



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

Year ended 31 March 2017

October 2017

John Gregory

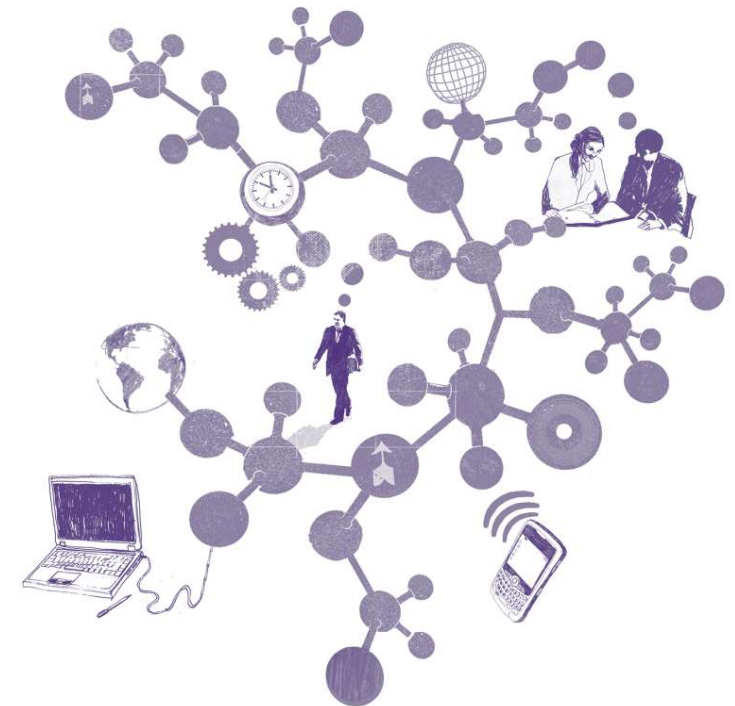
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Executive summary

Purpose of this letter

Our Annual Audit Letter (Letter) summarises the key findings arising from the work we have carried out at Cheshire Police and Crime Commissioner (the PCC) and Chief Constable for the year ended 31 March 2017.

This Letter provides a commentary on the results of our work to the PCC and Chief Constable and its external stakeholders, and highlights issues 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 25 July 2017. 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 its 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 25 July 2017.

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 2017. We reflected this in our audit opinion on 25 July 2017.

Certificate

We certified that we had completed the audit of the accounts of Cheshire PCC and Chief Constable for the year ended 31 March 2017 in accordance with the requirements of the Code on 25 July 2017.

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 25 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.

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

Grant Thornton UK LLP
October 2017

Audit of the accounts

Our audit approach

Materiality

In our audit of the PCC and Chief Constable's accounts, we applied the concept of materiality to determine the nature, timing and extent of our work, and to evaluate 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 and Chief Constable's accounts to be £3,697k, which is 2% of the PCC and Chief Constable's gross revenue expenditure. We used this benchmark, as in our view, users of the PCC and Chief Constable's accounts are most interested in how it has spent the income it has raised from taxation and grants during the year.

We also set a lower level of specific materiality for senior officer remuneration of £10k.

We set a lower threshold of £185k, above which we reported errors to the PCC and Chief Constable and also the Joint Audit Advisory Committee 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 they are free from material misstatement, whether caused by fraud or error. This includes assessing whether:

- the PCC and Chief Constable's accounting policies are appropriate, have been consistently applied and adequately disclosed;
- significant accounting estimates made by the Chief Finance Officers 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 included in the Statement of Accounts on which we gave 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 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	Findings and conclusions
<p>Valuation of pension fund net liability</p> <p>The Chief Constable's pension fund net liability, as reflected in its balance sheet, represents a significant estimate in the financial statements.</p>	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> Identified the controls put in place by management to ensure that the pension fund net liability was not materially misstated and assessed whether those controls were implemented as expected and whether they were sufficient to mitigate the risk of material misstatement. Reviewed the competence, expertise and objectivity of the actuary who carried out the Chief Constable's pension fund valuation. 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. Reviewed the consistency of the pension fund net liability disclosures in notes to the financial statements with the actuarial report from the Chief Constable's actuary. 	<p>We were satisfied from our testing of the pension fund net liability that this was fairly stated.</p> <p>We identified various misstatements in the analysis of pensions income and expenditure within note 34 which the Chief Constable corrected.</p> <p>The Group CIES was amended by £22,360k to correctly reflect the net interest on the net pension liability of £388,992k. This had been included within financing and investment expenditure.</p> <p>This did not affect the reported financial position.</p>

Audit of the accounts

Audit opinion

We gave an unqualified opinion on the PCC and Chief Constable's accounts on 25 July 2017, well in advance of the 30 September 2017 national deadline and also in advance of the earlier deadline which will apply from next year onwards.

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

Issues arising from the audit of the accounts

We reported the key issues from our audit of the accounts of the PCC and Chief Constable to the PCC and Chief Constable's Joint Audit and Advisory Committee on 25 July 2017.

We did not identify any material errors or uncertainties in the PCC, Chief Constable and Group financial statements that affected the reported financial position.

The PCC and Chief Constable corrected the actuarial movement on the pension liability reported within the Group Comprehensive Income and Expenditure Statement (CIES) by £22,360k. This had been included within financing and investment expenditure. There was no effect on the net CIES position.

The PCC and Chief Constable amended the carry forward earmarked reserves position to transfer £1,564k of the 2016/17 revenue underspend to the Revenue Reserve for Capital Expenditure. There was no overall effect on the total value of earmarked reserves.

We also followed up some areas of IT weakness with access control and segregation of duties conflicts causing access vulnerability. Management have addressed most of the issues raised and are taking steps to make further improvements to controls in this area.

Annual Governance Statement (AGS) and Narrative Report

We are required to review the PCC and Chief Constable's Annual Governance Statement and Narrative Report. They published them on the appropriate websites 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.

The OPCC updated some of the narrative in the final AGS to ensure this aligned clearly to the revised CIPFA/SOLACE Delivering Good Governance Framework (2016 edition).

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 2016 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 as part of our risk assessment and 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
- risk based work to examine project management and risk assurance frameworks established by the PCC and the Chief Constable to establish how they are identifying, managing and monitoring the progress on Blue Light collaboration
- other collaborative developments and strategic challenges

We identified the Blue Light collaboration with Cheshire Fire and Rescue as a potential area of significant risk. The PCC and Chief Constable are bringing together most of the back office and professional services which support Cheshire Fire and Rescue Service and Cheshire Constabulary and establishing a single, shared headquarters site by April 2018. Working with partners from different organisations and service areas with potentially conflicting priorities, the project is complex and high profile.

This area of risk and the findings from the work we performed is set out in the table overleaf.

The PCC Group reported a draft revenue outturn of £1.5m underspend (0.9% of the net revenue budget) and general fund and earmarked reserves of £14.2 million as at 31 March 2017.

The Medium Term Financial Strategy (MTFS) approved in January 2017 anticipates a cumulative savings requirement of £18.2m gross over the 5 year period 2017/22. The budget gap reported in the MTFS is £4m for 2017/18 and £2 -3m per annum for years 2018/19 to 2021/22.

The PCC and Chief Constable plan to address the identified budget gap with improved efficiencies and changes to service levels as required which will be managed through the annual PBB process. Key to the delivery of the savings over the next few years is putting in place the Estates Strategy and investing in modern technology. Proposed collaborations, including the co-location with Cheshire Fire, aims to deliver the same or improved services in a more cost effective way. In addition, the use of technology and investment made in mobile and agile working is key to delivering efficiencies in police officer time and money.

We also considered the outcomes from HMIC's PEEL (police effectiveness, efficiency and legitimacy) assessments of Cheshire Constabulary during 2016/17. HMIC rated the Constabulary as Good overall in all three categories of their assessment

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 its use of resources for the year ending 31 March 2017.

Value for Money

We set out below our key findings against the significant risk we identified.

Risk identified	Work carried out	Findings and conclusions
<p>Blue Light Collaboration</p> <p>The Policing and Crime Bill came into effect in April 2017.</p> <p>The PCC and Constabulary Group is working with Cheshire Fire and Rescue to bring together most of the back office and professional services which support Cheshire Fire and Rescue Services and Cheshire Constabulary and establish a single, shared headquarters site by April 2018.</p> <p>Working with partners from different organisations and service areas with potentially conflicting priorities, the project is complex and high profile.</p>	<p>We examined the project management and risk assurance frameworks established by the PCC and the Chief Constable to establish how they are identifying, managing and monitoring these risks.</p>	<p>During 2016/17 the PCC and Chief Constable progressed with a number of collaborations, including joint working with Cheshire Fire and Rescue Services. The PCC has commenced transition to joint service provision with Cheshire Fire and Rescue with the co-location of teams in preparation for full transition by 2018.</p> <p>The PCC is working to ensure that appropriate governance and accountability arrangements are in place for all collaborative arrangements.</p> <p>The PCC maintains a register of all collaborations and monitors progress against plan through its monthly Programme Board meetings. Performance and financial arrangements are evidenced as part of the Chief Constable’s Service Assurance Plan which is reported to the Joint Audit Advisory Committee.</p> <p>On that basis we concluded that the risk was sufficiently mitigated and the PCC and Chief Constable each has proper arrangements</p>

Appendix A: Reports issued and fees

We confirm below our final fees charged for the audit and confirm there were no fees for the provision of non audit services.

Fees

	Proposed fee £	Actual fees £	2015/16 fees £
Statutory audit of the PCC	33,825	33,825	33,825
Statutory audit of the Chief Constable	15,000	15,000	15,000
Total fees (excluding VAT)	48,825	48,825	48,825

Fees for other services

- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the PCC and Chief Constable. There are no fees for other services for 2016/17.

The proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA)

Reports issued

Report	Date issued
Audit Plan	February 2017
Audit Findings Report	July 2017
Annual Audit Letter	October 2017



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