

The Audit Findings for Cheshire Police and Crime Commissioner and Cheshire Chief Constable

Year ended 31 March 2016

26 July 2016

John Gregory

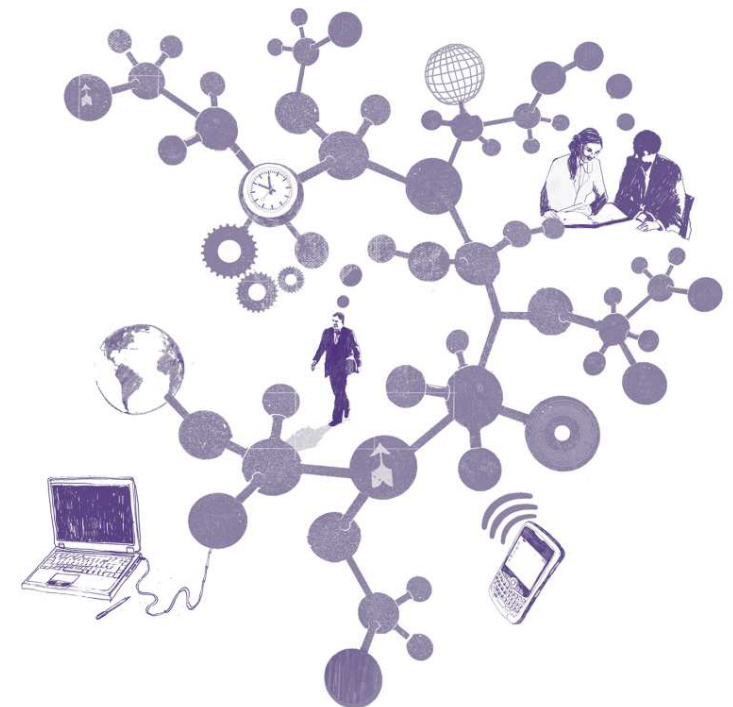
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26 July 2016

Dear David and Simon

Audit Findings for Cheshire Police and Crime Commissioner and Cheshire Chief Constable for the year ending 31 March 2016

This Audit Findings report highlights the key findings arising from the audits of the Police and Crime Commissioner and Chief Constable for the benefit of those charged with governance, as required by International Standard on Auditing (UK & Ireland) 260, the Local Audit and Accountability Act 2014 and the National Audit Office Code of Audit Practice. For police bodies, those charged with governance are the Police and Crime Commissioner and the Chief Constable for the respective corporations sole. The contents of this report have been discussed with management and the Audit Advisory Committee.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements and giving a value for money conclusion. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

We would like to take this opportunity to record our appreciation for the kind assistance provided by the finance team and other staff during our audit.

Yours sincerely

John Gregory
Engagement Lead

Chartered Accountants

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Section 1: Executive summary

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

Purpose of this report

This report highlights the key issues affecting the results of the Police and Crime Commissioner (the PCC), Chief Constable and the group financial statements for the year ended 31 March 2016. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing (UK & Ireland) 260, and the Local Audit and Accountability Act 2014 ('the Act').

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the PCC's and the Chief Constable's financial statements give a true and fair view of the financial position and their income and expenditure for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting.

We are also required consider other information published together with the audited financial statements, whether it is consistent with the financial statements and in line with required guidance.

We are required to carry out sufficient work to satisfy ourselves on whether the PCC and Chief Constable have made proper arrangements to secure economy, efficiency and effectiveness in their use of resources ('the value for money (VFM) conclusion'). We issue separate conclusions for the PCC and the Chief Constable based on our assessment of the arrangements each has established.

Auditor Guidance Note 7 (AGN07) clarifies our reporting requirements in the Code and the Act. We are required to provide a conclusion as to whether in all significant respects, the PCC and Chief Constable have put in place proper arrangements to secure value for money through economic, efficient and effective use of their respective resources for the relevant period.

The Act also details the following additional powers and duties for local government auditors (including police bodies), which we are required to report to you if applied:

- a public interest report if we identify any matter that comes to our attention in the course of the audit that in our opinion should be considered by the PCC and Chief Constable or brought to the public's attention (section 24 of the Act);
- written recommendations which should be considered by the PCC and Chief Constable and responded to publicly (section 24 of the Act);
- application to the court for a declaration that an item of account is contrary to law (section 28 of the Act);
- issue of an advisory notice (section 29 of the Act); and
- application for judicial review (section 31 of the Act)

We are also required to give electors the opportunity to raise questions about the accounts and consider and decide upon objections received in relation to the accounts under sections 26 and 27 of the Act.

Introduction

In the conduct of our audit we have not had to alter or change our audit approach, which we communicated to the previous PCC and the Chief Constable in our Joint Audit Plan dated March 2016.

Our audit is substantially complete although we are finalising our procedures in the following areas:

- assessing the response from the Cheshire Pension Fund auditor on the IAS 19 employee benefits entries and the procedures for producing them
- review of the final version of the financial statements
- obtaining and reviewing the management letter of representation for both audits
- updating our post balance sheet events review, to the date of signing the opinion.

We received draft financial statements and accompanying working papers at the commencement of our work, in accordance with the agreed timetable. This was well in advance of the current statutory deadline, and means the PCC and Chief Constable are well placed to meet the challenge of the earlier deadlines which apply from 2018.

Key audit and financial reporting issues – PCC and Chief Constable

Financial statements opinion

We anticipate providing an unqualified opinion on the PCC's and Chief Constable's financial statements, including the group financial statements, which consolidate the financial activities of the Chief Constable.

Our audit has not identified any material errors or uncertainties in the PCC, Chief Constable and Group financial statements. The Chief Finance Officer has amended the PCC and Group accounts for the disclosure changes identified during the audit which are primarily to correct minor errors and improve the presentation of the accounts. No changes were required to the Chief Constable's statements.

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

Further details are set out in section two of this report.

Other financial statement responsibilities

As well as an opinion on the financial statements, we are required to give an opinion on whether other information published together with the audited financial statements is consistent with the financial statements. This includes:

- if the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audits.

Controls

Roles and responsibilities

The PCC and the Chief Constable's management are responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control. Management has operated a common set of financial systems and controls to produce both sets of financial statements for 2015/16. Our work on the material financial systems used to prepare the financial statements has therefore supported our audits of both the PCC and the Chief Constable. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to the PCC and to the Chief Constable.

Findings

We draw your attention to control issues identified in relation to a high level review of your IT control environment. Within the Oracle E Business Suite (EBS) we identified a number of issues regarding access control and segregation of duties conflicts. Management have already addressed some of these and are considering the best ways of addressing the other issues.

Further details are provided within section two of this report.

Value for Money

Based on our review, we are satisfied that, in all significant respects, the PCC and Chief Constable had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources.

Further detail of our work on Value for Money are set out in section three of this report.

Other statutory powers and duties

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

The way forward

Matters arising from the financial statements audits and our review of the PCC's and Chief Constable's arrangements for securing economy, efficiency and effectiveness in their use of resources have been discussed with the Chief Finance Officer to the PCC and the Chief Finance Officer to the Chief Constable, as well as with the PCC and Chief Constable as the two individuals charged with overall governance for the office of the PCC and the police force respectively.

We have made a number of recommendations for improvement to IT controls, which are set out in the action plan at Appendix A. Recommendations have been discussed and agreed with management and those charged with governance, and their responses are included.

Acknowledgement

We would like to take this opportunity to record our appreciation for the assistance provided by management, the finance team and other officers in both the office of the PCC and the police force during our audits.

Grant Thornton UK LLP
July 2016

Section 2: Audit findings

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

Materiality

In performing our audit, we apply the concept of materiality, following the requirements of International Standard on Auditing (UK & Ireland) (ISA) 320: Materiality in planning and performing an audit. The standard states that 'misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'.

As we reported in our joint audit plan, we determined overall materiality to be £3,739k (being 2% of gross revenue expenditure). We have considered whether this level remained appropriate during the course of the audit and have made no changes to our overall materiality.

We also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulated effect of such amounts would have a material impact on the financial statements. We have defined the amount below which misstatements would be clearly trivial to be £187k. This remains the same as reported in our joint audit plan.

As we reported in our audit plan, we identified the following items where we decided that separate materiality levels were appropriate. These remain the same as reported in our joint audit plan.

Balance/transaction/disclosure	Explanation	Materiality level
Disclosures of officers' remuneration, salary bandings and exit packages in notes to the statements	Due to public interest in these disclosures and the statutory requirement for them to be made.	£10k
Disclosure of auditors' remuneration in notes to the statements	Due to public interest in these disclosures and the statutory requirement for them to be made.	£10k

Audit findings against significant risks

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA (UK&I) 315).

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	<p>The revenue cycle includes fraudulent transactions</p> <p>Under ISA (UK&I) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams, we have determined that the risk of fraud arising from revenue recognition can be rebutted for both the PCC and Chief Constable because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • for the PCC opportunities to manipulate revenue recognition are very limited as revenue is principally grant allocations from central and local government • for the Chief Constable opportunities to manipulate revenue recognition are very limited as revenue is principally an inter-group transfer from the PCC, with no cash transactions • the culture and ethical frameworks of local government bodies, including Cheshire PCC and Chief Constable, mean that all forms of fraud are seen as unacceptable. 	<p>Our audit work has not identified any issues in respect of revenue recognition.</p>
2.	<p>Management over-ride of controls</p> <p>Under ISA (UK&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 have completed:</p> <ul style="list-style-type: none"> • a review of entity controls • an examination and testing of accounting estimates, judgements and decisions made by management • testing of journals entries to include year end adjusting entries • a review of any unusual significant transactions 	<p>Our audit work has not identified any evidence of management over-ride of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgements.</p>

Audit findings against significant risks continued

We have also identified the following significant risks of material misstatement from our understanding of the entity. We set out below the work we have completed to address these risks.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
3.	<p>Valuation of pension fund net liability</p> <p>The Chief Constable's pension fund asset and liability as reflected in its balance sheet represent significant estimates in the financial statements.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> • Documented the key controls that were put in place by management to ensure that the pension fund liability was not materially misstated. • Walked through the key controls to assess whether they were implemented as expected and mitigate the risk of material misstatement in the financial statements. • 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 asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary. 	<p>We were satisfied from our testing of the pension fund net liability that this was fairly stated. The details of our work are set out on page 19.</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.</p>

Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses are attached at Appendix A.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<p>Employee remuneration</p>	<p>Employee remuneration accruals understated (Remuneration expenses not correct)</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • documented our understanding of processes and key controls over the employee remuneration transaction cycle (including processing of officer and staff overtime payments) • undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding • substantively tested a sample of staff and officer payroll payments, ensuring that payments are made in accordance with the individual's contract of employment • tested the reconciliation of payroll expenditure recorded in the general ledger to the subsidiary systems and interfaces • analysed trends to identify any anomalous areas for further investigation • tested to confirm the completeness of payroll transactions and appropriate cut-off 	<p>Our audit work has not identified any significant issues in relation to the risk identified</p>
<p>Operating expenses</p>	<p>Creditors understated or not recorded in the correct period (Operating expenses understated)</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • documented our understanding of processes and key controls over the operating expenses transaction cycle • undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding 	<p>Our audit work has not identified any significant issues in relation to the risk identified</p>

Audit findings against other risks continued

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<p>Operating expenses (cont'd)</p>		<ul style="list-style-type: none"> • tested the reconciliation of operating expenditure recorded in the general ledger to the subsidiary systems and interfaces • 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 • substantively tested operating expenses including sample testing of expenditure, year end accruals and creditor balances 	
<p>Police Pensions Benefits Payable</p>	<p>Benefits improperly computed / Claims liability understated</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • documented our understanding of processes and key controls over the pensions benefits payments transaction cycle • undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding • tested the reconciliation of pension benefit payments recorded in the general ledger to the subsidiary systems and interfaces • analysed trends and relationships to identify any anomalous areas for further investigation • substantively tested monthly pension benefit payments made in the year • substantively tested lump sum pension benefit payments made in the year 	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p>

Group audit scope and risk assessment

ISA (UK&I) 600 requires that as Group auditors we obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

For accounting purposes, the Chief Constable is considered a subsidiary of the PCC and the Chief Constable's financial results are consolidated into the PCC group accounts. We will comply with the requirements of ISA 600 in carrying out our audit of the Chief Constable's financial statements.



Component	Significant?	Level of response required under ISA 600	Work completed	Assurance gained & issues raised
Police and Crime Commissioner (parent)	Yes	Comprehensive	Full scope UK statutory audit performed by Grant Thornton	Our audit work has not identified any issues
Chief Constable (subsidiary)	Yes	Comprehensive	Full scope UK statutory audit performed by Grant Thornton	Our audit work has not identified any issues

Significant matters discussed with management

	Significant matter	Commentary
1.	<p>Note 18 to the PCC Group financial statements shows a significant £28,839k increase in the value of property.</p> <p>This increase is due to a full valuation carried out by valuers Wilks Head and Eve in accordance with a five year cycle.</p> <p>Full details of the valuation methodology are detailed in the note.</p>	<p>Due to the significant increase in the net property values, the appointment of a new valuer in 2015/16 and a revised methodology we have examined the basis of the valuation in discussion with management and completed the following work:</p> <ul style="list-style-type: none"> ▪ reviewed the competence, expertise and objectivity of the valuer who carried out the assets valuation and gained an understanding of the basis on which the valuation was carried out. ▪ examined the instructions issued to the valuation expert and the scope of their work • discussed and gathered evidence showing management's processes for examining the methodology applied by the current valuer and the challenge made on the changes in the assumptions used • reviewed the basis on which the valuation was carried out, examining the key assumptions • reviewed and challenged the information used by the valuer to ensure it was robust and consistent with our understanding. • tested revaluations made during the year and depreciation adjustments to ensure they were input correctly into the PCC's asset register <p>In conclusion we were satisfied that the assumptions used by the valuer are in accordance with RICS guidance, sufficient challenge was made by the PCC on the revised methodology applied and the appropriateness of this to the asset base. We can conclude from this work that the asset values are not materially misstated.</p>

Accounting policies, estimates and judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the PCC and Chief Constables's financial statements.

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	<p>PCC</p> <p>The PCC has two principal revenue streams:</p> <ul style="list-style-type: none"> grant income is recognised in accordance with the terms of the grant, whether specific or non-specific; and income from fees and charges in the provision of services, which is recognised when the service has been provided or when title to goods has passed. <p>All income is accounted for by the PCC and paid into the Police Fund.</p> <p>Chief Constable</p> <ul style="list-style-type: none"> the Chief Constable is entirely funded by the PCC. Income is recognised in the Chief Constable's accounts, to reflect the simultaneous funding by the PCC, of the financial resources consumed by the Chief Constable. 	<p>We have reviewed the accounting policies against the requirements of the Code of Practice on Local Authority Accounting (The Code). We found:</p> <ul style="list-style-type: none"> the approach to accounting for income is robust and in accordance with current guidance disclosure of the revenue recognition policy is adequate the revenue recognition policies of the PCC and Chief Constable are appropriate to the accounting framework and are adequately disclosed. Our audit testing has not identified any areas of concerns in respect of revenue recognition. 	 Green
Cost recognition	<p>PCC policy</p> <ul style="list-style-type: none"> expenditure is recognised on an accruals basis. PCC expenditure includes the cost of policing provided by the Chief Constable, this cost is recognised as intra-group funding. 	<p>PCC audit</p> <p>We are satisfied that expenditure recognition policies are appropriate and result in materially accurate recognition of costs in the PCC's financial statements and those of the group.</p> <p>We are also satisfied that the policy reflects the arrangements for the PCC to fund the Chief Constable's operations and that this does form the basis of the intra-group adjustment.</p>	 Green


Assessment

● Marginal accounting policy which could potentially attract attention from regulators

● Accounting policy appropriate but scope for improved disclosure

● Accounting policy appropriate and disclosures sufficient

Accounting policies, estimates and judgements continued

Accounting area	Summary of policy	Comments	Assessment
<p>Cost recognition (contd)</p>	<ul style="list-style-type: none"> the cost of support services are apportioned to services in full in line with the CIPFA Service Reporting Code of Practice (SeRCoP) 2014/15. These costs are charged to relevant policing services in the CIES <p>Chief Constable policy</p> <ul style="list-style-type: none"> expenditure is recognised on an accruals basis in the Chief Constable's financial statements. as noted above, this includes the cost of support services, including finance, property, IT and legal services, which are apportioned to services in line with the CIPFA Service Reporting Code of Practice (SeRCoP) 2014/15. 	<p>Chief Constable audit</p> <p>We are satisfied that expenditure recognition policies are appropriate and result in materially accurate recognition of costs in the Chief Constable's financial statements.</p>	
<p>Going concern</p>	<p>PCC and Chief Constable</p> <p>The Police and Crime Commissioner and the Chief Constable both have a reasonable expectation that the services they provided will continue for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.</p>	<p>PCC and the Chief Constable face significant financial challenges due to cuts in the grant they receive from the Home Office. To their credit, both organisations share a good understanding of the scale of this financial challenge over the medium-term.</p> <p>The PCC has approved a balanced budget for 2016/17 and a medium term financial strategy to 2020/21. This currently includes required further savings and efficiencies of £13 million over the MTFS period to achieve financial balance. The PCC and Constabulary plan to address future savings requirements as part of its priority based budgeting process (PBB) with increased efficiencies and service level and transformational change.</p>	<p style="text-align: center;"> Green</p>



Assessment

● Marginal accounting policy which could potentially attract attention from regulators

● Accounting policy appropriate but scope for improved disclosure

● Accounting policy appropriate and disclosures sufficient

Accounting policies, estimates and judgements continued

Accounting area	Summary of policy	Comments	Assessment
Going concern (cont'd)	<p>PCC and Chief Constable</p> <p>The Police and Crime Commissioner and the Chief Constable both have a reasonable expectation that the services they provided will continue for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.</p>	<p>We have examined the reasonableness of the assumptions underlying the MTFs, and the sensitivity of the forecasts to changes in those assumptions. We do not consider there to be a material uncertainty which could cast doubt either entity's ability to continue as a going concern.</p> <p>The PCC group has general fund balances of £5.9 million and earmarked reserves of £15 million as at 31 March 2016. Based on this, we are satisfied that it remains appropriate for the PCC and Chief Constable to prepare accounts on a going concern basis as at 31 March 2016.</p>	
Other accounting policies	<p>We have reviewed the PCC's and the Chief Constable's policies against the requirements of the CIPFA Code and accounting standards.</p>	<p>The accounting policies are appropriate and consistent with previous years.</p>	<p> Green</p>
Estimates and judgements – land and building valuations	<p>Key estimates and judgments include the classification, valuation, impairment and useful life of property, plant and equipment.</p> <p>Note 18 to the PCC group accounts sets out the basis of the valuation of the assets. This shows that in 2015/16 the PCC appointed a valuer to complete a full revaluation of property (land and buildings). The assets were valued on a depreciated replacement cost and applied obsolescence.</p>	<p>We carried out a detailed review of the work performed by the PCC's valuer to provide land and building valuations for financial reporting purposes.</p> <p>We were satisfied from our review of the valuation report, that the methods and assumptions used by the valuer in valuing the PCC's land and property assets are considered to be reasonable and result in land and buildings being materially stated.</p>	<p> Green</p>


Assessment

● Marginal accounting policy which could potentially attract attention from regulators

● Accounting policy appropriate but scope for improved disclosure

● Accounting policy appropriate and disclosures sufficient

Accounting policies, estimates and judgements continued

Accounting area	Summary of policy	Comments	Assessment
<p>Estimates and judgements – police officer pension fund liability</p>	<p>The Chief Constable is responsible for administering the Police Pension Fund which covers the 2006 New Police Pension Scheme (NPPS) and the Police Pension Scheme (PPS), both of which are unfunded, defined benefit schemes. The financial liability for these schemes appears on the Chief Constables balance sheet, funded by an equal and opposite intra-group contribution from the PCC.</p> <p>The liabilities relating to these schemes have been assessed by the Government Actuaries Department using data provided by the Group. Changes in actuarial assumptions led to a £252 million decrease in the size of the liability, which stands at £1.75 billion at 31 March 2016.</p>	<p>We undertook a detailed review of the actuary's work to satisfy ourselves that the police officer pension fund liabilities are fairly stated in the financial statements. In doing so, we engaged our own independent actuary to assess the methodology and assumptions used by the scheme actuary.</p> <p>The value of the police officer pension fund liability is most sensitive to changes in the following key assumptions:</p> <ul style="list-style-type: none"> • discount rate; • mortality; • inflation; and • future salary increases. <p>We have reviewed the assumptions used by GAD for each of these variables, and note that they are consistent with those used for other police and fire schemes. Our own independent actuary has also confirmed that they are comfortable that the assumptions used by GAD are reasonable for the purpose of valuing the liability as at 31 March 2016.</p> <p>The work of the Pension Fund's actuary also relies on having accurate source data about scheme members. We undertook additional work to check that source data provided to the actuary was complete and accurate. We did not identify any errors from this work</p>	<p style="text-align: center;">  Green </p>

Assessment

● Marginal accounting policy which could potentially attract attention from regulators

● Accounting policy appropriate but scope for improved disclosure

● Accounting policy appropriate and disclosures sufficient

Other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

	Issue	Commentary
1.	Matters in relation to fraud	<ul style="list-style-type: none"> We have previously discussed the risk of fraud with the Joint Audit Advisory Committee .We have not been made aware of any incidents in the period and no other issues have been identified during the course of our audit.
2.	Matters in relation to related parties	<ul style="list-style-type: none"> From the work we carried out, we have not identified any related party transactions which have not been disclosed
3.	Matters in relation to laws and regulations	<ul style="list-style-type: none"> You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
4.	Written representations	<ul style="list-style-type: none"> A standard letter of representation has been requested from the PCC and the Chief Constable.
5.	Confirmation requests from third parties	<ul style="list-style-type: none"> We obtained confirmation of bank balances directly from the PCC's banks to assist in our audit work
6.	Disclosures	<ul style="list-style-type: none"> Our review found no material omissions in the financial statements
7.	Matters on which we report by exception	<ul style="list-style-type: none"> We are required to report on a number of matters by exception in a number of areas: We have not identified any issues we would be required to report by exception in the following areas If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit The information in the Narrative Report is materially inconsistent with the information in the audited financial statements or our knowledge of the PCC Group acquired in the course of performing our audit, or otherwise misleading.
8.	Specified procedures for Whole of Government Accounts	<p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.</p> <ul style="list-style-type: none"> Note that work is not required as the PCC Group does not exceed the threshold


Internal controls

The purpose of an audit is to express an opinion on the financial statements.

Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. We considered and walked through the internal controls for Employee Remuneration, Operating Expenses and Pensions Benefits Payable as set out on pages 12 to 14 above.



In addition our information systems specialist performed a high level review of your IT control environment. This focussed on access controls and segregation of duties within your Oracle system, as well as active directory password security

The matters that we identified during the course of our audit are set out in the table below. These and other recommendations, together with management responses, are included in the action plan attached at Appendix A.


	Assessment	Issue and risk	Recommendations
1	 Red	<p>Default Oracle EBS accounts</p> <p>Oracle E-Business Suite is supplied with a large number of accounts. The passwords for these accounts should be changed after the system has been installed as these are easily and readily available on the internet.</p> <p>We found that we were able to log in to Oracle EBS using default passwords for eight default accounts, including one account that has access system administrator functions assigned to it. This could allow a user to create a new account and assign themselves any responsibilities in the system.</p> <p>Default accounts present a security risk as the usernames and passwords are widely available. They therefore present an easy point of compromise for a malicious user who could use such an account to create new user accounts and assign unauthorised privileges to them. These accounts could then be used to perform unauthorised and unaccountable changes or transactions, which may be fraudulent.</p> <p>As this Oracle system is shared across multiple police forces this risk will affect all users and forces. There is also a risk of using such accounts to access data across organisations.</p>	<p>The passwords for all default accounts should be changed immediately.</p> <p>Management should introduce a procedure for ensuring that these accounts are reviewed following any upgrades or patches, as these activities can often reset the default passwords on these accounts. This can be achieved through running the security reports available in the Oracle Applications Manager.</p> <p>Management response</p> <ul style="list-style-type: none"> • Recommendation accepted. These accounts have now been disabled and a step has been added to the post upgrade check list to ensure this is repeated once the Oracle patching has taken place after every patch..

The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.



Assessment

-  Significant deficiency – risk of significant misstatement
-  Deficiency – risk of inconsequential misstatement


Internal controls (cont'd)

	Assessment	Issue and risk	Recommendations
2	 Red	<p>Segregation of duties conflicts</p> <p>Segregation of duties is a fundamental principle of control. It requires that record keeping, custody of assets, authorisation and reconciliation processes are not performed by the same person.</p> <p>We performed a review of the access rights, known as responsibilities, assigned to users within Oracle E-Business Suite (EBS). 32 of these responsibilities are default ones that are provided with Oracle or direct copies of them. These responsibilities always allow unsegregated access to full business processes.</p> <p>We identified a number of high-risk segregation of duties conflicts, including the following:</p> <ul style="list-style-type: none"> - GL Transactions & open and close Accounting Periods (15 users) - Payables invoice entry & purchase order entry (55 users) - Payables invoice entry & supplier master (52 users) - Journal entry & journal post (36 users) - Open and close accounting periods & AP payments (34 users) - AR cash receipts & bank reconciliation (23 users) <p>It should be noted that the above list does not account for any manual controls that reside out the system that may be in place to mitigate these conflicts. This segregation of duties conflict increase the risk of fraud through the bypass or override of internal controls.</p>	<p>Management should complete a review of the configuration of all responsibilities in use within Oracle EBS.</p> <p>We have provided the Oracle system administrator with the detailed outputs of our work to facilitate this. Responsibilities should be redesigned to reduce the number of segregation of duties conflicts within the system.</p> <p>Where management have decided to accept the risk of the segregation of duties conflicts, this should be formally documented.</p> <p>Management response</p> <p>Recommendation accepted. A review of the segregation of duties is planned to take place following the report.</p> <p>Whilst it is acknowledged that there are a number of staff with the same responsibilities, controls are in place to mitigate risks of conflict. For example; a control is in place which mitigates the risk around ordering and paying for goods/services. The approvals process does not allow a system user to self-authorise invoices or requisitions over £250. The approval is always escalated up the hierarchy until the requisition/invoice is approved, rejected or re-assigned to a budget holder with the appropriate delegated authority.</p>

The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.



Assessment
 Significant deficiency – risk of significant misstatement
 Deficiency – risk of inconsequential misstatement

Internal controls (cont'd)


	Assessment	Issue and risk	Recommendations
3	 Red	<p>Users with 'processes tab' functionality</p> <p>The 'processes tab' (also known as 'AZN menus') is a known security risk present within Oracle E-Business Suite. It is used for system developers during the implementation stage to easily configure business workflows and should not be enabled within the production environment. The processes tab displays workflows diagrammatically, however it also enables the related functions to be performed, bypassing any menu prompt exclusions that have been used. For example a user with the out of the box responsibility 'Payables Manager' can view the accounts payable workflow on the processes tab. This will also enable the user to perform any of these stages, such as make a payment.</p> <p>Cheshire Police have 39 responsibilities in use that are affected by the processes tab. A full list has been provided to the MFSS for review.</p> <p>This condition presents the following risk:</p> <p>Users are able to have unsegregated access to whole processes that system administrators and management are not aware of. There is a risk of users being able to perform end-to-end transactions that could be used to commit fraudulent activity. The risk of such changes not being detected is increased by the absence of effective audit logging.</p>	<p>Management should carry out a review to identify all responsibilities in use that could be exploited using the processes tab functionality. These can be identified by reviewing responsibilities for menus that include the string 'AZN' .</p> <p>Exclusions should then be used to ensure that no responsibilities in use have access to these menus.</p> <p>Management response</p> <p>These responsibilities are being investigated by Capgemini as it appears that they have not been locked down as part of the set up process of the system.</p> <p>Assurance is gained through compliance testing from an independent annual review of the Oracle solution by a third party. This review captures checks for both technical view and user responsibilities. This review includes checks such as access to user responsibilities, process walkthrough, password expiry tests and post-patch system testing.</p>

The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment



-  Significant deficiency – risk of significant misstatement
-  Deficiency – risk of inconsequential misstatement

Internal controls (cont'd)

	Assessment	Issue and risk	Recommendations
4	 Red	<p>Users with access to critical functions</p> <p>Our review of the list of users with access to key user administration functions revealed that 924 users have access to the Profile System Values function. This can enable users to determine how an application behaves, its default settings, and any restrictions in place. There are 53 responsibilities in use that grant access to this function.</p> <p>This condition presents the following risk:</p> <p>Fraud or error occurs due to users having access rights that allow them to bypass internal controls</p>	<p>Management should undertake a review of the configuration of responsibilities to ensure that the functions assigned to them are appropriate and do not result in segregation of duties clashes.</p> <p>Management Response</p> <p>As above these responsibilities need further investigation and changes to disable this feature within the system.</p> <p>.</p>

The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment

-  Significant deficiency – risk of significant misstatement
-  Deficiency – risk of inconsequential misstatement

Internal controls – review of issues raised in prior year

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1.	✓	<p>In 2014/15 we identified an incorrect calculation of a police officer lump sum and pension payment and also found an error in the calculation of a redundancy payment.</p> <p>We also reported a lack of evidence to support the method used to calculate weekend enhancements within a termination payment.</p>	<p>The PCC set up a review of the police pension framework during 2015/16. This involved:</p> <ul style="list-style-type: none"> determining the minimum information required to be held for each pensioner to support eligibility and accuracy of the pension payment checking the accuracy of pension payments to ensure police officers were paid the correct pension amounts a comprehensive review of the processes and controls involved in each step of the police pension framework. <p>We completed an independent assessment of the work and concluded that the review was comprehensive and the PCC was taking appropriate action to strengthen the control processes.</p> <p>We have not identified any errors from our work during 2015/16.</p>

Assessment

- ✓ Action completed
- X Not yet addressed

Adjusted misstatements and misclassification changes– Police Pension Fund

A number of adjustments to the draft accounts have been identified during the audit process. We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management. The table below summarises the adjustments arising from the audit which have been processed by management.

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year.

Detail	Fund Account £'000	Net amount payable £'000	Impact on total net fund balance £000
1 Contributions receivable from current employees were understated by £5,030k	Cr 5,030	Dr 5,030	nil
2 Misclassification change of £5,181k - payments due to Milne and GAD ruling - refund of contributions.	Dr 5,181 Cr 5,181		nil
Overall impact	Cr £5,030	Dr £5,030	£nil

Misclassifications and disclosure changes – Police and Crime Commissioner financial statements

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Adjustment type	Value £'000	Account balance	Impact on the financial statements
1 Disclosure	n/a	Officer remuneration (note 14)	Corrections made to the salaries disclosures for the former Head of IT and former Director of Finance.
2 Disclosure	n/a	Grant income (note 17)	Minor changes to the disclosure of PFI values within the note.
3 Disclosure	n/a	Property, plant and equipment (note 18)	Total values now added to the note .
4 Disclosure	n/a	Financial instruments (note 23)	Amendments made to correct the values disclosed for loans and receivables (£420k LT and £197k ST) and financial liabilities (£28k LT and £1,608k ST).
5 Disclosure	n/a	Various	Minor changes were made to some referencing (Group and PCC cashflow) and narrative descriptions (CIES, PPE WIP, current regulations) and the subtotal within the long term liabilities figure in the balance sheet (PCC).
6 Disclosure	n/a	Narrative report	Some revisions made to the details within the report to provide better clarity.
7 Disclosure	n/a	Employee benefits (note 36)	Revision made to the 2014/15 comparative figure for the split of equity instruments between consumer and IT. These were incorrectly reported by Cheshire Pension Fund.
8 Disclosure	n/a	Critical judgements (note 3)	Expanded to include the split of accounting policies between the PCC and Chief Constable

Misclassifications and disclosure changes – Chief Constable financial statements

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Adjustment type	Value £'000	Account balance	Impact on the financial statements
1 Disclosure	n/a	Employee benefits (note)	Revision made to the 2014/15 comparative figure for the split of equity instruments between consumer and IT. These were incorrectly reported by Cheshire Pension Fund.
2 Disclosure	n/a	Narrative report	Some revisions made to the details within the report to provide better clarity.

Section 3: Value for Money

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non-audit services and independence

05. Communication of audit matters

Background

We are required by section 21 of the Local Audit and Accountability Act 2014 ('the Act') and the NAO Code of Audit Practice ('the Code') to satisfy ourselves that the PCC and Chief Constable have each put in place proper arrangements for securing economy, efficiency and effectiveness in their use of resources. This is known as the Value for Money (VfM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place. The Act and NAO guidance state that for local government bodies, auditors are required to give a conclusion on whether the PCC and Chief Constable have put proper arrangements in place. We issue separate conclusions for the Police and Crime Commissioner and for the Chief Constable

In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2015. AGN 03 identifies one single criterion for auditors to evaluate:

In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

AGN03 provides examples of proper arrangements against three sub-criteria but specifically states that these are not separate criteria for assessment purposes and that auditors are not required to reach a distinct judgement against each of these.

Risk assessment

We carried out an initial risk assessment in March 2016 based on the NAO's guidance. In our initial risk assessment, we considered:

- our cumulative knowledge of both the PCC and the Chief Constable, including work performed in previous years in respect of the VfM conclusions and the opinions on the financial statements.
- the findings of other inspectorates and review agencies, including Her Majesty's Inspectorate of Constabulary (HMIC).
- any illustrative significant risks identified and communicated by the NAO in its Supporting Information.
- any other evidence which we considered necessary to conclude on the PCC and Chief Constable's arrangements.

We did not identify any significant risks from our initial risk assessment, as we communicated to you in our Audit Plan dated 16 March 2016.

We have continued our review of relevant documents up to the date of giving our report, and have not identified any significant risks where we need to perform further work.

Significant qualitative aspects

AGN 03 requires us to disclose our views on significant qualitative aspects of the PCC and Chief Constable's arrangements for delivering economy, efficiency and effectiveness.

Our main considerations in 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
- collaborative developments and link to future strategies

We have set out more detail on the findings in these areas and the conclusions we drew from this work later in this section.

Key findings – PCC

The main matters to note from our work are:

- the PCC Group has general fund balances of £5.8 million and earmarked reserves of £15.1 million as at 31 March 2016. As part of updating the Medium Term Financial Strategy (MTFS) the PCC and Chief Constable approved a reserves strategy in January 2016 setting out the principles by which funds are set aside. During 2015/16 the PCC reduced its medium term financial strategy reserve by £11m in line with its planned strategy. The reserve was used to support priority based budgeting implementation costs as well as transferred resource to support the capital programme.
- Overall reserves appear adequate at the present time to support the current financial challenge and the changing nature of crime.

- The PCC has 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 is underpinned by priority based budgeting (PBB) which directs resources into priority activities within the available funding. PBB highlights areas for further investment or increased savings from changes in delivery models. The MTFS is supported also by strategies relating to reserves and value for money which assist financial planning.
- The MTFS is continually refined as key factors become clear and currently anticipates further savings and efficiency requirement of £13 million over the MTFS period. The PBB process has identified efficiency savings underpinning the 2016/17 budget and work continues to identify future savings and efficiencies to meet future budget demand.
- We have taken 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.
- Following the election of a new Police and Crime Commissioner for Cheshire plans are in place to examine the existing governance framework to ensure this remains appropriate and will support the delivery of the Police and Crime Plan for 2016-2020.

Overall conclusion

Based on the work we performed, we concluded that:

- the PCC had proper arrangements in all significant respects to ensure it delivered value for money in its use of resources. The text of our report, which confirms this, can be found at Appendix B.

Key findings – Chief Constable

The main matters to note from our work are:

- the Chief Constable working with the PCC continues to respond effectively to meeting the challenges of on-going reductions in central government funding. Following the root and branch review of Constabulary activity and the use of priority based budgeting the Constabulary introduced a new policing model in July 2015. This model has created 8 local policing units supported by police community bases and public contact points. The model aims to enhance frontline policing in line with the PCC's key objectives within the Police and Crime Plan to prevent and drive down crime.
- the Constabulary conducted a full review of all its services during 2015 as part of examining service demand, proposed efficiencies and service levels. The PCC used the outcome of this review to make informed decisions for allocating resources in line with priorities based on threats and demand. An additional 131 officers were transferred to frontline policing in 2015/16 through the policing model.
- The Chief Constable continues to work with the PCC to maintain effective scrutiny and governance arrangements and demonstrates robust financial control. The Constabulary has delivered savings requirements as part of the PBB process and its savings tracker database provides the detail of where and when savings are achieved, with projected future savings. The Constabulary holds regular strategic review meetings with the PCC to monitor delivery of financial savings plans, assess progress against the Police and Crime Plan and identify emerging threats and issues in the strategic threat and risk assessment.
- Important to the delivery of future financial balance is collaborative work with other forces, the fire service and other agencies to reduce costs and provide efficiencies and resilience. This is recognised through the value for money strategy. In 2015/16 the PCC and Cheshire Fire Authority agreed to collaborate and bring together back office and professional services and establish a single, shared headquarters site by April 2018. Forecasted annual savings from this are £1.5 million.

- The CC has maintained a focus on improving operational performance at the same time as making further 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.

Overall conclusion

Based on the work we performed, we concluded that:

- the Chief Constable had proper arrangements in all significant respects to ensure it delivered value for money in its use of resources. The text of our report, which confirms this, can be found at Appendix C.

Significant difficulties in undertaking our work

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

Significant matters discussed with management

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

Any other matters

There were no other matters from our work which were significant to our consideration of your arrangements to secure value for money in your use of resources.

Section 4: Fees, non-audit services and independence

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

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

Fees

	Budget £	Actual £
Police and Crime Commissioner audit	33,825	33,825
Chief Constable audit	15,000	15,000
Total audit fees (excluding VAT)	48,825	48,825

Fees for other services

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

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

Section 5: Communication of audit matters

01. Executive summary

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04. Fees, non audit services and independence

05. Communication of audit matters

Communication to those charged with governance

International Standards on Auditing ISA (UK&I) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by Public Sector Audit Appointments Limited (<http://www.psa.a.co.uk/appointing-auditors/terms-of-appointment/>)

We have been appointed as the PCC's and the Chief Constable's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England at the time of our appointment. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the NAO (<https://www.nao.org.uk/code-audit-practice/about-code/>). Our work considers the PCC's and the Chief Constable's key risks when reaching our conclusions under the Code.

It is the responsibility of the PCC and the Chief Constable to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the PCC and the Chief Constable is fulfilling these responsibilities.

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged Details of safeguards applied to threats to independence	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to auditor's report		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

Appendices

Appendix A: Action plan

Priority

High - Significant effect on control system

Medium - Effect on control system

Low - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	<p>Default Oracle EBS accounts</p> <p>The passwords for all default accounts should be changed immediately.</p> <p>Management should introduce a procedure for ensuring that these accounts are reviewed following any upgrades or patches, as these activities can often reset the default passwords on these accounts. This can be achieved through running the security reports available in the Oracle Applications Manager.</p>	H	<p>These accounts have now been disabled and a step has been added to the post upgrade check list to ensure this is repeated once the Oracle patching has taken place.</p>	<p>MFSS Sep 16</p>
2	<p>Segregation of duties conflicts</p> <p>Management should complete a review of the configuration of all responsibilities in use within Oracle EBS.</p> <p>We have provided the Oracle system administrator with the detailed outputs of our work to facilitate this. Responsibilities should be redesigned to reduce the number of segregation of duties conflicts within the system.</p> <p>Where management have decided to accept the risk of the segregation of duties conflicts, this should be formally documented.</p>	H	<p>A review of the segregation of duties in planned to take place following the report. Whilst it is acknowledged that there are a number of staff with the same responsibilities, controls are in place to mitigate risks of conflict. For example; a control is in place which mitigates the risk around ordering and paying for goods/services. The approvals process does not allow a system user to self-authorise invoices or requisitions over £250. The approval is always escalated up the hierarchy until the requisition/invoice is approved, rejected or re-assigned to a budget holder with the appropriate delegated authority</p>	<p>MFSS Sep 16</p>

Appendix A: Action plan continued

Priority

High - Significant effect on control system

Medium - Effect on control system

Low - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
3	<p>Users with 'processes tab' functionality</p> <p>Management should carry out a review to identify all responsibilities in use that could be exploited using the processes tab functionality. These can be identified by reviewing responsibilities for menus that include the string 'AZN'.</p> <p>Exclusions should then be used to ensure that no responsibilities in use have access to these menus.</p>	H	<p>These responsibilities are being investigated by Capgemini as it appears that they have not been locked down as part of the set up process of the system.</p> <p>Assurance is gained through compliance testing from an independent annual review of the Oracle solution by a third party. This review captures checks for both technical view and user responsibilities. This review includes checks such as access to user responsibilities, process walkthrough, password expiry tests and post-patch system testing.</p>	<p>MFSS Sep 16</p>
4	<p>Users with access to critical functions</p> <p>Management should undertake a review of the configuration of responsibilities to ensure that the functions assigned to them are appropriate and do not result in segregation of duties clashes.</p>	H	<p>As above these responsibilities need further investigation and changes to disable this feature within the system.</p>	<p>MFSS Sep 16</p>

Appendix B: Audit opinion for the Police and Crime Commissioner

We anticipate we will provide the PCC with an unmodified audit report

INDEPENDENT AUDITOR'S REPORT TO THE POLICE AND CRIME COMMISSIONER FOR CHESHIRE POLICE

We have audited the financial statements of the Police and Crime Commissioner for Cheshire Police (the "Police and Crime Commissioner") for the year ended 31 March 2016 under the Local Audit and Accountability Act 2014 (the "Act"). The financial statements comprise the Group and Police and Crime Commissioner Movement in Reserves Statements, the Group and Police and Crime Commissioner Comprehensive Income and Expenditure Statements, the Group and Police and Crime Commissioner Balance Sheets, the Group and Police and Crime Commissioner Cash Flow Statements and the related notes and include the police pension fund financial statements comprising the Police Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

This report is made solely to the Police and Crime Commissioner, as a body, in accordance with Part 5 of the Act and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Police and Crime Commissioner those matters we are required to state to the Police and Crime Commissioner in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Police and Crime Commissioner as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Chief Finance Officer and auditor

As explained more fully in the Statement of the Chief Finance Officer's Responsibilities, the Chief Finance Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16, which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

This includes an assessment of whether the accounting policies are appropriate to the Police and Crime Commissioner and Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Finance Officer; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Narrative Report and the Annual Governance Statement to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- present a true and fair view of the financial position of the Police and Crime Commissioner and Group as at 31 March 2016 and of the Police and Crime Commissioner's and Group's expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 and applicable law.

Opinion on other matters

In our opinion, the other information published together with the audited financial statements in the Narrative Report, and the Annual Governance Statement is consistent with the Group audited financial statements.

Matters on which we are required to report by exception

We are required to report to you if:

- in our opinion the Annual Governance Statement does not comply with the guidance included in 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007; or
- we issue a report in the public interest under section 24 of the Act; or
- we make a written recommendation to the Police and Crime Commissioner under section 24 of the Act; or
- we exercise any other special powers of the auditor under the Act.

We have nothing to report in these respects.

Conclusion on the Police and Crime Commissioner's arrangements to secure value for money through economic, efficient and effective use of its resources

Respective responsibilities of the Police and Crime Commissioner and auditor

The Police and Crime Commissioner is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

We are required under Section 20(1)(c) of the Act to be satisfied that the Police and Crime Commissioner has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Police and Crime Commissioner's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of the Police and Crime Commissioner's arrangements to secure value for money through economic, efficient and effective use of its resources

We have undertaken our review in accordance with the Code of Audit Practice prepared by the Comptroller and Auditor General as required by the Act (the "Code"), having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2015, as to whether the Police and Crime Commissioner had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined these criteria as those necessary for us to consider under the Code in satisfying ourselves whether the Police and Crime Commissioner put in place proper arrangements to secure value for money through the economic, efficient and effective use of its resources for the year ended 31 March 2016.

We planned our work in accordance with the Code. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether in all significant respects the Police and Crime Commissioner has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources.

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2015, we are satisfied that in all significant respects the Police and Crime Commissioner has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the year ended 31 March 2016.

Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate in accordance with the requirements of the Act and the Code until we have completed the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the Police and Crime Commissioner for the year ended 31 March 2016. We are satisfied that this work does not have a material effect on the financial statements or on our conclusion on the Police and Crime Commissioner's arrangements for securing value for money through economic, efficient and effective use of its resources.

John Gregory
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

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26 July 2016

Appendix C: Audit opinion for the Chief Constable

We anticipate we will provide the Chief Constable with an unmodified audit report

INDEPENDENT AUDITOR'S REPORT TO THE CHIEF CONSTABLE FOR CHESHIRE POLICE

We have audited the financial statements of the Chief Constable for Cheshire Police (the "Chief Constable") for the year ended 31 March 2016 under the Local Audit and Accountability Act 2014 (the "Act"). The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement and the related notes and include the police pension fund financial statements comprising the Pension Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

This report is made solely to the Chief Constable, as a body, in accordance with Part 5 of the Act and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Chief Constable those matters we are required to state to the Chief Constable in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Chief Constable as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Assistant Chief Officer and auditor

As explained more fully in the Statement of the Assistant Chief Officer's Responsibilities, the Assistant Chief Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16, which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

This includes an assessment of whether the accounting policies are appropriate to the Chief Constable's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Assistant Chief Officer; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Narrative Report and the Annual Governance Statement to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- present a true and fair view of the financial position of the Chief Constable as at 31 March 2016 and of the expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 and applicable law.

Opinion on other matters

In our opinion, the other information published together with the audited financial statements in the Narrative Report, and the Annual Governance Statement is consistent with the audited financial statements.

Matters on which we are required to report by exception

We are required to report to you if:

- in our opinion the Annual Governance Statement does not comply with the guidance included in 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007; or
- we issue a report in the public interest under section 24 of the Act; or
- we make a written recommendation to the Chief Constable under section 24 of the Act; or
- we exercise any other special powers of the auditor under the Act.

We have nothing to report in these respects.

Conclusion on the Chief Constable's arrangements to secure value for money through economic, efficient and effective use of its resources

Respective responsibilities of the Chief Constable and auditor

The Chief Constable is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

We are required under Section 20(1)(c) of the Act to be satisfied that the Chief Constable has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Chief Constable's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of the Chief Constable's arrangements to secure value for money through economic, efficient and effective use of its resources

We have undertaken our review in accordance with the Code of Audit Practice prepared by the Comptroller and Auditor General as required by the Act (the "Code"), having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2015, as to whether the Chief Constable had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined these criteria as those necessary for us to consider under the Code in satisfying ourselves whether the Chief Constable put in place proper arrangements to secure value for money through the economic, efficient and effective use of its resources for the year ended 31 March 2016.

We planned our work in accordance with the Code. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether in all significant respects the Chief Constable has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources.

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2015, we are satisfied that in all significant respects *the Chief Constable* has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the year ended 31 March 2016.

Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate in accordance with the requirements of the Act and the Code until we have completed the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the Chief Constable for the year ended 31 March 2016. We are satisfied that this work does not have a material effect on the financial statements or on our conclusion on the Chief Constable's arrangements for securing value for money through economic, efficient and effective use of its resources

John Gregory
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26 July 2016



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