

The Police and Crime Commissioner for Essex and the Chief Constable of Essex

Year ending 31 March 2014

Annual Audit Letter

24 October 2014



Building a better
working world

The Police and Crime Commissioner for Essex
3 Hoffmanns Way
Chelmsford CM1 1GU

24 October 2014

The Chief Constable of Essex
Essex Police Headquarters,
PO Box 2, Springfield,
Chelmsford CM2 6DA

Dear Nick and Stephen

Annual Audit Letter – 2013-14 financial year

The purpose of this Annual Audit Letter is to communicate to both the Police and Crime Commissioner for Essex (the PCC) and the Chief Constable of Essex (the CC) and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to their attention.

We have already reported the detailed findings from our audit work to those charged with governance (the PCC and the CC) in the following reports:

2013-14 Audit Results Report for the Office
of the Police and Crime Commissioner for
Essex

Issued on 30 September 2014

2013-14 Audit Results Report for the Office
of the Chief Constable of Essex

Issued on 30 September 2014

The matters reported here are the most significant for the bodies.

I would like to take this opportunity to thank the staff for their assistance during the course of our work.

Yours sincerely

Debbie Hanson
Audit Director

For and behalf of Ernst & Young LLP

Enc

Contents

Executive summary	1
Key findings	3
Control themes and observations.....	6

In March 2010 the Audit Commission issued a revised version of the 'Statement of responsibilities of auditors and audited bodies' (Statement of responsibilities). It is available from the Chief Executive 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 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.

Executive summary

Our 2013-14 audit work has been undertaken in accordance with the Audit Plan we issued on 7 March 2014 and is conducted 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 and the CC are responsible for preparing and publishing their respective Statement of Accounts, accompanied by their respective Annual Governance Statements. In their respective Annual Governance Statements, the PCC and the CC report publicly on an annual basis on the extent to which 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 on any planned changes in the coming period. The PCC and the CC are also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in their respective use of resources.

As auditors we are responsible for:

- ▶ forming an opinion on the financial statements of the PCC and the CC;
- ▶ reviewing the Annual Governance Statements of the PCC and the CC;
- ▶ forming a conclusion on the arrangements that the PCC and the CC have in place to secure economy, efficiency and effectiveness in their use of resources; and
- ▶ undertaking any other work specified by the Audit Commission.

Summarised below are the conclusions from all elements of our work:

Area of work	Office of the Police and Crime Commissioner	Office of the Chief Constable
Audit the financial statements of the Police and Crime Commissioner and Group and the Chief Constable for the financial year ended 31 March 2014 in accordance with International Standards on Auditing (UK & Ireland)	On 30 September 2014 we issued an unqualified audit opinion in respect of the PCC and Group and the Police Pension Fund.	On 30 September 2014 we issued an unqualified audit opinion in respect of the CC and the Police Pension Fund.
Form a conclusion on the arrangements the PCC and the CC have made for securing economy, efficiency and effectiveness in its use of resources.	On 30 September 2014 we issued an unqualified value for money conclusion.	On 30 September 2014 we issued an unqualified value for money conclusion.

Executive summary

Area of work	Office of the Police and Crime Commissioner	Office of the Chief Constable
Issue a report to those charged with governance (the PCC and the CC) communicating significant findings resulting from our audit.	On 30 September 2014 we issued our report in respect of the PCC.	On 30 September 2014 we issued our report in respect of the CC.
Report to the National Audit Office on the accuracy of the consolidation pack the PCC is required to prepare for the Whole of Government Accounts.	We reported our findings to the National Audit Office on 3 October 2014.	Not applicable – Whole of Government accounts is prepared at the group level.
Consider the completeness of disclosures in the PCC's and the CC's Annual Governance Statement, identify any inconsistencies with the other information of which we are aware from our work and consider whether it complies with CIPFA / SOLACE guidance.	No issues to report.	No issues to report.
Consider whether, in the public interest, we should make a report on any matter coming to our notice in the course of the audit.	No issues to report.	No issues to report.
Determine whether any other action should be taken in relation to our responsibilities under the Audit Commission Act.	No issues to report.	No issues to report.
Issue 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 3 October 2014 we issued our audit completion certificate for the PCC, following the completion of our audit of the Whole of Government Accounts.	On 3 October 2014 we issued our audit completion certificate for the CC, following the completion of our audit of the Whole of Government Accounts.

Key findings

Financial statement audit

We audited the PCC's and the CC's Statement of Accounts 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 30 September 2014 in respect of the PCC and the CC sets of Statements of Accounts and the Police Pension Fund.

The main issues identified as part of our audit were:

Significant risk 1: Management override

ISA (UK&I) 240 requires that 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.

Our audit procedures and testing did not identify any instances of misstatement due to fraud or error.

Significant risk 2: Pensions accounts

Essex Police operates two defined pension schemes, a police officer scheme and the local government pension scheme. Accounting for both schemes involves significant estimation and judgement. As part of the actuarial review of the Local Government Pension Scheme admitted bodies were asked to make additional payments to the pensions scheme to fund future deficits.

We did not identify any issues in our review of the actuary or the estimations and judgements reflected in the financial statements for either scheme. Essex Police did not make any prepayments to the Local Government Pension Scheme to fund future deficits in 2013-14.

A revised International Accounting Standard 19 (employee benefits) standard was published in June 2011 and was effective for the 2013-14 financial statements. Our testing of the disclosure related to the revised IAS19 standard did not identify any material misstatements.

Significant risk 3: Implementation of a new financial system (SAP)

Essex Police implemented a new financial system (SAP) during the financial year 2013-14. This is designed to integrate several of the financial systems that were previously operating independently. This system was used to produce the figures for the 2013-14 financial statements for both the PCC and the CC. Data from Essex Police's previous financial system have been input to the new system, which then used this information to correctly calculate the relevant figures. Any errors in the transfer or input of this data, or the calculations performed by the new system could have resulted in material errors in both sets of financial statements.

We did not identify any errors in the material accuracy or completeness of base data and sample testing of inputs and calculations confirmed that values in the system were materially accurate. Our audit work confirmed that outputs from the system were consistent with both sets of financial statements. We did however experience difficulties in obtaining cleansed breakdowns of income and expenditure transactions, which were disaggregated to a sufficient level, which we could use to perform our testing. As a result,

Key findings

our sample testing of income and expenditure took longer to complete.

Value for money conclusion

We are required to carry out sufficient work to conclude on whether the PCC and the CC have put in place proper arrangements to secure economy, efficiency and effectiveness in their use of resources.

In accordance with guidance issued by the Audit Commission, in 2013-14 our conclusion was based on two criteria:

- ▶ The organisation has proper arrangements in place for securing financial resilience; and
- ▶ The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

We issued an unqualified value for money conclusion on 30 September 2014 for the PCC and the CC. Our audit did not identify any significant matters.

In forming our conclusion, we have relied on the work undertaken by the HMIC as part of its national programme of reviews of 'Policing in austerity- meeting the challenge'. The report for Essex was published in July 2014 and assessed Essex as Good overall. The HMIC report concluded that 'Essex Police has responded well to the financial challenge of this spending review. The force is looking beyond this period and is planning for future funding reductions so that it is best placed to be able to continue to provide an effective police service.'

In relation to the question of 'to what extent is the force taking the necessary steps to ensure a secure financial position for the short and long term?' HMIC assessed Essex as Good and noted that:

- ▶ The force has sound plans to achieve savings in 2014/15 thereby achieving recurring annual savings of £47.3m required by the end of the 2010 spending review. It has plans to achieve at least a further £10m of savings in 2015/16.
- ▶ The force has assessed future savings requirements to 2017 and has started to develop plans to meet this challenge.
- ▶ The force needs to invest in its infrastructure to support the way it will provide policing in the future.
- ▶ The force needs to plan to achieve future savings without over reliance on reserves. Investing in its infrastructure will help the force to meet longer-term challenges.

From our own work, we noted that, along with many other public sector bodies, Essex Police is facing significant financial challenges over the next three to four years. Essex Police is clearly aware of the challenges it faces and has responded well to these. In this context, we would particularly note the HMIC comments regarding the need to avoid over reliance on reserves to address the financial challenges that Essex Police is facing. The level of General Fund reserve at the end of 2013-14 was just over £18 million, which is above the recommended minimum level of £12 million. Earmarked reserves at the same date total a further £7.4 million. Reserves can only be used to fund one off items and should not be used to support the base budget. It is therefore important that in developing plans to address the budget gap, the decisions necessary to achieve ongoing cost reductions are made.

Key findings

Objections received

We did not receive any objections to the 2013-14 accounts of the PCC or the CC from any members of the public.

Whole of government accounts

We reported to the National Audit office on 3 October 2014 the results of our work performed in relation to confirming the consistency of the consolidation pack the Authority is required to prepare for the Whole of Government Accounts, with its financial statements. We did not identify any areas of concern.

Annual governance statement

We are required to consider the completeness of disclosures in the respective PCC's and CC's Annual Governance Statements, identify any inconsistencies with other information of which we are aware from our work, and consider whether it complies with CIPFA / SOLACE guidance. We completed this work and did not identify any areas of concern.

Audit fees

The table below sets out the scale fee and our final proposed audit fees.

	Planned fee	Scale fee	Final
Code audit work – PCC	£54,980	£54,980	* see note below
Code audit work – CC	£25,000	£25,000	* see note below
Non-Code work	**£34,000	N/A	£34,000

* Due to changes in the format of the PCC and the CC accounts and difficulties experienced in obtaining breakdowns of transactions, we may need to charge an additional fee. We will be discussing this with management now that the audit is complete. This additional fee will also need to be agreed with the Audit Commission.

** We have undertaken non-audit work at the request of the Office of the Police and Crime Commissioner (the PCC) to support the PCC in relation to providing advice on drawing up service level agreements between the PCC and the Chief Constable.

Control themes and observations

As part of our audit of the financial statements, 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 communicated to those charged with governance, as required, significant deficiencies in internal control.

We did not find any material deficiencies in internal controls. We did identify some minor areas for improvement relating to general ledger user access permissions, parameters relating to pay rates and pension deductions and the lack of regular review of historic local pay agreements. These did not have any impact on the financial statements or our audit for 2013-14. Further details of the specific issues identified are included in our Audit Results Report.

EY | Assurance | Tax | Transactions | Advisory

Ernst & Young LLP

© Ernst & Young LLP. Published in the UK.
All Rights Reserved.

The UK firm Ernst & Young LLP is a limited liability partnership registered in England and Wales with registered number OC300001 and is a member firm of Ernst & Young Global Limited.

Ernst & Young LLP, 1 More London Place, London, SE1 2AF.

[ey.com](https://www.ey.com)