

Office of the Police & Crime Commissioner for Hertfordshire

Audit Committee Summary

For the year ended 31 March 2015

Audit Results Report – ISA (UK and Ireland) 260

14th September 2015



Building a better
working world

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Section 1

Executive summary

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 on the work we have carried out to discharge our statutory audit responsibilities together with any governance issues identified. Following the restructuring of the police during 2012/13, those charged with governance and the Police and Crime Commissioner (PCC) and the Chief Constable (CC)

This report summarises the findings from the 2014/15 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 14th September 2015, 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 Police & Crime Commissioner for Hertfordshire have prepared their financial statements adequately.

Value for money

- ▶ We expect to conclude that that the Office of the Police & Crime Commissioner for Hertfordshire have made appropriate arrangements to secure economy, efficiency and effectiveness in your use of resources.

Whole of Government Accounts

- ▶ We have not reported any significant matters to the National Audit Office (NAO) regarding the Whole of Government Accounts submission.

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.

Section 2

Extent and purpose of our work

Extent and purpose of our work

The Office of the PCC and Office of the CC's responsibilities

- ▶ The PCC Group is responsible for preparing and publishing two Statements of Accounts, one for the Police and Crime Commissioner Group (PCC) and one for the Chief Constable (CC), accompanied by a joint Annual Governance Statement. In the joint Annual Governance Statement, the PCC and the CC report publicly 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 Offices of the PCC and CC are also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in their use of resources

Purpose of our work

- ▶ Our audit was designed to:
 - ▶ Express an opinion on the 2014/15 financial statements of the PCC Group, the PCC and the CC; together with the consistency of other information published with them
 - ▶ Report on an exception basis on the joint Annual Governance Statements
 - ▶ Consider and report any matters that prevent us being satisfied that the Offices of the PCC and the CC have put in place proper arrangements for securing economy, efficiency and effectiveness in their use of resources (the Value for Money conclusion)
 - ▶ Discharge the powers and duties set out in the Audit Commission Act 1998 and the Code of Audit Practice

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

As a component auditor, we also follow the NAO group instructions and report the results on completion of the WGA work through the Assurance Statement to the NAO and to the Offices of the PCC and CC.

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

Section 3

Addressing audit risks

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.

A significant audit risk in the context of the audit of the financial statements is an inherent risk with both a higher likelihood of occurrence and a higher magnitude of effect should it occur and which requires special audit consideration. For significant risks, we obtain an understanding of the entity's controls relevant to each risk and assess the design and implementation of the relevant controls.

Audit risk identified within our audit plan	Audit procedures performed	Assurance gained and issues arising
Significant audit risks (including fraud risks)		
<p>Risk of Misstatement due to fraud and error</p> <p>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.</p> <p>Management has the primary responsibility to prevent and detect fraud. It is important that management, with the oversight of those charged with governance, has put in place a culture of ethical behaviour and a strong control environment that both deters and prevents fraud.</p> <p>Our responsibility is to plan and perform audits to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatements whether caused by error or fraud. As auditors, we approach each engagement with a questioning mind that accepts the possibility that a material misstatement due to fraud could occur, and design the appropriate procedures to consider such risk.</p> <p>One area which may be particularly susceptible to manipulation is the capitalisation of revenue expenditure on Property, Plant and Equipment given the extent of the Capital programme.</p> <p>This risk applies to the Office of the PCC, Office of the CC and the Group.</p>	<p>Based on the requirements of auditing standards our approach focussed on:</p> <ul style="list-style-type: none"> ▶ identifying fraud risks during the planning stages. ▶ inquiry of management about risks of fraud and the controls put in place to address those risks. ▶ understanding the oversight given by those charged with governance of management's processes over fraud; ▶ testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements; ▶ reviewing accounting estimates for evidence of management bias; ▶ evaluating the business rationale for significant unusual transactions; and ▶ testing the additions to the Property, Plant and Equipment balance to ensure that they are properly classified as capital expenditure. 	<p>Our audit testing has not identified any instances of misstatement due to fraud and error.</p>

Addressing audit risks – other 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
Other audit risks		
<p>Property Asset Valuations</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"> ▶ Assessment of management’s experts. This will include comparison to industry valuation trends and reliance on our own valuation experts where significant unexplained variations are identified; and ▶ Testing the accounting treatment of valuations made in the year, including the assessment and treatment of impairments. 	<ul style="list-style-type: none"> ▶ We used an independent valuers market report to assess and challenge the assumptions and judgements used by the internal valuer in valuing the PCC’s property asset valuations as at 31 March 2015. ▶ We considered if the PCC’s property assets is valued appropriately and reasonably, including the choice of valuation technique and the presentation of gains and impairments in the Statement of Comprehensive Income as required by the Code. ▶ We sample tested valuation balances to ensure that they were correctly accounted for within the financial statements. ▶ We reviewed and tested journal entries to ensure that the valuation balances tested above were accurately disclosed within the financial statements.

Addressing audit risks – other 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
Other audit risks		
<p>Local Government Pension Scheme Accounting</p> <p>Due to the complexity in accounting for LGPS Pension Schemes and the material values and liabilities involved, there is a higher risk that LGPS transactions contain material misstatement and subsequent impact on the presentation of reserve accounting.</p>	<p>Our approach focussed on:</p> <ul style="list-style-type: none"> ▶ Assessment of management’s experts. This will include consultation with our own pensions experts where any unexplained variations are identified; and ▶ Reviewing the accounting treatment and presentation of the financial statements in line with the requirements of the CIPFA Code of Practice on Local Authority Accounting . 	<ul style="list-style-type: none"> ▶ We used our own actuarial expert to help assess and challenge the assumptions and judgements used by the actuary in valuing pension assets and liabilities. ▶ We reviewed and tested journal entries to ensure that the balances tested above were accurately disclosed within the financial statements.

Section 4

Financial statements audit – issues and findings

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 Joint Audit Committee meeting:
 - ▶ Collaboration Testing
 - ▶ Payroll Reconciliation
 - ▶ Journals Testing
 - ▶ Revised financial statements
 - ▶ Receipt of a Letter of Representation
 - ▶ Final Director review, closing procedures and sign off
- ▶ 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, for which management has chosen not to adjust.

Prior Period Adjustment

- ▶ We have undertaken a full review of the prior period adjustment disclosed within Note 60 to the PCC Group financial statements. This amendment makes adjustments to the 2013/14 figures of the Revaluation Reserve (Note 34) and Capital Adjustment Account (Note 34) of £7.625m. This adjustment does not impact on any other part of the accounts.
- ▶ We are satisfied that this adjustment corrects an error to the 1 April 2013 balance and therefore corrects the 13/14 closing position.

Corrected misstatements

- ▶ Our audit identified a number of further misstatements which our team have highlighted to management for amendment. These have been corrected during the course of our work. None were so significant that they warranted reporting to you.

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 **Office of the PCC and Office 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 – application of materiality (PCC Group)

Our application of materiality

- ▶ When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole.

Item	
<p>Planning Materiality and Tolerable Error</p>	<p>We determined planning materiality for the group to be £5.6 million (2014: £5.8 million), which is 2% of gross expenditure reported in the accounts of £212.7 million adjusted for interest payable and pension interest cost.</p> <p>We consider gross expenditure] to be one of the principal considerations for stakeholders in assessing the financial performance of the group.</p> <p>We set a group tolerable error for the audit. Tolerable error is the application of planning materiality at the individual account or balance level. It is set to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds planning materiality. The level of tolerable error drives the extent of detailed audit testing required to support our opinion.</p> <p>We have set group tolerable error at the lower level of the available range because of errors identified in prior years.</p> <p>Audit work for the PCC and CC components is undertaken based on a percentage of the group tolerable error based on the relative size of the component and our view of the risk of misstatement at that component. We call this ‘component performance materiality’.</p>
<p>Reporting Threshold</p>	<p>We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £0.278 million (2014: £0.292 million).</p>

We also identified the following areas where misstatement at a level lower than our overall materiality level might influence the reader. For these areas we developed an audit strategy specific to these areas. The areas identified and audit strategy applied include:

Remuneration disclosures including any severance payments, exit packages and termination benefits. Strategy applied: review and test transactions to supporting evidence and approvals.

- Related party transactions. Strategy applied: review disclosure for completeness, testing to supporting evidence

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations.

Financial statements audit – application of materiality (Office of the Police and Crime Commissioner)

Our application of materiality

- ▶ When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the PCC financial statements as a whole.

Item	
<p>Planning Materiality and Tolerable Error</p>	<p>We determined planning materiality for the PCC to be £3.4 million (2014: £3.2 million), which is 2% of gross assets reported in the accounts of £174.5 million.</p> <p>We consider gross assets] to be one of the principal considerations for stakeholders in assessing the financial performance of the PCC.</p> <p>We set a tolerable error for the audit as this drives the extent of detailed audit testing required to support our opinion. We set our tolerable error for the audit at the lower level of the available range because of errors identified in prior years.</p> <p>We ensured the tolerable error figure used did not exceed the assigned component performance materiality level.</p>
<p>Reporting Threshold</p>	<p>We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £0.174 million (2014: £0.160 million).</p>

We also identified the following areas where misstatement at a level lower than our overall materiality level might influence the reader. For these areas we developed an audit strategy specific to these areas. The areas identified and audit strategy applied include:

Remuneration disclosures including any severance payments, exit packages and termination benefits. Strategy applied: review and test transactions to supporting evidence and approvals.

- Related party transactions. Strategy applied: review disclosure for completeness, testing to supporting evidence

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations.

Financial statements audit – internal control, written representations and whole of government accounts

Internal control

- ▶ It is the responsibility of the Office of the PCC and Office 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 Office of the PCC and Office of the CC have put adequate arrangements in place to satisfy themselves that the systems of internal financial control are both adequate and effective in practice.
- ▶ We have not tested the controls of the Office of the PCC and Office of the CC as we have adopted a fully substantive approach to our audit, as we believe this to be the most efficient approach. We are therefore 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 management representation letters from both the PCC and CC to gain confirmation in relation to a number of matters.
- ▶ This request was for standard representations, we are not requesting any specific representations in relation to this engagement.

Whole of Government Accounts

- ▶ Alongside our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of our review and the nature of our report are specified by the National Audit Office.
- ▶ We have concluded our work in this area and have no matters to report to the Joint Audit Committee.

Section 5

Arrangements to secure economy, efficiency and effectiveness

Arrangements to secure economy, efficiency and effectiveness

The Code of Audit Practice (2010) sets out our responsibility to satisfy ourselves that the Office of the PCC and Office of the CC have put in place proper arrangements to secure economy, efficiency and effectiveness in their use of resources. In examining the Office of the PCC and Office of 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 Office of the PCC and Office of the CC have 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'
- ▶ We did not identify any significant risks in relation to this criteria at the initial planning phase of our audit.
- ▶ We have during the course of our audit, since issuing our Audit Plan (20 March 2015) , identified an elevated risk in respect of the criteria reflecting risks across the sector.
- ▶ The PCC and CC's medium term financial plan includes budget gaps of £18.5m over the next three years and use of reserves of £8m over the next four years. The budget gap is greater than our planning materiality (see page 12) and therefore presents a significant risk to our Value for Money conclusion.
- ▶ We have undertaken a review of the medium term financial plan and the assumptions included within it. We have also assessed the level of reserves (both general fund and earmarked) that the Office of the PCC and Office of the CC has at the 31 March 2015.
- ▶ We are comfortable that the level of reserves held by the Office of the PCC and Office of the CC covers the budget gap identified within the medium term financial plan to an appropriate level and that the Office of the PCC and Office of the CC has savings plans in place to address the budget gap going forward.

Criteria 2 – arrangements for securing economy, efficiency and effectiveness

- ▶ 'Whether the Office of the PCC and Office of the CC are prioritising their resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity'
- ▶ We did not identify any significant risks in relation to this criteria
- ▶ We have no issues to report in relation to this criteria
- ▶ Our work did not identify any other matters relating to aspects of your corporate performance and financial management framework which are not covered by the scope of the two specified criteria above.

Section 6

Independence and audit fees

Independence and audit fees

Independence

- ▶ We confirm there are no changes in our assessment of independence since our confirmation in our Audit Plan 24 February 2015. We complied with the Auditing Practices Board's Ethical Standards for Auditors and the requirements of the Audit Commission's Code 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 Joint Audit Committee on 24 September 2015.

- ▶ We confirm that we have met the reporting requirements to the Joint Audit Committee, and to the PCC and CC, as 'those charged with governance', under International Standards on Auditing (UK and Ireland) 260 – Communication with those charged with governance. Our communication plan to meet these requirements were set out in our Audit Plan of 24 February 2015.

Audit fees

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

	Proposed final fee 2014/2015	Scale fee 2014/2015	Variation comments
	£	£	
Audit Fee: Code work (PCC)	42,310	42,310	
Audit Fee – Code Work (CC)	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.

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ED None

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