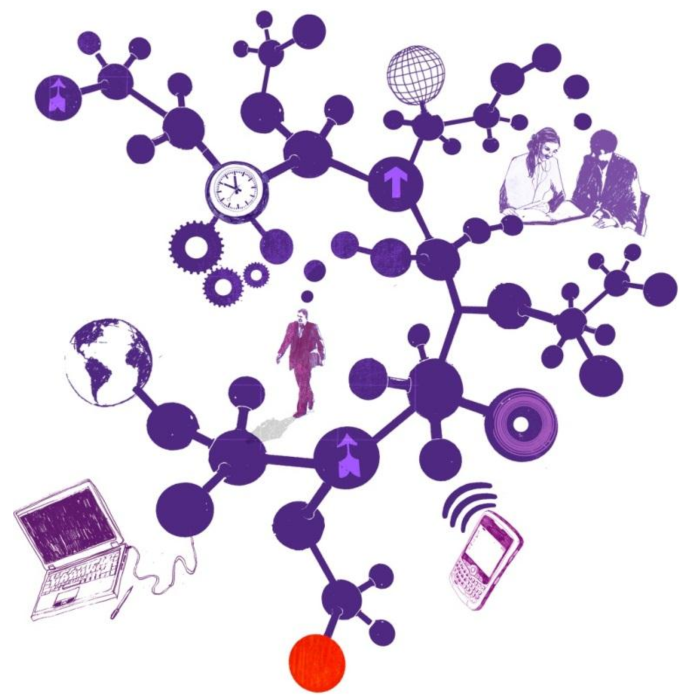
Grant Thornton

# The Annual Audit Letter for Gloucestershire Police and Crime Commissioner and Chief Constable

**Year ended 31 March 2013**

15 October 2013

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# Section 1: Executive summary


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# Executive summary

## Purpose of this Letter

Our Annual Audit Letter ('Letter') summarises the key findings arising from the following work that we have carried out at the Office of the Police and Crime Commissioner for Gloucestershire (PCC) and the Office of the Chief Constable for Gloucestershire (Chief Constable) for the year ended 31 March 2013:

- auditing the 2012/13 accounts for the PCC and Chief Constable and Whole of Government Accounts submission for the PCC (Section two) and
- assessing the PCC's and Chief Constable's arrangements for securing economy, efficiency and effectiveness in their use of resources (Section three).

The Letter is intended to communicate key messages to the PCC and Chief Constable and external stakeholders, including members of the public. We reported the detailed findings from our audit work to those charged with governance in the Audit Findings Report on 25 September 2013.

## Responsibilities of the external auditors, the PCC and the Chief Constable

This Letter has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission (www.audit-commission.gov.uk).

The PCC and Chief Constable are each responsible for preparing and publishing their own accounts, with each set of accounts accompanied by a separate Annual Governance Statement. They are also each responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in their use of resources (Value for Money) in their respective organisations.

Our annual work programme for each body, which includes nationally prescribed and locally determined work, has been undertaken in accordance with the joint Audit Plan that we issued on 10 May 2013 and was conducted in accordance with the Audit Commission's Code of Audit Practice ('the Code'), International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

## Audit conclusions

The audit conclusions that we have provided in relation to 2012/13 are as follows:

- an unqualified opinion on the accounts which give a true and fair view of the financial position of the PCC as at 31 March 2013 and the income and expenditure for the year
- an unqualified opinion on the accounts which give a true and fair view of the financial position of the Chief Constable as at 31 March 2013 and the income and expenditure for the year
- an unqualified conclusion in respect of the PCC's arrangements for securing economy, efficiency and effectiveness in their use of resources, and an unqualified conclusion in respect of the Chief Constable's arrangements for securing economy, efficiency and effectiveness in their use of resources.

The PCC was below the £300 million audit threshold set by the National Audit Office (NAO) for Whole of Government Accounts and therefore a full audit was not required. We issued the shortform assurance statement to the NAO by the 4 October deadline.

# Executive summary

## Key areas for the PCC and Chief Constable's attention

We summarise here the key messages arising from our audit for the PCC and Chief Constable to consider as well as highlighting key issues facing the PCC and Chief Constable in the future.

### PCC

- the key issue arising this year, which has been nationally debated, has been where to account for pension costs and liabilities. The draft accounts for the PCC included some of the pension costs and liabilities but as the Chief Constable has direction and control over police officers and staff, all pension costs and liabilities should have been reflected in the Chief Constable's accounts. The PCC's accounts were amended to reflect the correct accounting treatment. However, these changes had no impact on the PCC's group accounts.
- after allowing for transfers of £2.5 million to earmarked reserves, the PCC reported a break even position on the general fund
- satisfactory arrangements are in place in relation to economy, efficiency and effectiveness, including robust financial management and financial control arrangements
- although action has been taken in 2012/13 to minimise the cost, the actual cost of the new custody suite is significantly in excess of the original estimate.

### Chief Constable

- as noted for the PCC, the key issue arising this year has been where to account for pension costs and liabilities. The Chief Constable's draft accounts included the day to day costs of employing polices and staff. However, accounting standards  require that all staff related costs, including pension liabilities, should be recognised in the accounts, not just the day to day costs. The Chief Constable's accounts were amended to reflect the correct accounting treatment.
- satisfactory arrangements are in place in relation to economy, efficiency and effectiveness, including robust financial management and financial control arrangements.


## Acknowledgements

This Letter has been agreed with the PCC's Chief Finance Officer and the Chief Constable's Chief Finance Officer and will be presented to the Audit Committee on 4 December 2013.

We would like record our appreciation for the assistance and co-operation provided to us during our audit by the PCC's and Chief Constable's staff.


**Grant Thornton UK LLP**
**October 2013**

# Section 2: Audit of the accounts

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# Audit of the accounts

## Audit of the accounts

The key findings of our audit of the accounts are summarised below:

## Preparation of the accounts

The PCC and the Chief Constable both presented us with draft accounts on 30 June 2013, in accordance with the national deadline. Appropriate working papers were made available from the start of the audit fieldwork, which commenced on 12 August 2013. The financial statements and working papers were of a good standard. Requests for additional working papers were responded to promptly as were requests for explanations.

## Issues arising from the audit of the accounts

This has been a challenging year for police finance teams who have needed to invest considerable time and effort preparing separate financial statements for the PCC and for the Chief Constable which reflect developing local governance and working arrangements and emerging accounting guidance. We recognise this has not been an easy task.

### Issues for the PCC

The key issue arising this year, which has been nationally debated, has been where to account for the pension costs and liabilities of those staff who work for the Chief Constable even though they are legally employed by the PCC. The Chief Constable's draft accounts recognised that she has direction and control over police officers and staff and therefore included the costs of the officers and staff in those accounts. However, accounting standards require that all staff related costs, including pension liabilities, should be recognised in the accounts, not just the day to day costs.

Following a number of discussions with the Chief Finance Officer (PCC) and Chief Finance Officer (Chief Constable), it was agreed that all pension related costs and liabilities would be reflected in the Chief Constable's accounts, in accordance with International Accounting Standard (IAS) 19.

The PCC's accounts were amended to show the PCC's funding of the pensions liability and related costs. These changes had no impact on the PCC's group accounts.

We also identified a small number of other errors and disclosure issues, three of which were not amended in the final version of the accounts. None of these issues would have affected the 'bottom line' on the balance sheet or the comprehensive income and expenditure account.

Our audit testing identified one further issue as it showed that there was significant estimation uncertainty over the valuation of land and buildings. Applying market indices suggested that the value of land and buildings was potentially overstated by £2.3 million. As all valuations, and particularly the use of indices, are subject to inherent uncertainty, we concluded that this is not evidence of a material misstatement of property, plant and equipment.

### Issues for Chief Constable

The issue outlined above in relation to pension costs and liabilities also applies to the Chief Constable. The final version of the Chief Constable's accounts reflected all pension costs and liabilities, but were matched by amounts due from the PCC. There was, therefore, no overall impact on the Chief Constable's accounts.

No other issues were identified in relation to the Chief Constable's accounts.

# Audit of the accounts

### Annual governance statement

The two annual governance statements were in line with our understanding of the PCC's and Chief Constable's governance arrangements and were consistent with the elements suggested in the Delivering Good Governance in Local Government Framework.

## Conclusion

Prior to giving our opinion on the accounts, we are required to report significant matters arising from the audit to 'those charged with governance' i.e. the PCC and the Chief Constable. Our draft report was discussed with the PCC and Chief Constable on 13 September 2013. We presented our report to the Joint Audit Committee and the Committee shared their view of the accounts with the PCC and Chief Constable to inform their approval of the accounts. We summarise only the key messages in this Letter.

We issued an unqualified opinion on the PCC's 2012/13 accounts and an unqualified opinion on the Chief Constable's 2012/13 accounts on 25 September 2013, meeting the deadline set out in the Accounts and Audit Regulations (England) 2011. Our opinion confirms that the two sets of accounts give a true and fair view of both the PCC's and the Chief Constable's financial position respectively and of the income and expenditure recorded by each of them.

# **Section 3:** Value for Money

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# Value for Money

## Scope of work

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the PCC and the Chief Constable have each made proper arrangements for securing economy, efficiency and effectiveness in their use of resources. We are also required by the Audit Commission's Code of Audit Practice to report any matters that prevent us being satisfied that the audited bodies have put in place such arrangements. The result of this work is the Value for Money conclusion, which we give separately based on our assessment of each body's arrangements.

We have undertaken our audits in accordance with the Code of Audit Practice and, having regard to the guidance issued by the Audit Commission, we have considered the results of the following for both bodies:

- our review of the annual governance statements
- the work of other relevant regulatory bodies or inspectorates, to the extent the results of the work have an impact on our responsibilities
- our detailed risk assessment.

As part of our risk assessment we considered governance arrangements; local and national threats, service transformation and collaboration; financial management; assets and information management and workforce management.

## Key findings for the PCC

Our work identified, in relation to the PCC:

- a transition plan which appears to have operated successfully
- an appropriate scheme of governance
- effective risk management arrangements
- no break down in internal controls during the transition phase
- robust financial management and financial control arrangements.

In considering the PCC's financial management arrangements we also undertook a high level review of their arrangements for the new custody suite. Although actual costs are considerably in excess of the initial estimate, we are satisfied that both the PCC and Chief Constable have taken reasonable steps to minimise the cost of the project. Given that the outline business case and the design were approved in prior years, there is no impact on our 2012/13 value for money conclusion. However, we have recommended that, for future schemes, the PCC needs to be satisfied that the rationale for each significant capital project is clearly evidenced and that value for money can be demonstrated by reference to schemes elsewhere.

# Value for Money

### Key findings for the Chief Constable

With regard to the Chief Constable, based on the work undertaken, which included a review of HMIC's report *Response to the Funding Challenge*, our work identified satisfactory arrangements in most areas. With regard to collaboration, HMIC concluded that the "Constabulary has made limited progress in working in collaboration with other partners, beyond small scale arrangements". However, we are satisfied that the Constabulary has been rigorous in ensuring that collaboration provides value for money and has taken a number of opportunities to collaborate locally including the tri-force firearms facility which is being built in Portishead on behalf of Avon and Somerset, Gloucestershire and Wiltshire constabularies.

The issues identified in relation to the new custody suite apply equally to the Chief Constable. However, specifically in relation to the Chief Constable we recommended that future outline business cases should contain a realistic estimate based on the item specified and a maximum price above which the project would need to be reapproved.

### Overall VFM conclusions

On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects the PCC and the Chief Constable have each put in place proper arrangements to secure economy, efficiency and effectiveness in their use of resources for the year ending 31 March 2013.

# Appendices

# Appendix A: Reports issued and fees

We confirm below the fee charged for the audit and that there were no non-audit services.

### Fees

| | Per Audit plan £ | Actual fees £ |
|---|---|---|
| Audit fee - PCC | 46,000 | 46,000 |
| Audit fee – Chief Constable | 20,000 | 20,000 |
| **Total fees** | **66,000** | **66,000** |

### Fees for other services

| Service | Fees £ |
|---|---|
| None | Nil |

### Reports issued

| Report | Date issued |
|---|---|
| Audit Plan | May 2013 |
| Audit Findings Report | September 2013 |
| Annual Audit Letter | October 2013 |