

Office of the Police & Crime Commissioner and Chief Constable for Hampshire

Annual Audit Letter for the year ended 31 March 2016

Ernst & Young LLP

October 2016

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In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued ‘Statement of responsibilities of auditors and audited bodies 2015-16’. It is available from the Chief Executive of each audited body and via the PSAA website (www.psaa.co.uk)

The Statement of responsibilities serves as the formal terms of engagement between 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 ‘Terms of Appointment from 1 April 2015’ issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (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.

A hand with white nail polish is writing on a document with a blue pen. In the background, there is a calculator, a white cup, and a laptop. A yellow rectangular box is overlaid on the left side of the image.

Executive Summary

Executive Summary

We are required to issue an annual audit letter to the Police and Crime Commissioner (PCC) and Chief Constable (CC) following completion of our audit procedures for the year ended 31 March 2016.

Below are the results and conclusions on the significant areas of the audit process.

Area of Work	Conclusion
Opinion on both the PCC's and the CC'S:	
▶ Financial statements	Unqualified - the two sets of financial statements give a true and fair view of the financial position of the PCC Group, the PCC Single Entity, the CC Single Entity and the Police Pension Fund as at 31 March 2016 and of the expenditure and income for both the PCC and the CC for the year then ended.
▶ Consistency of other information published with the financial statements	Other information published in both sets of financial statements was consistent with the Annual Accounts.
Concluding on the PCC's and CC's arrangements for securing economy, efficiency and effectiveness	We concluded that both the PCC and the CC put in place proper arrangements to secure value for money in the use of their resources.

Area of Work	Conclusion
Reports by exception:	
▶ Consistency of the Governance Statements	The PCC's and the CC's Annual Governance Statements were consistent with our understanding of the PCC and CC.
▶ Public interest report	We had no matters to report in the public interest.
▶ Written recommendations to the PCC and CC, which should be copied to the Secretary of State	We had no matters to report.
▶ Other actions taken in relation to our responsibilities under the Local Audit and Accountability Act 2014	We had no matters to report.

Area of Work	Conclusion
Reporting to the National Audit Office (NAO) on our review of the PCC's and CC's Whole of Government Accounts return (WGA).	We had no matters to report.

As a result of the above we have also:

Area of Work	Conclusion
Issued a report to those charged with governance of the PCC and CC communicating significant findings resulting from our audit.	Our Audit Results Report was issued on 15 September 2016.
Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2015 Code of Audit Practice.	Our certificate was issued on 15 September 2016.

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

Helen Thompson

Executive Director
For and on behalf of Ernst & Young LLP

Purpose



Purpose

The Purpose of this Letter

The purpose of this annual audit letter is to communicate to the PCC and the CC and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to the attention of the PCC and CC.

We have already reported the detailed findings from our audit work in our 2015/16 Audit Results Report to the Joint Audit Committee on 15 September 2016, including the PCC and CC representing those charged with governance. We do not repeat those detailed findings in this letter. The matters reported here are the most significant for the PCC and CC.



Responsibilities

Responsibilities

Responsibilities of the Appointed Auditor

Our 2015/16 audit work has been undertaken in accordance with the Audit Plan that we issued on 31 March 2016 and is conducted in accordance with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office.

As auditors we are responsible for:

- ▶ Expressing an opinion, for both the PCC and the CC:
 - ▶ on the 2015/16 financial statements; and
 - ▶ on the consistency of other information published with the financial statements.
- ▶ Forming a conclusion on the arrangements the PCC and CC has to secure economy, efficiency and effectiveness in their use of resources.
- ▶ Reporting by exception:
 - ▶ if the annual governance statements are misleading or not consistent with our understanding of the PCC and CC;
 - ▶ any significant matters that are in the public interest;
 - ▶ any written recommendations to the PCC and CC, which should be copied to the Secretary of State; and
 - ▶ if we have discharged our duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

Alongside our work on the financial statements, we also review and report to the National Audit Office (NAO) on your Whole of Government Accounts return. The extent of our review and the nature of our report are specified by the NAO.

Responsibilities of the PCC and CC

The PCC and CC are responsible for preparing and publishing a set of statement of accounts each, accompanied by an Annual Governance Statement (AGS). In the AGS, the PCC and CC 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 year, and any changes planned in the coming period.

The PCC and CC are also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in their use of resources.

The background is a blurred office scene. In the foreground, there are several clear glass tumblers filled with water on a wooden desk. Behind them, a laptop screen displays a financial chart. To the left, a pen and some papers are visible. The overall lighting is bright and natural, suggesting a window in the background.

Financial Statement Audit

Financial Statement Audit

Key Issues

The PCC's and CC's Statements of Accounts are an important tool for the PCC and CC to show how they have used public money and how they can demonstrate their financial management and financial health.

We audited the Statements of Accounts in line with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office and issued an unqualified audit report on 16 September 2016.

Our detailed findings were reported to the Joint Audit Committee on 15 September 2016 attended by the PCC and CC representing Those Charged with Governance.

The key issue identified as part of our audit was as follows:

Significant Risk	Conclusion
Management override of controls A risk present on all audits is that management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly, and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Auditing standards require us to respond to this risk by testing the appropriateness of journals, testing accounting estimates for possible management bias and obtaining an understanding of the business rationale for any significant unusual transactions.	We obtained a full list of journals posted to the general ledger during the year, and analysed these journals using criteria we set to identify any unusual journal types or amounts. We then tested a sample of journals that met our criteria and tested these to supporting documentation. Our review of accounting estimates found that estimates are reasonable, and there was no indication of bias in the calculation of the estimates. We have not identified any material weaknesses in controls or evidence of material management override from the work we completed. We have not identified any instances of inappropriate judgements being applied. We did not identify any other transactions during our audit which appeared unusual or outside the normal course of business.

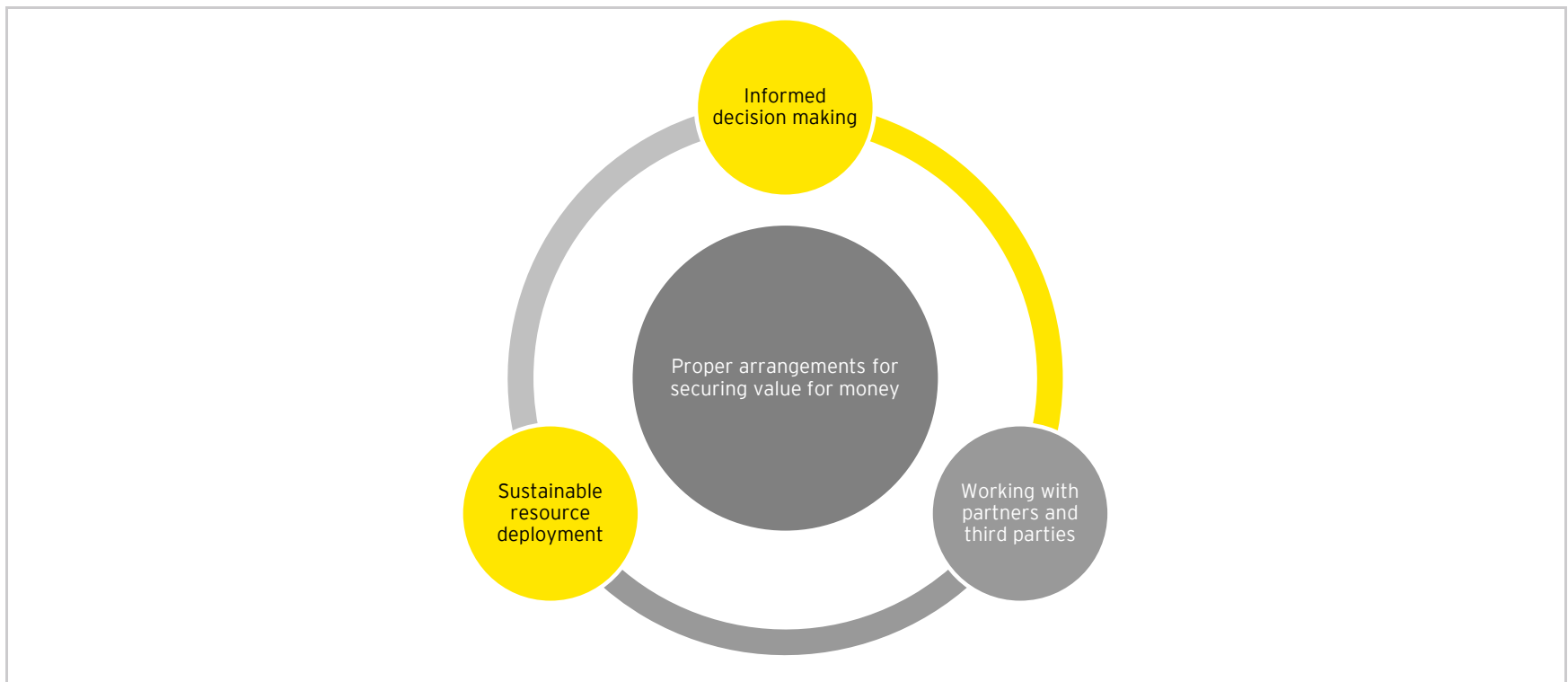
Value for Money

Value for Money

We are required to consider whether the PCC and the CC have put in place 'proper arrangements' to secure economy, efficiency and effectiveness on their use of resources. This is known as our value for money conclusion.

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- take informed decisions;
- deploy resources in a sustainable manner; and
- work with partners and other third parties.



We identified no significant risks in relation to these arrangements. We performed the procedures outlined in our audit plan and the results were reported in our Audit Results Report which we presented to the Joint Audit Committee on 15 September 2016. We did not identify any significant weaknesses in either the PCC's or the CC's arrangements.

We therefore concluded that both the PCC and the CC put in place proper arrangements to secure value for money in its use of resources.



Other Reporting Issues

Other Reporting Issues

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 and CC for Whole of Government Accounts purposes.

We had no significant issues to report.

Annual Governance Statement

We are required to consider the completeness of disclosures in the PCC's and CC's annual governance statements, to identify any inconsistencies with the other information of which we are aware from our work, and consider whether it is misleading.

We completed this work and did not identify any areas of concern.

Report in the Public Interest

We have a duty under the Local Audit and Accountability Act 2014 to consider whether, in the public interest, to report on any matter that comes to our attention in the course of the audit in order for it to be considered by the PCC and CC or brought to the attention of the public.

We did not identify any issues which required us to issue a report in the public interest.

Written Recommendations

We have a duty under the Local Audit and Accountability Act 2014 to designate any audit recommendation as one that requires the PCC and CC to consider it at a public meeting and to decide what action to take in response.

We did not identify any issues which required us to issue a written recommendation.

Objections Received

We did not receive any objections to the 2015/16 financial statements from members of the public.

Other Powers and Duties

We identified no issues during our audit that required us to use our additional powers under the Local Audit and Accountability Act 2014.

Independence

We communicated our assessment of independence in our Audit Results Report to the Joint Audit Committee on 15 September 2016. 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 regulatory and professional requirements.

Control Themes and Observations

As part of our work, 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 are required to communicate to you significant deficiencies in internal control identified during our audit.

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in the financial statements.

Focused on your
future



Focused on your future

Area	Issue	Impact
Faster close	From the 2017/18 financial year, the deadline for preparing the financial statements will move to 31 May from 30 June. In addition, the deadline for completing the statutory audit will move to 31 July from 30 September.	The faster closedown timetable requires the PCC and CC to adjust its timetable for preparing the accounts, as well as the budget setting process and the timing of committee meetings. It requires upfront planning to identify areas of the accounts that can be prepared earlier, before the 31 March, and there will be a need to establish robust basis for estimations across a wider number of entries in the financial statements. For the 2016/17 audit, we are working with officers to bring our work forward to support the transition ahead of the new deadlines in 2017/18.
Appointment of auditors	The current audit contracts expire on the completion of the 2017/18 audit. The expiry of contracts also marks the end of the current mandatory regime for auditor appointments. After this, the PCC and CC can exercise choice about whether they decide to opt in to the authorised national scheme, or whether to make other arrangements to appoint its own auditors. In July 2016, the Secretary of State for Communities and Local Government specified Public Sector Audit Appointments limited (PSAA) as an appointing person under regulation 3 of the Local Audit (Appointing Person) Regulations 2015. PSAA will be able to appoint an auditor to relevant authorities that choose to opt into its national collective scheme.	Appointment of auditors for the 2018/19 financial year is required by 31 December 2017. The PCC and CC should consider whether they intend to opt into the appointed person scheme to appoint your auditors from 2018/19 or if the PCC and CC should make their own arrangements following the legislative requirements.

Area	Issue	Impact
Policing and Crime Bill	The previous Home Secretary, now Prime Minister, was keen on expanding and developing the role of the Police and Crime Commissioner. Some of the proposed changes include the PCC taking on responsibility for other blue light services in the area such as Fire and Rescue. This was introduced via the Policing and Crime Bill. Another key area of change introduced in the Bill was in relation to the police complaints system. Currently the Chief Constable is responsible for overseeing at a local level the complaints system. However recent discussions at a governmental level have suggested that this role could transfer across to the PCC with the PCC becoming in effect the appellate body for those appeals currently heard by the Chief Constable.	If these proposed changes are enacted in legislation this could impact on the governance of the Force as well as the resources required to meet the proposed new role and responsibilities.

Appendix A

Audit Fees



Appendix A Audit Fees

Our audit fee for 2015/16 is in line with the scale fee set by the PSAA and reported in our 15 September 2016 Annual Results Report.

Description	Final Fee 2015/16 £	Planned Fee 2015/16 £	Scale Fee 2015/16 £	Final Fee 2014/15 £
Audit Fee PCC - Code work	41,235	41,235	41,235	62,015
Audit Fee CC - Code work	18,750	18,750	18,750	28,465
Total PCC Group	59,985	59,985	59,985	90,480

We confirm we have undertaken no non-audit work outside of the PSAA's requirements.

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ED None

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