

# Office of the Chief Constable for Hertfordshire

## Audit Committee Summary

For the year ended 31 March 2014

Audit Results Report – ISA (UK & Ireland) 260

12 September 2014



Mark Hodgson, Director  
[MHodgson@uk.ey.com](mailto:MHodgson@uk.ey.com)

Natalie Clark, Manager  
[NClark@uk.ey.com](mailto:NClark@uk.ey.com)

# Contents

- ▶ Executive summary
- ▶ Extent and progress of our work
- ▶ Addressing audit risk
- ▶ Financial statements audit – issues and findings
- ▶ Arrangements to secure economy, efficiency and effectiveness
- ▶ Independence and audit fees
- ▶ Appendices

---

# Executive summary

## *Key findings*

---

### Audit results and other key matters

The Audit Commission's Code of Audit Practice (the Code) requires us to report to those charged with governance – the Chief Constable - on the work we have carried out to discharge our statutory audit responsibilities together with any governance issues identified.

This report summarises the findings from the 2013/14 audit which is substantially complete. It includes the messages arising from our audit of your financial statements and the results of the work we have undertaken to assess your arrangements to secure value for money in your use of resources.

#### **Financial statements**

- ▶ As of 12 September 2014, we expect to issue an unqualified opinion on the financial statements. Our audit results demonstrate, through the few matters we have to communicate, that the Office of the Chief Constable for Hertfordshire (the CC) has prepared its financial statements well.

#### **Value for money**

- ▶ We expect to conclude that you have made appropriate arrangements to secure economy, efficiency and effectiveness in your use of resources .

#### **Audit certificate**

- ▶ The audit certificate is issued to demonstrate that the full requirements of the Audit Commission's Code of Audit Practice have been discharged for the relevant audit year. We expect to issue the audit certificate at the same time as the audit opinion.

# Extent and purpose of our work

---

## The CC's responsibilities

The CC is responsible for preparing and publishing its Statement of Accounts, accompanied by the Annual Governance Statement. In the Annual Governance Statement, the CC reports publicly on the extent to which it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.

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

## Purpose of our work

Our audit was designed to:

- Express an opinion on the 2013/14 financial statements
- Report on any exception on the governance statement or other information included in the foreword
- Consider and report any matters that prevent us being satisfied that the CC had put in place proper arrangements for securing economy, efficiency and effectiveness in the use of resources (the Value for Money conclusion)

In addition, this report contains our findings related to the areas of audit emphasis, our views on the CC's accounting policies and judgments and significant deficiencies in internal control.

As a component auditor, we also follow the group instructions and send to the National Audit Office our group assurance certificate, audit results report and auditor's report on the consolidation schedule.

This report is intended solely for the information and use of the CC. It is not intended to be and should not be used by anyone other than the specified party.

# Addressing audit risks

## Significant audit risks

We identified the following audit risks during the planning phase of our audit, and reported these to you in our Audit Plan. Here, we set out how we have gained audit assurance over those issues.

Audit risk identified within our Audit Plan	Audit procedures performed	Assurance gained and issues arising
<b>Significant audit risks (including fraud risks)</b>		
<p><b><u>Property Asset Valuations</u></b></p> <p>Due to the complexity in accounting for property, plant and equipment and the material values involved, there is a higher risk that asset valuations contain material misstatements.</p>	<p>Our approach focussed on:</p> <ul style="list-style-type: none"> <li>Reliance on management's valuations experts. This will include comparison to industry valuation trends and reliance on our own valuation experts where significant unexplained variations are identified; and</li> <li>Testing the accounting treatment of valuations made in the year, including the assessment and treatment of impairments.</li> </ul>	<ul style="list-style-type: none"> <li>All our planned procedures are complete. No issues have been identified in relation to property asset valuations.</li> </ul>
<p><b><u>Fraud and Management Override Risk</u></b></p> <p>As identified in ISA (UK &amp; Ireland) 240, management is in a unique position to perpetrate fraud because of their ability to directly or indirectly manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</p> <p>An area we identified as being susceptible to manipulation is the capitalisation of revenue expenditure on Property, Plant and Equipment.</p>	<p>Our approach focussed on:</p> <ul style="list-style-type: none"> <li>Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements;</li> <li>Reviewing accounting estimates for evidence of management bias; and</li> <li>Evaluating the business rationale for any significant unusual transactions.</li> <li>Tested additions to the Property Plant and Equipment balance to ensure they are properly classified as capital expenditure.</li> </ul>	<ul style="list-style-type: none"> <li>All our planned procedures are complete. There are no findings that are indicate a risk of misstatement due to fraud or error.</li> </ul>

# Financial statements audit

## *Issues and misstatements arising from the audit*

### **Progress of our audit**

- ▶ The following areas of our work programme remain to be completed. We will provide an update of progress at the Audit Committee meeting:
  - ▶ Receipt of a Letter of Representation
  - ▶ Journals
  - ▶ Final audit closing and review procedures.
- ▶ Subject to the satisfactory resolution of the above items, we propose to issue an unqualified audit report on the financial statements.

### **Uncorrected Misstatements**

We have not identified any misstatements within the draft financial statements, which management has chosen not to adjust.

### **Corrected Misstatements**

Our audit identified a number of further misstatements which our team have highlighted to management for amendment. All of these have been corrected during the course of our work.

We consider a few of these misstatements to be significant and we set out the context and nature of them in Appendix 1 to this report.

### **Other Matters**

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we are required to communicate to you significant findings from the audit and other matters that are significant to your oversight of the CC's financial reporting process including the following:

- ▶ Qualitative aspects of your accounting practices, estimates and disclosures;
- ▶ Matters specifically required by other auditing standards to be communicated to those charged with governance. For example, issues about fraud, compliance with laws and regulations, external confirmations and related party transactions;
- ▶ Any significant difficulties encountered during the audit; and
- ▶ Other audit matters of governance interest.

We have no matters we wish to report.

# Financial statements audit (continued)

## *Internal Control, Written Representations & Whole of Government Accounts*

---

### **Internal Control**

It is the responsibility of the CC to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the CC has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

We have tested the controls of the CC only to the extent necessary for us to complete our audit. We are not expressing an opinion on the overall effectiveness of internal control.

We have reviewed the Annual Governance Statement and can confirm that:

- ▶ It complies with the requirements of CIPFA/SOLACE Delivering Good Governance in Local Government Framework; and
- ▶ It is consistent with other information that we are aware of from our audit of the financial statements.

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

### **Request for written representations**

We have requested a management representation letter to gain management's confirmation in relation to a number of matters. We have not requested any specific representations.

### **Whole of Government Accounts**

The Whole of Government Accounts return is based around the Police & Crime Commissioner's Group Accounts and therefore is not relevant to our direct responsibilities to the Chief Constable.

# Arrangements to secure economy, efficiency and effectiveness

*The Code of Audit Practice (2010) sets out our responsibility to satisfy ourselves that the CC has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. In examining the CC's corporate performance management and financial management arrangements, we have regard to the following criteria and focus specified by the Audit Commission.*

## Criteria 1 - Arrangements for securing financial resilience

- ▶ *“Whether the CC has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future”*

In our Audit Plan we identified one significant risk in relation to this criteria:

“To date the Police & Crime Commissioner (PCC) and CC has responded well to the financial pressure resulting from the continuing economic downturn.

However, the Comprehensive Spending Review will continue to impact on the PCC's and CC's budget and medium term financial planning during current and forthcoming financial years.”

Our approach focussed on:

- ▶ The adequacy of the PCC's and CC's budget and medium term financial plan setting process.
- ▶ The robustness of any assumptions
- ▶ The effective use of scenario planning to assist the budget setting process.
- ▶ The effectiveness of in year monitoring against the budget.
- ▶ The PCC's and CC's approach to prioritising resources.
- ▶ The level of general fund reserves versus the identified budget gap over the medium term.
- ▶ The effectiveness of collaboration projects.

---

# Arrangements to secure economy, efficiency and effectiveness

---

*The Code of Audit Practice (2010) sets out our responsibility to satisfy ourselves that the CC has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. In examining the CC's corporate performance management and financial management arrangements, we have regard to the following criteria and focus specified by the Audit Commission.*

## Criteria 1 - Arrangements for securing financial resilience (continued)

### Our findings:

- ▶ The Force delivered its 2013/14 budget.
- ▶ Savings plans are in place covering the period up to 2018/19.
- ▶ Financial planning is robust and monitored against the budget.
- ▶ The PCC / CC has sufficient general fund reserves to cover the identified savings gap over the 2014/5 to 2016/17 period.
- ▶ HMIC noted 'Hertfordshire is on track to achieve its required savings of £35.8m over this review period. Importantly, the force is also looking to 2015/16 and beyond, and it is planning now for further funding reductions and financial pressures in the future. .'

We have no other matters to report.

# Arrangements to secure economy, efficiency and effectiveness

*The Code of Audit Practice (2010) sets out our responsibility to satisfy ourselves that the CC has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. In examining the CC's corporate performance management and financial management arrangements, we have regard to the following criteria and focus specified by the Audit Commission.*

## Criteria 2 - Arrangements for securing economy, efficiency and effectiveness

▶ *“Whether the CC is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.”*

▶ We identified one significant risk in relation to this criterion:

“Governance Arrangements for collaboration Projects - Collaboration projects with Hertfordshire and Cambridgeshire are the basis for a number of the planned savings measures key to the Medium Term Financial Plan.”

Our approach focussed on:

- ▶ The governance arrangements in place to ensure collaboration project management is robust
- ▶ The effectiveness of assessment of the collaboration projects in terms of likely savings.
- ▶ A review of savings achieved against plans.

---

# Arrangements to secure economy, efficiency and effectiveness

---

*The Code of Audit Practice (2010) sets out our responsibility to satisfy ourselves that the CC has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. In examining the CC's corporate performance management and financial management arrangements, we have regard to the following criteria and focus specified by the Audit Commission.*

## Criteria 2 - Arrangements for securing economy, efficiency and effectiveness (continued)

### Our findings:

- ▶ Good progress has been made on collaboration and joint working to achieve priorities.
- ▶ HMIC reported: *'The force understands the issues it is facing, and has change programmes in place that will lead to increased collaboration with Bedfordshire Police and Cambridgeshire Constabulary. Through the tri-force ICT change programme, known as Metis, the forces plan to make further savings and protect frontline posts as new technology and streamlined process appreciably improve the productivity of police officers and staff'*.
- ▶ Innovation funding has been received demonstrating innovative approaches to delivering services.
- ▶ HMIC Reported: *'Cambridgeshire, Bedfordshire and Hertfordshire submitted a bid to the Home Office innovation fund for support to bring together their operational and organisational support service through Programme Metis. The project will receive nearly £2.0m of Home Office funding in 2014/15, which is part of total funding of £8.4m over three years'*.

We have no other issues to report.

# Independence and audit fees

## Independence

- ▶ We confirm there are no changes in our assessment of independence since our confirmation in our Audit Plan dated 28 February 2014.
- ▶ We complied with the Auditing Practices Board's Ethical Standards for Auditors and the requirements of the Audit Commission's Code of Audit Practice and Standing Guidance. 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.
- ▶ We confirm that we are not aware of any relationships that may affect the independence and objectivity of the firm that we are required by auditing and ethical standards to report to you.
- ▶ We consider that our independence in this context is a matter that should be reviewed by both you and ourselves. It is therefore important that you consider the facts of which you are aware and come to a view.

- ▶ If you wish to discuss any matters concerning our independence, we will be pleased to do so at the forthcoming meeting of the Audit Committee on 23 September 2014.
- ▶ We confirm that we have met the reporting requirements to the Audit Committee, as 'those charged with governance' under International Standards on Auditing (UK&I) 260. Our communication plan to meet these requirements were set out in our Audit Plan of 28 February 2014.

## Audit fees

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

	Proposed final fee 2013-14	Scale fee 2013-14	Variation comments
	£s	£s	
Total audit fee - Code work	20,000	20,000	

- ▶ Our actual fee is in line with the agreed fee at this point in time, subject to the satisfactory clearance of the outstanding audit work.
- ▶ We confirm that we have not undertaken any non-audit work outside of the Audit Commission's Audit Code requirements.

# Appendix 1 - Corrected audit misstatements

- The following corrected misstatements, have been identified during the course of our audit and warrant communicating to you.
- These items have been corrected by management within the revised financial statements.

## Balance Sheet and Statement of Comprehensive Income and Expenditure

Item of Account	Nature	Type	Balance Sheet	Statement of Comprehensive Income & Expenditure
	Description	F, P, J	Debit/(Credit)	Debit/(Credit)
1. Balance Sheet - Debtors	Misclassification of Pension 'Top up grant' between Creditors and Debtors		£2,396,271	
2. Balance Sheet - Creditors			(£2,396,271)	
Cumulative effect of uncorrected misstatement			0	

### Key

- ▶ F – Factual misstatement
- ▶ P – Projected misstatement based on audit sample error and population extrapolation
- ▶ J – Judgemental misstatement

# Appendix 2 - Corrected audit misstatements

- The following misstatements, have been identified during the course of our audit and in our professional judgement warrant communicating to you.
- These items have been corrected by management within the revised financial statements.

## Disclosures

Disclosure	Description of misstatement
1. Note 31 - Defined Benefit Pension Schemes	<p>Amendments were required to ensure the Note was compliant with the Code of Practice.</p> <p>These amendments had a subsequent impact on the 'MiRS' and on the 'Adjustments between Accounting Basis and Funding Basis under Regulations' Note at the CC and Group level.</p>

© 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

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 Audit Results Report 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.

