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Date: 30 June 2016

Dear Kevin,

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

Thank you for your letter of 5 May 2016.

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. Where relevant, individual PCC or CC comments have been included.

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 CFO provides managerial support and 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 2015-16, 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 23 September 2016 when the Statements of Accounts for 2015-16 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.

At its meeting on 23 September 2014, the Audit Committee reviewed the Confidential Reporting Policy (Whistleblowing) Paper AC14/18, which, subject to changes outlined by the Chief Constable, was approved by the Audit Committee. The approved Confidential Reporting and Whistleblowing Policy (Breaches of Professional Standards) was published on the Constabularies intranet sites on 20 January 2016.

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 CFO 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. The draft policy was considered and approved at the Joint Joint Negotiating Consultative Committee (JJNCC) on 10 July 2015, Legal Services on 18 March 2016 and Policy owner on 12 April 2016. The approved policy was published on the Constabularies intranet sites on 13 April 2016.

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, which is highlighted in the approved Confidential Reporting and Whistleblowing Policy (Breaches of Professional Standards), and was published on the Constabularies intranet sites on 20 January 2016.

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).**

Both the Office of the PCC and Suffolk Constabulary have adopted the Code of Ethics developed by the College of Policing, and a Joint Integrity Strategy Working Group has been established to implement an action and communication plan designed to raise employees awareness of the importance of the Code of Ethics. The action plan is monitored by the Chief Officer Team, and the Chief Constable reports back to the PCC and Audit Committee. The Audit Committee considered Paper AC 15/20 Update on Embedding of the Code of Ethics at its meeting on 25 September 2015.

The approved Confidential Reporting and Whistleblowing Policy (Breaches of Professional Standards), which was published on the Constabularies intranet sites on 20 January 2016, makes particular reference to the requirements under the Code of Ethics.

In particular regard to standards of conduct, please refer to the PCC and CC Annual Governance Statements 2015-16 which were considered at the Audit Committee on 24 June 2016.

► **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.**

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

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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 2015-16.

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 were considered by the Audit Committee on 24 June 2016. 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 either 'substantial' or 'reasonable' assurance, with the exception of payroll, which was assessed as providing 'limited assurance'. The one 'urgent priority' and one 'important' priority recommendation within the payroll audit are actively being implemented.

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 24 June 2016 the Audit Committee considered two papers, a) Paper AC 16/8 Review of the Effectiveness of the System of Internal Control 2015/16, and b) Paper AC 16/9 Annual Assurance Report 2015/16 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.

The relevant recommendations were considered and approved by the Audit Committee on 24 June 2016, which support my conclusion 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?

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.

Responsibility for monitoring achievement against jointly agreed targets rests with the Accountability and Performance Panel of the PCC.

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. I provide managerial support and 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 Statements 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, I am confident that there are no accounting entries that I believe or suspect to be false or intentionally misleading in the draft Statements 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 2015-16?

Each year the PCC and Chief Constable, as corporations' 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 2015-16 were considered at the Audit Committee on 24 June 2016.

The preparation and publication of an Annual Governance Statement in accordance with the publication "Delivering Good Governance in Local Government (The Framework)", and the CIPFA Guidance Note for Police on The Framework published in autumn 2012, 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 2015-16.

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);
- A contractual dispute with Ipswich Town Football Club following the outcome of a judgement in the case between Leeds United Football Club and West Yorkshire Police;
- Municipal Mutual Insurance Ltd (MMI Ltd) ceased trading in 1992, with the full liability of claims not being met by the scheme of arrangements which was put in place;
- The potential underpayment of historic overtime claims from certain staff groups;
- The alleged unlawful discrimination arising from the Transition Provisions in the Police Pension Regulations 2015.

These have currently been assessed as a contingent liability, with further details of each claim provided in section 21 Contingent Liabilities of the draft Statement of Accounts 2015/16. 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 dated 28 September 2012 (relating to the financial year ended 31 March 2012), 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.

The Constabulary faced a year of unprecedented change during 2015-16, this included significant operational and back office changes as part of the agreed change programme within the Medium Term Financial Plan. Also during 2015/16, the Constabulary implemented two major corporate systems, Athena and ERP. This level of change presented the Constabulary with significant challenges, both operational and financial.

In terms of financial performance for the year ending 31 March 2016, this was considered at the Accountability and Performance Panel meeting on 10 June 2016, where the revenue outturn of the Group, after use of specific and earmarked reserves, was an overspend of £1.084m (0.97% of the net revenue budget). Discussion of the year-end financial position was set in the context of successfully delivering planned recurring savings of £5.369m in 2015-16.

Following the Government's Autumn Statement on 25 November 2015, the Constabulary's savings requirement has significantly reduced from £20.5m by 2020 to just under £7.5m by 2020, as a result of the much better than expected funding settlement from the Home Office, and the decision by the PCC to increase the precept by just less than 2% per annum in 2016-17. Of the £7.5m savings target, there are already plans to save £6.2m, of which £5m will be delivered in 2016-17. This leaves a balance of savings to be achieved by 2020 of nearly £1.3m.

Assurance of medium term financial stability is detailed in the PCC's approved Medium Term Financial Plan (MTFP) 2016-17 to 2019-20 (Decision No 3-2016) 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 2016-17, subject to delivering planned savings, with further cumulative savings of nearly £1.3m to be identified and implemented over the period of the MTFP (including £0.96m in 2017-18).

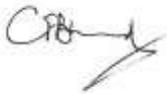
Reference has been made in a number of the above responses to the draft PCC and CC Annual Governance Statements which will be considered at the Audit Committee on 24 June 2016. These papers provide a comprehensive summary of the new PCC and CC governance framework

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, I 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