

# The Police and Crime Commissioner for Leicestershire and Chief Constable for Leicestershire

Ernst & Young LLP

Annual Audit Letter for the year ended 31 March 2017

October 2017

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In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued "Statement of responsibilities of auditors and audited bodies 2016-17". It is available from the Chief Executive of each audited body and via the PSAA website ([www.psaa.co.uk](http://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 for Leicestershire (PCC) and the Chief Constable (CC) for Leicestershire following completion of our audit procedures for the year ended 31 March 2017.

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

Area of Work	Conclusion
<b>Opinion on the PCC, CC, Group and Pension Fund's:</b>	We have issued an unqualified opinion for the PCC, CC, Group and Pension Fund - the financial statements give a true and fair view of the financial position of each entity as at 31 March 2017 and of its expenditure and income for the year then ended
▶ Financial statements	
▶ Consistency of other information published with the financial statements	Other information published with the financial statements was consistent with the Annual Accounts
<b>Concluding on the PCC and CC's arrangements for securing economy, efficiency and effectiveness</b>	We concluded that you have put in place proper arrangements to secure value for money in your use of resources

Area of Work	Conclusion
<b>Reports by exception:</b>	
▶ Consistency of Governance Statement	The Governance Statement was 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 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 14 September 2017.
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 14 September 2017.

We would like to take this opportunity to thank the Office of the Police and Crime Commissioner's staff and the staff of the Chief Constable for their assistance during the course of our work.

Stephen Clark

Partner  
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 Members 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 2016/17 Audit Results Report to the 14 September 2017 JARAP Committee, 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 2016/17 audit work has been undertaken in accordance with the Audit Plan that we issued on 22 February 2017 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:
  - ▶ On the 2016/17 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 its use of resources.
- ▶ Reporting by exception:
  - ▶ If the annual governance statement is 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 group PCC and CC are below the specified audit threshold of £350 million. Therefore, we did not perform any audit procedures on the return.

## **Responsibilities of the PCC and CC**

The PCC and CC are responsible for preparing and publishing its statement of accounts accompanied by an Annual Governance Statement. In the AGS, the PCC and CC reports publicly each year on how far it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its 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 its use of resources.

The background of the image is a blurred office scene. It features a wooden desk with several clear glass tumblers filled with water. In the foreground, there are papers with financial charts and tables, a black pen, and a calculator. In the background, a laptop screen displays a financial dashboard with various charts and data. A potted plant is visible on the left side of the frame. A bright yellow rectangular box is overlaid on the left side of the image, containing the text 'Financial Statement Audit'.

## Financial Statement Audit

## Financial Statement Audit

### Key Issues

The PCC and CCs Statement of Accounts is an important tool to show how it has used public money and how it can demonstrate its financial management and financial health.

We audited the PCC, CC, Group and Pension Fund's Statement 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 14 September 2017.

Our detailed findings were reported to the 14 September JARAP Committee.

The key issues identified as part of our audit were as follows:

Significant Risk	Conclusion
<p><b>Management override of controls</b></p> <p>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.</p> <p>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.</p>	<p>We reviewed and tested revenue and expenditure recognition policies;</p> <p>We reviewed accounting estimates for evidence of management bias. This included testing of expenditure accruals and provisions;</p> <p>We reviewed the financial statements for evidence of significant or unusual transactions. No such transactions were identified;</p> <p>We tested a sample of income and expenditure transactions from material revenue streams including year-end debtor and creditor balances;</p> <p>We tested cut-off of income and expenditure at the year-end; and</p> <p>We conducted testing to identify any unrecorded liabilities at the year-end.</p> <p>We have not identified any material weaknesses in controls or evidence of material management override.</p> <p>We have not identified any instances of inappropriate judgements being applied.</p> <p>We did not identify any other transactions during our audit which appeared unusual or outside the PCC or CC's normal course of business</p>

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**Revenue and expenditure recognition**

Auditing standards also required us to presume that there is a risk that revenue and expenditure may be misstated due to improper recognition or manipulation.

We respond to this risk by reviewing and testing material revenue and expenditure streams and revenue cut-off at the year end.

We reviewed and tested revenue and expenditure recognition policies;

We reviewed accounting estimates for evidence of management bias. This included testing of expenditure accruals and provisions;

We reviewed the financial statements for evidence of significant or unusual transactions. No such transactions were identified;

We tested a sample of income and expenditure transactions from material revenue streams including year-end debtor and creditor balances;

We tested cut-off of income and expenditure at the year-end; and

We conducted testing to identify any unrecorded liabilities at the year-end.

Our testing has not revealed any material misstatements with respect to revenue and expenditure recognition.

Overall our audit work did not identify any issues or unusual transactions which indicated that there had been any misreporting of the PCC and CC's financial position.

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**Joint Arrangements**

The PCC/Group participates in collaborative arrangements with Nottinghamshire, Derbyshire , Lincolnshire and Northamptonshire.

We reviewed the underlying allocation of expenditure in the financial statements against agreements in place. We have tested transactions to ensure that they are correctly recorded in the financial statements and costs are correctly apportioned to other Local Police Bodies as appropriate.

Our testing has not revealed any material misstatements with respect to the balances.

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### **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.

We have determined that overall materiality for the financial statements for the Group is £5.2 million and CC is £5 million based on 2% Gross Revenue Expenditure using for the period ending 31 March 2017. Overall materiality for the PCC is £2 million based on 2% of Gross Assets. Overall materiality for the Police Pension Fund is £1 million based on 2% of Benefits Payable.

We will communicate uncorrected audit misstatements to you greater than of £250,000 (Group and CC), £100,000 (PCC single entity) and £50,000 (Police Pension Fund).

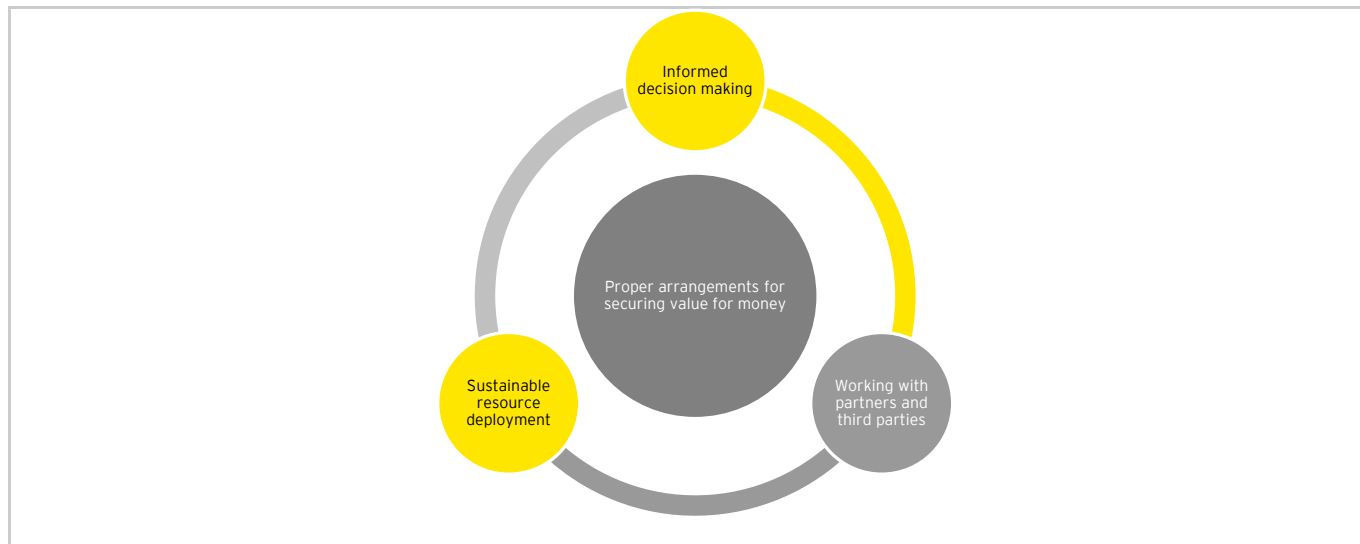
## Value for Money

## Value for Money

We are required to consider whether the PCC and CC has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its 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 issued an unqualified value for money conclusion on 23 September for both PCC and CC.

Our audit did not identify any significant matters in relation to the PCC and CC's arrangements.



## Other Reporting Issues

## Other Reporting Issues

### Whole of Government Accounts

The group PCC and CC are below the reporting threshold of £350 million. Therefore, we did not perform any audit procedures on the consolidation pack and have nothing to report.

### Annual Governance Statement

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

### 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 2016/17 financial statements from member 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 JARAP Committee on 14 September 2017. 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 adopted a fully substantive approach and have therefore not tested the operation of controls.

Appendix A

## Audit Fees



## Appendix A      Audit Fees

Description	Proposed Final Fee 2016/17 £
Total Audit Fee - Code work - PCC	32,430
Audit for Collaboration Arrangements for Leicestershire Police with partner forces	5,000
Total Audit Fee - Code work - CC	15,000

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Ernst & Young LLP

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ED None

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