

The Police and Crime Commissioner for Suffolk and the Chief Constable of Suffolk Constabulary

Annual Audit Letter for the year ended 31 March 2015

October 2015

Ernst & Young LLP



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Office of the Police and Crime Commissioner for Suffolk
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26 October 2015

Gareth Wilson
The Temporary Chief Constable of Suffolk Constabulary
Police Headquarters
Martlesham Heath
Ipswich
Suffolk
IP5 3QS

Dear Tim and Gareth,

Annual Audit Letter 2014-15

The purpose of this annual audit letter is to communicate the key issues arising from our work to the Police and Crime Commissioner (PCC) for Suffolk and The Chief Constable (CC) of Suffolk Constabulary and external stakeholders, including members of the public.

We have already reported the detailed findings from our audit work in our 2014-15 annual results report to the PCC for Suffolk and The CC of Suffolk Constabulary, as discussed at 25 September 2015 Audit Committee.

The matters reported here are those we consider most significant for the PCC for Suffolk and the CC of Suffolk Constabulary.

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

Yours sincerely

Neil A Harris
Executive Director
For and behalf of Ernst & Young LLP
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Contents

1. Executive summary	1
2. Key findings	3
3. Control themes and observations.....	7
4. Looking ahead	8
5. Fees	9

Relevant parts of the Audit Commission Act 1998 are transitionally saved by the Local Audit and Accountability Act 2014 (Commencement No. 7, Transitional Provisions and Savings) Order 2015 for 2014/15 audits.

The Audit Commission's 'Statement of responsibilities of auditors and audited bodies' (Statement of responsibilities). It is available from the accountable officer 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 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.

1. Executive summary

We have undertaken our 2014/15 audit work in accordance with the Audit Plan which we issued on 11 March 2015 to the 27 March 2015 Audit Committee.

We have conducted our audit work 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 PCC for Suffolk and the CC of Suffolk Constabulary are responsible for preparing and publishing their Statement of Accounts, accompanied by an Annual Governance Statement (AGS). In the AGS the PCC for Suffolk and the CC of Suffolk Constabulary report publicly each year on how far they comply with their own code of governance, including how they have monitored and evaluated the effectiveness of their governance arrangements in the year, and any changes planned in the coming period.

The PCC for Suffolk and the CC of Suffolk Constabulary are also responsible for having proper arrangements to secure economy, efficiency and effectiveness in their use of resources.

As auditors we are responsible for:

- Forming an opinion on the group and individual financial statements, including the Police Pension Fund Accounting Statements, and on the consistency of other information published with them;
- Reviewing and reporting by exception on the PCC for Suffolk's and the CC of Suffolk Constabulary's separate AGSs;
- Forming a conclusion on the arrangements the PCC for Suffolk and the CC of Suffolk Constabulary have to secure economy, efficiency and effectiveness in their use of resources; and
- Undertaking any other work specified by the Audit Commission and the Code of Audit Practice.

Summarised below are the results of our work across all these areas:

Area of work	Result
Audit of the group and individual financial statements of the PCC for Suffolk and the CC of Suffolk Constabulary and the Police Pension Fund Accounting Statements for the financial year ended 31 March 2015 in accordance with International Standards on Auditing (UK & Ireland)	On 25 September 2015 we issued an unqualified audit opinion on the group and individual financial statements of the PCC for Suffolk and the CC of Suffolk Constabulary and the Police Pension Fund Accounting Statements.
Form a conclusion on the arrangements the PCC for Suffolk and the CC of Suffolk Constabulary have made for securing economy, efficiency and effectiveness in its use of resources	On 25 September 2015 we issued an unqualified value for money conclusion to the PCC for Suffolk and the CC of Suffolk Constabulary.
Report to the National Audit Office on the accuracy of the consolidation pack the PCC for Suffolk including the CC of Suffolk need to prepare for the Whole of Government Accounts	We reported our findings to the National Audit Office on 25 September 2015 that the group financial statements of the PCC for Suffolk including the CC of Suffolk are below the threshold set and so do not require an audit.

Consider the completeness of disclosures on the AGSs of the PCC for Suffolk and the CC of Suffolk Constabulary, identify any inconsistencies with other information which we know about from our work and consider whether it complies with CIPFA/ SOLACE guidance	Management amended the Annual Governance Statements to include specific reference to high priority recommendations highlighted in reports from Her Majesty's Inspectorate of Constabulary during 2014/15.
Consider whether we should make a report in the public interest on any matter coming to our notice in the course of the audit	We did not issue such a report.
Determine whether we need to take any other action in relation to our responsibilities under the Audit Commission Act	We did not issue such a report.
<i>As a result of the above we have also:</i>	
Issued a report to the PCC for Suffolk and the CC of Suffolk Constabulary as those charged with governance with the significant findings from our audit.	Our Audit Results Report was issued on 25 September 2015 to the PCC for Suffolk and the CC of Suffolk Constabulary and the Audit Committee.
Issued 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 2015 we issued our audit completion certificate.

2. Key findings

2.1 Financial statement audit

The Statement of Accounts is an important tool to show both how the PCC for Suffolk and the CC of Suffolk Constabulary have used public money and how they can demonstrate their financial management and financial health.

We audited the PCC for Suffolk's and the CC of Suffolk Constabulary's Statement of Accounts and the Police Pension Fund Accounting Statements 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 2015.

We reported our detailed findings to those charged with governance, being the PCC for Suffolk and the CC of Suffolk Constabulary, within the Audit Results Report issued to the 25 September 2015 Audit Committee.

The main issues identified as part of our audit were:

Significant risk 1: Risk of management override of financial controls

We plan our audit work to consider the risk of fraud. This includes consideration of the risk that management may override controls in order to manipulate the financial statements.

The PCC for Suffolk and the CC of Suffolk Constabulary continue to face significant financial pressures due to reduced external funding. Management faces pressures to meet budget and savings targets. This presents a risk that the financial statements may be materially misstated.

We have completed testing as set out in our Audit Plan. We did not identify any instances of management override.

Significant risk 2: Private Finance Initiative: Police Investigation Centres

Our Audit Plan highlighted that we would review the assumptions within the PCC for Suffolk's Private Finance Initiatives for the Police Investigation Centres, shared with the Police and Crime Commissioner for Norfolk. The work was of a complex and technical nature involving an EY expert. Our initial review indicated the possibility of material misstatements in the accounting entries in the financial statements. We therefore re-designated the review of the Private Finance Initiative Schemes as a significant risk.

Following a more detailed review of the scheme, we concluded that no material error existed in the accounting entries for the PICs.

Other key findings: Enterprise Resource Planning (ERP) implementation: Audit findings and conclusions

Suffolk and Norfolk Constabularies implemented the Enterprise Resource Planning (ERP) system to support Human Resources, Duty Rotas, Finance, Procurement and Payroll from 1 April 2015. We considered that given the size of the project there were risks to the capacity of the finance team for the production of the 2014/15 financial statement and for the transfer of legacy data.

Management took steps to mitigate the highlighted risks. The finance team provided a full set of financial statements, supported by full working papers, for the start of the audit in early August 2015 and still has access to historic legacy data.

Other findings: Non-Current Assets (PCC Accounts)

We undertook an audit of property, plant and equipment targeting those assets for which the PCC for Suffolk had fully depreciated but had recorded in the financial statements as still in use.

Our audit of these assets indicated that many no longer existed. Management undertook an exercise and identified assets to the value of £8.8 million for plant and equipment and £0.6 million for intangible assets that no longer existed.

Management has amended Note 15 to the PCC for Suffolk's financial statements to write out both the asset and the accumulated depreciation. Management has also provided a disclosure note to explain the in-year movement.

As the assets were in the PCC for Suffolk's group and single entity accounts at nil net book value, there is no impact on the Balance Sheet or the financial position.

In addition, management made further material presentational amendments in respect of accumulated depreciation to the value of £2.5 million and to show those net revaluation losses recognised in the Comprehensive Income and Expenditure Statement (£4.9 million) and those recognised in the Revaluation Reserve (£1.3 million).

2.2 Value for money conclusion

As part of our work we must also conclude whether the PCC for Suffolk and the CC of Suffolk Constabulary have proper arrangements to secure economy, efficiency and effectiveness in their use of resources. This is known as our value for money conclusion.

In accordance with guidance issued by the Audit Commission, our 2014-15 value for money conclusion was based on two criteria. We consider whether the PCC for Suffolk and the CC of Suffolk Constabulary had proper arrangements in place for:

- Securing financial resilience, and
- Challenging how it secures economy, efficiency and effectiveness.

We issued an unqualified value for money conclusion on 25 September 2015. We noted the following issues as part of our audit.

Key finding 1: Financial Resilience

We consider financial resilience to be a risk to the Value for Money Conclusion.

The January 2015 Medium Term Financial Plan (MTFP) sets out the financial position of the PCC for Suffolk and the CC of Suffolk Constabulary. Following a 1.97% increase in council tax in 2015/16 and assuming a council tax freeze thereafter, the MTFP shows a total deficit position of £20.5 million by 2019/20 after the planned use of £1.3 million reserves by 2016/17.

Over the five years to 2020, the MTFP records savings to be achieved of £10 million. The total deficit of £20.5 less the £10 million savings leaves a budget gap of £10.5 million to bridge by 31 March 2020.

The PCC for Suffolk and the CC of Suffolk Constabulary are making good progress to bridge £5m of this through the Suffolk Local Policing Review with the aim of implementing plans and business cases from 1 April 2016.

To meet the £5.5 million of unidentified savings in 2018/19 and 2019/20, the PCC for Suffolk and the CC of Suffolk Constabulary are scoping plans for a transformational re-design of the delivery of public services across Suffolk.

To secure the ongoing sustainability of the financial position and the ability to maintain service levels in future years, the PCC for Suffolk and the CC of Suffolk Constabulary will need to:

- Develop robust plans quickly for the review of services across Suffolk;
 - Drive through the required savings identified from Phase 2 of the Local Policing Plan;
 - Consider carefully the impact of any decisions to freeze council tax; and
 - Continue to review the levels of reserves to support the PCC for Suffolk's and the CC of Suffolk Constabulary's finances.
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Other finding 1: The PCC for Suffolk's Commissioning Arrangements

In line with Section 143 (1) – (3) of the Anti - Social Behaviour, Crime and Policing Act 2014, a local policing body may provide for the provision of services that:

- Will contribute to securing crime and disorder reduction in the body's area;
- Are intended to help victims or witnesses of offences or ant-social behaviour; and
- Are specified in an order made by the Secretary of State.

The local policing body may make grants in connection with the arrangements which may be subject to any conditions that the body thinks appropriate.

For 2014/15 the PCC for Suffolk's commissioning budget was £1.6 million. The budget covers the Crime and Disorder Reduction Fund and administration of the Ministry of Justice Victims' Services Grant Fund.

Our review noted good governance arrangements in place for the distribution of awards and also for monitoring of those awards. Our review concludes that there is good scrutiny of the outcomes of the grants awarded as evident from the minutes of the PCC's Accountability and Performance Panel.

In addition, management has adopted various methods to independently corroborate the outcomes from the awards of grants. Management are also seeking further ways to check the outcome from the user's perspective This is good practice and aids decision making as to whether and how future should be awarded.

Other finding 2: Dual PCC for Suffolk and the CC of Suffolk Constabulary Role of the Chief Finance Officer

Since we issued our Audit Plan in March 2015, from 1 May 2015, the PCC's Chief Finance Officer is acting on a temporary basis until 31 March 2016 in a dual capacity covering both the PCC and the CC.

The accompanying letter to the Chartered Institute Public Finance and Accountancy Statement on the Role of the Chief Finance Officer (CFO) strongly advocates that each Chief Finance Officer (CFO) should form part of their respective leadership team. It goes on to say that those charged with governance should reassure themselves that any potential conflicts of interest could be appropriately handled.

The March 2015 Audit Committee noted the proposal for the CFO function for PCC for Suffolk and Chief Constable of Suffolk to be carried out by same person on a temporary basis.

Audit Committee members considered the paper prepared by the PCC Chief Executive. The paper noted the relevant guidance, advice taken by other Offices for the PCC and practice in the police sector, consideration of relevant ethical standards for CFOs and proposed working arrangements should a conflict occur.

We undertook work to review the report to the Audit Committee, consider the legal advice sought and reviewed the two (employment) contracts in place for the two roles.

We understand that the arrangement is temporary. We are satisfied to date that the arrangements are working in practice and as such we are not minded to challenge the proposal.

We will continue to review the arrangement during our 2015-16 audit.

2.3 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 Suffolk for Whole of Government Accounts purposes.

We reported our findings to the National Audit Office on 25 September 2015. Our conclusion was that the group financial statements of the PCC for Suffolk, including the CC of Suffolk, are below the threshold set and so do not require an audit.

2.4 Annual Governance Statement

We are required to consider the completeness of disclosures in the separate Statements covering the PCC for Suffolk and the CC of Suffolk Constabulary, identify any inconsistencies with the other information which we know about from our work, and consider whether the Statements comply with relevant guidance.

Management amended the Annual Governance Statements to include specific reference to high priority recommendations highlighted in reports from Her Majesty's Inspectorate of Constabulary during 2014/15.

2.5 Objections received

We did not receive any objections to the 2014/15 PCC for Suffolk and the CC of Suffolk Constabulary financial statements from members of the Public.

2.6 Other powers and duties

We identified no issues during our audit that required us to use powers under the Audit Commission Act 1998, including reporting in the public interest.

2.7 Independence

We communicated our assessment of independence to the PCC for Suffolk and the CC of Suffolk Constabulary and the Audit Committee on 27 March 2015 and on 25 September 2015.

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.

3. Control themes and observations

As part of our work, we obtained enough understanding of internal control 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 must tell the PCC for Suffolk and the CC of Suffolk Constabulary about any significant deficiencies in internal control we find during our audit.

We did not identify any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in the PCC for Suffolk's and the CC of Suffolk Constabulary's financial statements.

However, previous audit reports have reported weaknesses within the register to support Property, Plant and Equipment which have continued into 2014/15.

Management continue to respond to audit requests and provide reports to support disclosures to the financial statements. Management are seeking to address the issue through the Enterprise Resource Planning System from 1 April 2015.

However, this year, following audit, management has also amended the financial statements for material errors within Note 15 Property, Plant and Equipment.

The errors found this year indicates that management should continue to ensure that all assets that have been fully depreciated are still in possession of the PCC

Given the errors found this year, we are likely to include Property, Plant and Equipment as a risk area for our 2015/16 Audit Plan.

4. Looking ahead

Description	Impact
2015/16 is the first year that management will use the Enterprise Resource Planning system to compile the financial statements.	Management has reported some problems following the implementation of the ERP system, principally in the difficulties in running reports and in the coding of income and expenditure. Management is looking to resolve the remaining issues in time for the production of the 2015/16 financial statements.

5. Fees

Our March 2015 Audit Plan recorded planned fees in line with the Audit Commission's scale fee for the audit.

	* Proposed Final fee 2014-15	Planned fee 2014-15	Scale fee 2014-15	Final fee 2013-14
Total Audit Fee – The PCC for Suffolk – Code Work	£43,600	£42,310	£42,310	£43,822
Total Audit Fee – The CC of Suffolk Constabulary – Code Work	£20,216	£20,000	£20,000	£23,780
Combined Audit Fee	£63,816	£62,310	£62,310	£67,602

* Since we issued the Audit Plan, we undertook more audit work than planned in dealing with the material errors regarding Property, Plant and Equipment and in considering the dual role of the Chief Finance officer in covering both the PCC for Suffolk and the CC of Suffolk Constabulary.

We are proposing to submit a scale fee variation increase of £1,506, split between:

- £1,074, chargeable to the PCC for Suffolk, for the extra work in relation the audit of Property, Plant and Equipment; and
- £432, (£216 chargeable each to both police entities) for the extra work on the dual role of Chief Finance Officer in covering both the PCC for Suffolk and the CC for Suffolk Constabulary.

The total proposed extra fees chargeable to the PCC for Suffolk are £1,290 and £216 to the CC of Suffolk Constabulary.

Any variations to scale fees are subject to agreement by the Chief Finance Officer of the PCC for Suffolk and CC for Suffolk Constabulary and approval from the Public Sector Appointments Ltd.

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