



# The Annual Audit Letter for the Police and Crime Commissioner for Cheshire and the Chief Constable of Cheshire Police

---

**Year ended 31 March 2016**

September 2016

**John Gregory**

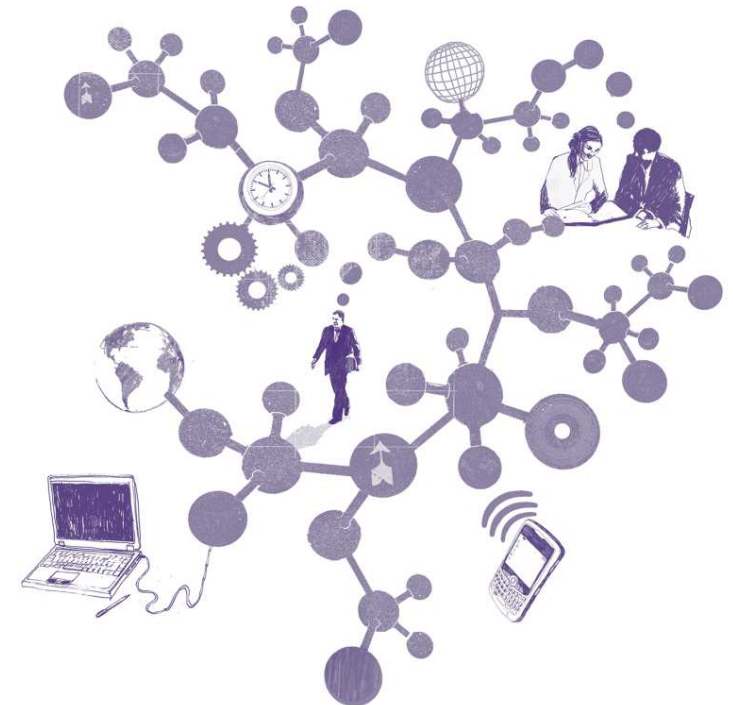
Engagement Lead  
T 0121 232 5333  
E [john.gregory@uk.gt.com](mailto:john.gregory@uk.gt.com)

**Helen Stevenson**

Audit Manager  
T 0161 234 6354  
E [helen.l.stevenson@uk.gt.com](mailto:helen.l.stevenson@uk.gt.com)

**Siobhan Barnard**

Audit Associate  
T 0161 214 2407  
E [siobhan.barnard@uk.gt.com](mailto:siobhan.barnard@uk.gt.com)



---

# Contents

<b>Section</b>	<b>Page</b>
1. Executive summary	1-7
2. Audit of the accounts	8
3. Value for Money conclusion	9
4. Working with the Police and Crime Commissioner and Chief Constable	10

## **Appendices**

A Reports issued and fees

---

# Executive summary

## **Purpose of this letter**

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Cheshire Police and Crime Commissioner (the PCC) and Chief Constable for the year ended 31 March 2016.

This Letter is intended to provide a commentary on the results of our work to the PCC and Chief Constable and their external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice (the Code) and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'.

We reported the detailed findings from our audit work to the PCC and Chief Constable as those charged with governance in our Audit Findings Report on 26 July 2016. This was also reported to the Joint Audit Advisory Committee.

## **Our responsibilities**

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the PCC's and Chief Constable's financial statements (section two)
- assess the PCC's and Chief Constable's arrangements for securing economy, efficiency and effectiveness in their use of resources (the value for money conclusion) (section three).

In our audit of the PCC's and Chief Constable's financial statements, we comply with International Standards on Auditing (UK and Ireland) (ISAs) and other guidance issued by the NAO.

## **Our work**

### **Financial statements opinion**

We gave an unqualified opinion on the PCC's and Chief Constable's financial statements on 26 July 2016.

### **Value for money conclusion**

We were satisfied that the PCC and Chief Constable put in place proper arrangements to ensure economy, efficiency and effectiveness in their use of resources during the year ended 31 March 2016. We reflected this in our audit opinion on 26 July 2016.

---

## **Certificate**

We certified that we had completed the audit of the accounts of the PCC and the Chief Constable for Cheshire Police in accordance with the requirements of the Code on 17 August 2016.

## **Other work completed**

We completed an audit assurance review on the PCC and Chief Constable's revised control framework for the processing of pensions payments. We reported our findings in December 2015.

## **Working with the PCC and Chief Constable**

We are really pleased to have worked with you over the past year. We have worked with you by:

Providing an efficient audit – we delivered the accounts audit by the 26 July, over 2 months before the 30 September deadline and in line with the timescale we agreed with you.

Sharing our insight – we provided independent external audit commentary and insight in your key issues through senior attendance at every Audit Committee. We have also shared with you our insights on various accounting issues including earlier closure timetables.

Supporting development – we ran our national Police Audit Committee conference in April 2016 for Audit Committee members.

We would like to 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**  
**September 2016**

---

# Audit of the accounts

## **Our audit approach**

### **Materiality**

In our audit of the PCC's and Chief Constable's accounts, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for our audit of the PCC's and Chief Constable's accounts to be £3,739,000, which is 2% of the PCC Group's gross revenue expenditure. We used this benchmark, as in our view, users of the PCC's and Chief Constable's accounts are most interested in how they have spent the income the PCC Group have received during the year.

We also set a lower level of specific materiality of £10,000 for certain areas such as senior officer and auditors remuneration. This is due to the public interest in these disclosures and the statutory requirement for them to be made.

We set a lower threshold of £187,000, above which we reported errors to the PCC and Chief Constable in our Audit Findings Report.

### **The scope of our audit**

Our audit involves obtaining enough evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error.

This includes assessing whether:

- the PCC's and Chief Constable's accounting policies are appropriate, have been consistently applied and adequately disclosed;
- significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the narrative report and annual governance statement to check they are consistent with our understanding of the PCC and Chief Constable and with the accounts on which we give our opinion.

We carry out our audit in line with ISAs (UK and Ireland) and the NAO Code of Audit Practice. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach was based on a thorough understanding of the PCC's and Chief Constable's business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

# Audit of the accounts – Police and Crime Commissioner and Chief Constable

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk
<p><b>Management over-ride of controls</b></p> <p>Under ISA (UK&amp;I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.</p>	<p>As part of our audit work we completed:</p> <ul style="list-style-type: none"> <li>• a review of entity controls</li> <li>• an examination and testing of accounting estimates, judgements and decisions made by management</li> <li>• testing of journals entries to include year end adjusting entries</li> <li>• a review of any unusual significant transactions</li> </ul> <p>We did not identify any issues to report</p>
<p><b>Valuation of pension fund net liability</b></p> <p>The Chief Constable's pension fund asset and liability, as reflected in its balance sheet, represents a significant estimate in the accounts.</p> <p>The values of the pension fund net liability is estimated by specialist actuaries.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> <li>• Documented and walked through the key controls put in place by the Chief Constable to ensure they were designed as expected.</li> <li>• Reviewed whether the experts used by the Chief Constable were sufficiently knowledgeable and independent for us to rely on their work.</li> <li>• Gained an understanding of the basis on which the IAS 19 valuation was carried out, undertaking procedures to confirm the reasonableness of the actuarial assumptions made.</li> <li>• Reviewed the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from the actuary.</li> </ul> <p>We were satisfied from our testing of the pension fund net liability that this was fairly stated.</p> <p>We identified an error of £5,030k in the Police Pension Fund Account. Contributions from current employees were understated by this amount with a corresponding increase in the net amount payable and contribution from the Commissioner. This was amended in the final statements.</p>

# Audit of the accounts – Police and Crime Commissioner and Chief Constable

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work on the audit of the pension fund.

Risks identified in our audit plan	How we responded to the risk
<p><b>Employee remuneration</b></p> <p>Employee remuneration accruals understated (Remuneration expenses not correct)</p>	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> <li>• documented and walked through the key controls put in place to ensure they were designed and operating as expected.</li> <li>• substantively tested a sample of staff and officer payroll payments, ensuring that payments are made in accordance with the individual's contract of employment</li> <li>• tested the reconciliation of payroll expenditure recorded in the general ledger to the subsidiary systems and interfaces</li> <li>• analysed trends to identify any anomalous areas for further investigation</li> <li>• tested to confirm the completeness of payroll transactions and appropriate cut-off</li> </ul> <p>We did not identify any issues to report.</p>
<p><b>Operating expenses</b></p> <p>Creditors understated or not recorded in the correct period (Operating expenses understated)</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> <li>• documented and walked through the key controls over the operating expenses transaction cycle to ensure they were designed and operating as expected</li> <li>• tested the reconciliation of operating expenditure recorded in the general ledger to the subsidiary systems and interfaces</li> <li>• tested payments made after the year-end to identify potential unrecorded liabilities and gain assurance over the completeness of the payables balance in the accounts</li> <li>• substantively tested operating expenses including sample testing of expenditure, year end accruals and creditor balances</li> </ul> <p>We did not identify any issues to report.</p>
<p><b>Police Pensions Benefits Payable</b></p> <p>Benefits improperly computed / Claims liability understated</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> <li>• documented and walked through the key controls over the pensions benefits payments transaction cycle to ensure they were designed and operating as expected</li> <li>• tested the reconciliation of pension benefit payments recorded in the general ledger to the subsidiary systems and interfaces</li> <li>• analysed trends and relationships to identify any anomalous areas for further investigation</li> <li>• substantively tested monthly pension benefit payments made in the year</li> <li>• substantively tested lump sum pension benefit payments made in the year</li> </ul> <p>We did not identify any issues to report.</p>

---

# Audit of the accounts

## **Audit opinion**

We gave an unqualified opinion on the PCC's and Chief Constable's accounts on 26 July 2016, in advance of the 30 September 2016 national deadline.

The PCC and Chief Constable made the accounts available for audit in line with the agreed timetable, and provided good working papers to support them. The finance team responded promptly and efficiently to our queries during the course of the audit.

## **Issues arising from the audit of the PCC's and Chief Constable's accounts**

We reported the key issues from our audit of the accounts to the PCC and Chief Constable and the Joint Audit Advisory Committee on 26 July 2016.

Our audit did not identify any material errors or uncertainties in the PCC, Chief Constable and Group financial statements. The Chief Finance Officers amended the PCC, Group and Chief Constable accounts for the disclosure changes identified during the audit. These were primarily to correct minor errors and improve the presentation of the accounts.

The PCC and Chief Constable corrected an entry of £5,030k within the Police Pension Fund account. This correction was to increase the contributions from employees and the net amount payable for the year.

We also identified a number of issues regarding access control and segregation of duties conflicts within the PCC's and Chief Constable's IT system (the Oracle E Business Suite). Management have already addressed some of these and are considering the best ways of addressing the other issues.

## **Annual Governance Statement and Narrative Report**

We are also required to review the PCC's and Chief Constable's Annual Governance Statement and Narrative Report. These were published on the website with the draft accounts in line with the national deadlines.

Both documents were prepared in line with the relevant guidance and were consistent with the supporting evidence provided by the PCC and Chief Constable and with our knowledge of the PCC and Chief Constable.

## **Other statutory duties**

We also have additional powers and duties under the Act, including powers to issue a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the PCC's and Chief Constable's accounts and to raise objections received in relation to the accounts.

We did not identify any issues that required us to apply our statutory powers and duties under the Act.



---

# Value for Money conclusion

## Background

We carried out our review in accordance with the NAO Code of Audit Practice (the Code), following the guidance issued by the NAO in November 2015 which specified the criterion for auditors to evaluate:

*In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.*

## Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the key risks where we concentrated our work.

Our main considerations in arriving at our vfm conclusion were:

- the PCC Group's medium term financial position and future projected savings efficiency requirements
- latest findings of other inspectorates and review agencies, in particular Her Majesty's Inspectorate of Constabulary (HMIC) assessments
- collaborative developments and link to future strategies.

We reviewed relevant documents up to the date of giving our report, and did not identify any significant risks where we needed to perform further work.

The PCC Group has general fund balances of £5.8 million and earmarked reserves of £15.1 million as at 31 March 2016. which appear adequate at the present time.

The PCC set a balanced budget for 2016/17 which forms the first year of the Medium Term Financial Strategy (MTFS) for the 5 year period to 2020/21. The MTFS currently anticipates further savings and efficiency requirement of £13 million over the MTFS period.

The Chief Constable, working with the PCC, continues to respond effectively to meeting the challenges of on-going reductions in central government funding. The priority based budgeting process has identified efficiency savings underpinning the 2016/17 budget and work continues to identify future savings and efficiencies to meet future budget demand.

The Chief Constable has maintained a focus on improving operational performance at the same time as making significant efficiency savings during 2015/16. The Constabulary has reported a 3% reduction in overall crime and increased the rate of solved crime during 2015/16.

We took assurance from the work of HMIC who commented in their PEEL: Police efficiency report in October 2015 that Cheshire Constabulary is exceptionally well prepared to face its future financial challenges. Overall HMIC concluded that Cheshire Constabulary was outstanding and has developed a good understanding of the demand it faces, both now and into the future.

## Overall VfM conclusion

We are satisfied that in all significant respects the PCC and Chief Constable put in place proper arrangements to secure economy, efficiency and effectiveness in the use of resources for the year ending 31 March 2016.

---

# Working with the Police and Crime Commissioner and Chief Constable

## **Our work with you in 2015/16**

We are really pleased to have worked with you over the past year. We have established a positive and constructive relationship. Working together, we have contributed to:

An efficient audit – we delivered the accounts audit by the 26 July, over 2 months before the 30 September deadline and in line with the timescale we agreed with you. Our audit team are knowledgeable and experienced in your financial accounts and systems. Our relationship with your team provides you with a financial statements audit that continues to finish ahead of schedule releasing your finance team for other important work.

Improved financial processes – during the year we reviewed your financial systems and processes including employee remuneration, non- pay expenditure and police pensions payments. We worked with you to provide additional audit assurance on your revised control framework for the processing of pensions payments and made some suggestions for further improvement.

Understanding your operational health – through the value for money conclusion we examined your operational effectiveness. We tracked your financial budget position, medium term planning arrangements and strategic partnership working and considered this as part of our value for money assessment.

Sharing our insight – we provided independent external audit commentary and insight in your key issues through senior attendance at every Audit Committee. We have also shared with you our insights on various accounting issues including earlier closure timetables.

Technical dialogue – we have been involved in early discussions on a number of developments to ensure that appropriate accounting and audit implications are identified

Provided information - we provided regular audit committee updates covering best practice. Areas we covered included e.g. All Aboard - Local Government Governance Review 2015 and Knowing the Ropes – Audit Committee Effectiveness Review.

Supporting development – we ran our national Police Audit Committee conference in April 2016 for Audit Committee members.

# Appendix A: Reports issued and fees

We confirm below our final fees charged for the audit and provision of non-audit services.

## Fees

	Planned £	Actual fees £	2014/15 fees £
Statutory audit of the PCC	33,825	33,825	45,100
Statutory audit of the Chief Constable	15,000	15,000	20,000
<b>Total fees (excluding VAT)</b>	<b>48,825</b>	<b>48,825</b>	<b>65,100</b>

## Fees for other services

Service	Fees £
<b>Audit related services:</b>	
• Review of pensions control framework	<b>3,500</b>

Fee variations are subject to approval by Public Sector Audit Appointments Ltd.

## Reports issued

Report	Date issued
Audit Plan	16 March 2016
Audit Findings Report	26 July 2016
Annual Audit Letter	September 2016



© 2016 Grant Thornton UK LLP. All rights served.

'Grant Thornton' refers to the brand under which the Grant Thornton member firms provide assurance, tax and advisory services to their clients and/or refers to one or more member firms, as the context requires.

Grant Thornton UK LLP is a member firm of Grant Thornton International LTD (GTIL). GTIL and the member firms are not a worldwide partnership. GTIL and each member firm is a separate legal entity. Services are delivered by the member firms. GTIL does not provide services to clients. GTIL, and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.

**[grant-thornton.co.uk](http://grant-thornton.co.uk)**