needs of members and senior officers in relation to their strategic roles, supported by appropriate training.

There have been no reported breaches of relevant laws and regulations during 2014-15.

10. Are there any actual or potential litigation or claims that would affect the financial statements?

A review of potential litigation or claims has been undertaken, which concluded that there are potential claims arising from:

- a previous decision by the former Suffolk Police Authority in the application of Regulation A19 (retiring certain officers who had reached 30 years' service)
- the outcome of a judgement in the case between Leeds United Football Club and West Yorkshire Police
- payment to HMRC of VAT on certain vehicle purchases.

These have currently been assessed as a contingent liability; however, the position will be kept under review throughout the period of the audit.

11. How does management satisfy itself that it is appropriate to adopt the going concern basis in preparing the financial statements?

In his Letter of Representation to you dated 28 September 2013 (relating to the financial year ended 31 March 2013), the former PA Treasurer included reference to being satisfied that it was appropriate to adopt the going concern basis in the preparation of the financial statements, having taken note of a) the impact of known changes in Government policy, b) Accounting Code of Practice paragraph 3.8.2.9 that an intention by government to transfer services from one authority to another does not negate the presumption that the Authority is a going concern, and c) the Authority's operational or business risks, including whether there are sufficient working capital and reserves to help to continue to meet the Authority's objectives.

In terms of financial performance for the year ending 31 March 2015 this was considered at the Accountability and Performance Panel meeting on 16 June 2015, where an underspend of £182k in the Office of the PCC budget, an underspend in the CC revenue budget of £352k, an overspend on capital financing of £408k, an underspend of £89k on crime and disorder grants and a break-even position on the commissioning of victims services, will be discussed in the context of delivering planned recurring savings of £5.369m in 2015/16.

Assurance of medium term financial stability is detailed in the PCC's approved Medium Term Financial Plan 2015-16 to 2019-20 (Decision No 4-2015) and PCC Police and Crime Plan 2013-17 (Decision No 24-2013), which balances agreed operational priorities within the financial resources available from Home Office grants, council tax and other income. The MTFP shows a balanced budget position for 2015-16, subject to delivering planned savings, with further cumulative savings of £10m to be identified and implemented over the period of the MTFP.

Since approval of the MTFP in January 2015, further savings opportunities of £5m have been identified, leaving a balance of savings to be achieved of £5m in the latter part of the MTFP period.

Reference has been made in a number of the above responses to the draft PCC and CC Annual Governance Statements which will be considered at the Audit Committee on 26 June 2015. These papers provide a comprehensive summary of the new PCC and CC governance framework comprising the systems, process, culture and values by which they direct themselves and maintain control, and the activities which they account to and engage with the community.

It enables the PCC and CC to monitor the achievements of strategic objectives and to consider whether these objectives have led to the delivery of appropriate, cost-effective services, including achieving value for money. As such, therefore, we would recommend that the draft PCC and CC Annual Governance Statements are read in conjunction with the responses to the specific questions raised, as they provide important context and relevant supplementary information.

I trust this letter provides you with sufficient detail regarding the management processes and arrangements that are in place across the PCC and Constabulary in those areas detailed in your letter. If you require clarification on any of the issues, please do not hesitate to contact me.

Yours sincerely

A handwritten signature in black ink, appearing to read 'C Bland', with a stylized flourish extending from the end.

Chris Bland
PCC and CC CFO