

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

Year ended 31 March 2017

July 2017

John Gregory

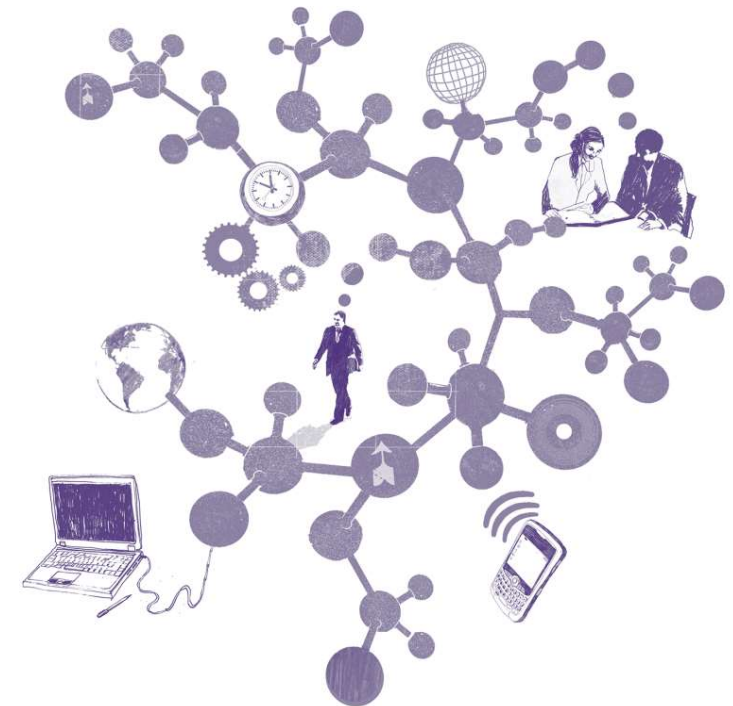
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July 2017

Dear David and Simon

Audit Findings for Cheshire Police and Crime Commissioner and Cheshire Chief Constable for the year ending 31 March 2017

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 the 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 management, the finance team and other staff during our audit.

Yours sincerely

John Gregory

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 Cheshire Police and Crime Commissioner ('the PCC') and Cheshire Chief Constable and the preparation of the financial statements of the group, the PCC and the Chief Constable for the year ended 31 March 2017. 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 of the respective bodies and their income and expenditure for the year and whether the financial statements have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting.

We are also required to consider other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report), whether it is consistent with the financial statements, apparently materially incorrect based on, or materially inconsistent with, our knowledge of the PCC and the Chief Constable acquired in the course of performing our audit; or otherwise misleading.

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

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

The Act also details the following additional powers and duties for local government auditors, 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 audits that in our opinion should be considered by the PCC or the Chief Constable or both, or brought to the public's attention (section 24 of the Act);
- written recommendations which should be considered by the PCC or the Chief Constable or both 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 you in our Joint Audit Plan dated February 2017.

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

- receipt and review of the final version of the financial statements
- obtaining and reviewing the management letter of representation
- receipt and review of revised versions of the Annual Governance Statement
- updating our post balance sheet events review, to the date of signing the opinion, and
- receipt and review of your Whole of Government Accounts

We received draft financial statements and accompanying working papers at the commencement of our work, in accordance with the agreed timetable.

Key audit and financial reporting issues

Financial statements opinion

We anticipate providing a unqualified audit opinion in respect of the PCC's financial statements, including the group financial statements, which consolidate the financial activities of the Chief Constable (see Appendix B). We also anticipate providing an unqualified opinion in respect of the Chief Constable's financial statements (see Appendix C).

Our audit has not identified any material errors or uncertainties in the PCC, Chief Constable and Group financial statements that affect the reported financial position. The Chief Finance Officer has 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 is no effect on the net CIES position.

The PCC and Chief Constable have 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 is no overall effect on the total value of earmarked reserves.

The Chief Finance Officer has also amended the PCC, Chief Constable 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.

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 each of the audited financial statements is consistent with the financial statements. This includes considering if the Annual Governance Statements do not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or are misleading or inconsistent with the information of which we are aware from our audits.

Based on our review of the PCC's and Chief Constable's Narrative Reports and AGSs we are satisfied that they are consistent with the audited financial statements. We are also satisfied that the AGSs meet the requirements set out in the CIPFA/SOLACE guidance and that the disclosures included in the Narrative Reports are in line with the requirements of the CIPFA Code of Practice.

Controls

Roles and responsibilities

The PCC's and Chief Constable's management are responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the systems of internal control.

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 Chief Constable.

Findings

We draw your attention to control issues identified in relation to a high level review of your IT control environment.

We reported in 2015/16 some access control and segregation of duties conflicts causing access vulnerability which we have followed up in 2016/17. We found that management have addressed most of the issues raised but repeat our recommendation that the OPCC strengthen controls in this area.

We also identified a cut off error with the processing of a year end invoice to the incorrect period and an error within a payroll creditor control account.

We are satisfied that these errors are isolated in nature and not indicative of larger inaccuracies however we have raised recommendations that:

- The OPCC examine the control arrangements in place for ensuring that MFSS accurately process invoices, particularly around the year end
- When the finance team examine the year end creditor invoices they also check payment dates to ensure these are accurately included in the correct accounting year
- The OPCC consider the frequency and quality of the reconciliations provided by MFSS and monitor the accuracy of these.

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 each had proper arrangements in place to secure economy, efficiency and effectiveness in their 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

Further details of our work on other statutory powers and duties is set out in section four of this report.

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, 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 2017

Section 2: *Audit findings*

01. Executive summary

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Materiality

In performing our audits, 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 for the financial statements as a proportion of the smaller of gross revenue expenditure of the PCC and the gross revenue expenditure of the Chief Constable. This was £3,697k (being 2% of gross revenue expenditure of the Chief Constable). We have considered whether this level remained appropriate during the course of the audits 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 £185k. [This remains the same as reported in our audit plan.]

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

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

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; Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered. (ISA (UK&I) 320)

Audit findings against significant risks

In this section we detail our response to the significant risks of material misstatement which we identified in the Joint 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	Relevant to PCC / Chief Constable / Both?	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>	Both	<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; and • the culture and ethical frameworks of local authorities, including Cheshire PCC and Chief Constable, mean that all forms of fraud are seen as unacceptable. 	Our audit work has not identified any issues in respect of revenue recognition.
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>	Both	<p>As part of our audit work we have completed:</p> <ul style="list-style-type: none"> • review of entity controls • testing of journal entries • review of accounting estimates, judgements and decisions made by management • review of 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>

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either 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 making the review of unusual significant transactions "the auditor shall treat identified significant related party transactions outside the entity's normal course of business as giving rise to significant risks." (ISA (UK&I) 550)

Audit findings against significant risks continued

	Risks identified in our audit plan	Relevant to PCC / Chief Constable / Both?	Work completed	Assurance gained and issues arising
3	<p>Valuation of pension fund net liability</p> <p>The Chief Constable's pension fund liability as reflected in its balance sheet represent significant estimates in the financial statements.</p>	Chief Constable	<p>As part of our audit work we have completed:</p> <ul style="list-style-type: none"> • Documentation of the key controls that were put in place by management to ensure that the pension fund liability was not materially misstated. • Walkthrough of the key controls to assess whether they were implemented as expected and mitigate the risk of material misstatement in the financial statements. • Review of the competence, expertise and objectivity of the actuary who carried out the Chief Constable's pension fund valuation. • Gaining an understanding of the basis on which the valuation was carried out, undertaking procedures to confirm the reasonableness of the actuarial assumptions made. • Review of the consistency of the pension fund 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 state</p> <p>We identified a number of corrections to disclosures in the supporting notes to the Pensions Fund. These were to correct various misstatements in the analysis of pensions income and expenditure within note 34.</p> <p>The Group CIES has also been amended by £22,360k to correctly reflect the net interest on the net pension liability of £388,992. This does not affect the reported financial position. Full details of the correction are set out on page 26.</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 Joint Audit Plan. Recommendations, together with management responses are attached at appendix A.

Transaction cycle	Description of risk	Relevant to PCC / Chief Constable / Both?	Work completed	Assurance gained & issues arising
Employee remuneration	Employee remuneration accruals understated (Remuneration expenses not correct)	Both	<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 transaction cycle 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 	Our audit work has not identified any significant issues in relation to the risk identified
Operating expenses	Creditors understated or not recorded in the correct period (Operating expenses understated)	Both	<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 transaction cycle undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding 	<p>We identified a cut off error with the processing of a year end invoice to the incorrect period and an error within a payroll creditor control account.</p> <p>We are satisfied that creditors are not materially misstated and have raised some internal control recommendations for the OPCC to consider on pages 20 and 21.</p>

"In respect of some risks, the auditor may judge that it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures. Such risks may relate to the inaccurate or incomplete recording of routine and significant classes of transactions or account balances, the characteristics of which often permit highly automated processing with little or no manual intervention. In such cases, the entity's controls over such risks are relevant to the audit and the auditor shall obtain an understanding of them." (ISA (UK&I) 315)

Audit findings against other risks continued

Transaction cycle	Description of risk	Relevant to PCC / Chief Constable / Both?	Work completed	Assurance gained & issues arising
Operating expenses (cont'd)	Creditors understated or not recorded in the correct period (Operating expenses understated)	Both	<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 	
Police Pensions Benefits Payable	Benefits improperly computed / Claims liability understated	Chief Constable	<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 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 	Our audit work has not identified any significant issues in relation to the risk identified

Going concern

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK&I) 570). We reviewed management's assessment of the going concern assumption for each of the PCC and the Chief Constable and the disclosures in the financial statements and are satisfied with their assessment that the going concern basis is appropriate for the 2016/17 financial statements.



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.

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

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's and Chief Constable's financial statements.

Accounting area	Relevant to PCC / Chief Constable / Both?	Summary of policy	Comments	Assessment
Revenue recognition	Both	<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
<p>Judgements and estimates</p> <ul style="list-style-type: none"> Land and buildings valuation 	PCC	<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.</p> <p>This shows that in 2016/17 the PCC appointed a valuer to complete a full desktop revaluation of property (land and buildings). The assets were valued on a depreciated replacement cost and applied obsolescence.</p>	<p>We examined 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>	 Green


Assessment

● Marginal accounting policy which could potentially attract attention from regulators
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● Accounting policy appropriate but scope for improved disclosure

● Accounting policy appropriate and disclosures sufficient

Accounting policies, estimates and judgements continued

Accounting area	Relevant to PCC / Chief Constable / Both?	Summary of policy	Comments	Assessment
<p>Judgements and estimates – police officer pension fund liability</p>	<p>Chief Constable</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 £435million increase in the size of the liability, which stands at £2.19 billion at 31 March 2017 (£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 2017.</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
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● Accounting policy appropriate but scope for improved disclosure

● Accounting policy appropriate and disclosures sufficient

Accounting policies, estimates and judgements continued

Accounting area	Relevant to PCC / Chief Constable / Both?	Summary of policy	Comments	Assessment
Judgements - changes to the presentation of local authority financial statements	Both	<p>The new Expenditure and Funding Analysis (EFA) statement for the PCC and Chief Constable brings together performance reported on the basis of expenditure measured under proper accounting practices.</p> <p>The Comprehensive Income and Expenditure and the EFA's include a segmental analysis which reports the PCC and Chief Constable's performance on the basis of how they are structured and how they operate, monitor and manage financial performance.</p>	<p>We are satisfied that the PCC and Chief Constable have reported performance on the basis of how they are structured and how they operate, monitor and manage financial performance in line with the requirements of the 2016/17 CIPFA Code.</p>	
Intra-Group funding arrangements and cost recognition	Both	<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. the cost of support services are apportioned to services in accordance with the PCC's arrangements for accountability and financial performance. This is shown in the Expenditure and Funding Analysis in line with the requirements of the CiPFA Code of Practice 2016/17. <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 Code of Practice 2016/17. 	<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> <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>	



Assessment

● Marginal accounting policy which could potentially attract attention from regulators
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● Accounting policy appropriate but scope for improved disclosure

● Accounting policy appropriate and disclosures sufficient

Accounting policies, estimates and judgements continued

Accounting area	Relevant to PCC / Chief Constable / Both?	Summary of policy	Comments	Assessment
Going concern	Both	The Police and Crime Commissioner and Chief Constable both have a reasonable expectation that the services they provide will continue for the foreseeable future. For this reason, the bodies continue to adopt the going concern basis in preparing the financial statements.	<p>We have reviewed the PCC's and Chief Constable's assessments and are satisfied with their assessment that the going concern basis is appropriate for the 2016/17 financial statements.</p> <p>The PCC group has general fund and earmarked reserves of £20 million as at 31 March 2017. 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 2017.</p>	 Green
Other accounting policies	Both	We have reviewed the PCC's and Chief Constable's policies against the requirements of the CIPFA Code of Practice.	The accounting policies are appropriate and consistent with previous years.	 Green

Assessment

● Marginal accounting policy which could potentially attract attention from regulators
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● 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 Statements do 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 The information in the Narrative Reports is materially inconsistent with the information in the audited financial statements or our knowledge of the PCC and Chief Constable 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

	Assessment	Issue and risk	Recommendations
1.		<p>Creditors testing</p> <p>Our year end creditors testing identified one invoice dated March 2017 which related to 2017/18 and was paid in April 2017. The multi force shared service (MFSS) incorrectly posted the invoice into 2016/17. As part of the year end checking the OPCC identified this as a 2017/18 payment and corrected this by entering a pre-payment in the 2016/17 accounts, rather than posting this to 2017/18. This meant that pre-payments and creditors were both overstated, but with no net effect.</p> <p>Although the value of the invoice was only £30k the untested population from which our sample was selected totals £1.9 million.</p> <p>The OPCC completed further work on the year end accounts payable creditor list to identify if there were any other errors and to assess the extent of the control weakness. The OPCC did not identify any further errors from a 70% review of the accounts payable control code.</p> <p>We are satisfied that creditors are therefore not materially misstated.</p>	<p>We recommend that:</p> <ul style="list-style-type: none"> • The OPCC examine the control arrangements in place for ensuring that MFSS accurately process invoices, particularly around the year end • When the finance team examine the year end creditor invoices they also check payment dates to ensure these are accurately included in the correct accounting year


Assessment

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

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.

"The purpose of an audit is for the auditor to express an opinion on the financial statements. Our audit included consideration of internal control 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. The matters being reported are limited to those deficiencies that the auditor has identified during the audit and that the auditor has concluded are of sufficient importance to merit being reported to those charged with governance." (ISA (UK&I) 265)

Internal controls

	Assessment	Issue and risk	Recommendations
2.		<p>Creditors testing</p> <p>Our year end creditors testing identified a balance of £500k within a pensions payroll deductions creditor control account. On examination this related to a lump sum pension which had been paid in January 2016, but the control account not cleared.</p> <p>The impact of this is that creditors are overstated as at 31 March 2016 and 2017 and the lump sum pensions payment understated in 2016.</p> <p>The OPCC have examined the salary deductions reconciliations provided by MFSS and dip sampled other accounts with credit balances. They are satisfied that these are up to date with valid entries made.</p> <p>The OPCC have now cleared the misstatement within the pensions payroll deduction accounts in 2017/18. This is therefore included as an unadjusted misstatement for 2016/17.</p>	<p>We recommend that:</p> <ul style="list-style-type: none"> The OPCC consider the frequency and quality of the reconciliations provided by MFSS and monitor the accuracy of these.


Assessment

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

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.

"The purpose of an audit is for the auditor to express an opinion on the financial statements. Our audit included consideration of internal control 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. The matters being reported are limited to those deficiencies that the auditor has identified during the audit and that the auditor has concluded are of sufficient importance to merit being reported to those charged with governance." (ISA (UK&I) 265)

Internal controls

	Assessment	Issue and risk	Recommendations
3.		<p>Access vulnerability IT</p> <p>We discussed an IT access vulnerability with finance and IT and recommended that password are changed in line with the detailed findings (shared with the IT team)</p> <p>We also recommend that the OPCC introduce a procedure for ensuring that these accounts are reviewed following any upgrades or patches.</p> <p>Note: we also raised this issue in 2015/16 as set out on the next page.</p>	<p>We recommend that he OPCC consider our detailed findings in this area and strengthen controls around access vulnerability.</p>

Assessment

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

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.

"The purpose of an audit is for the auditor to express an opinion on the financial statements. Our audit included consideration of internal control 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. The matters being reported are limited to those deficiencies that the auditor has identified during the audit and that the auditor has concluded are of sufficient importance to merit being reported to those charged with governance." (ISA (UK&I) 265)

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>X</p>	<p>Access vulnerability IT We discussed an IT access vulnerability with finance and IT and recommended that password are changed in line with the detailed findings (shared with the IT team)</p> <p>We also recommend that the OPCC introduce a procedure for ensuring that these accounts are reviewed following any upgrades or patches.</p>	<p>Management action During 2016/17 management reported that they had taken action on the access vulnerability and added a step to the post upgrade check list to ensure this was maintained after every patch upgrade.</p> <p>Audit revisit 2016/17 We revisited this control and found similar vulnerabilities.</p> <p>Recommendation 2016/17 We repeat our 2016/16 recommendation to strengthen controls around access vulnerability.</p>

Assessment
 ✓ Action completed
 X Not yet addressed

Internal controls – review of issues raised in prior year

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
2.	✓	<p>Segregation of duties conflicts</p> <p>We identified a number of high-risk segregation of duties conflicts within Oracle E-Business Suite (EBS).</p> <p>We recommended that management complete a review of the configuration of all responsibilities in use within Oracle EBS to identify if there were any areas of potential risk.</p>	<p>Management response</p> <p>We understand that management completed a review of the segregation of duties following the report. They also responded that whilst a number of staff have the same responsibilities, controls are in place to mitigate risks of conflict, for example the approval hierarchy for invoices.</p> <p>Audit revisit 2016/17</p> <p>We revisited this control as part of our 2016/17 year end audit and found there were still some areas with user conflicts, but the positioned had improved from 2015/16. We also acknowledge the OPCC has manual controls in place and completed an access review in October 2016. This examined General Ledger Purchasing Roles, role responsibilities, finance responsibilities, duplicate responsibilities and combinations of responsibilities.</p> <p>We have provided the Oracle system administrator with the detailed findings from our follow up but do not consider this as a significant risk area.</p>
3.	✓	<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. Users are able to have unsegregated access to whole processes that system administrators and management are not aware of.</p> <p>We recommended that management identify all responsibilities in use that could be exploited using the processes tab functionality. 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> <p>Audit revisit 2016/17</p> <p>We revisited this control as part of our 2016/17 year end audit and are satisfied that this is no longer a risk.</p>

Assessment
 ✓ Action completed
 X Not yet addressed

Internal controls – review of issues raised in prior year

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
4.	✓	<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 had access to the Profile System Values function. Fraud or error occurs due to users having access rights that allow them to bypass internal controls.</p> <p>We recommended that management reviews 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>These responsibilities need further investigation and changes to disable this feature within the system.</p> <p>Audit revisit 2016/17</p> <p>We revisited this control as part of our 2016/17 year end audit and are satisfied that this is no longer a risk.</p>

IT controls

We have provided the Oracle system administrator with the detailed findings from our 2016/17 IT audit work. We raised a number of other non significant recommendations on which they are taking action.

Assessment
 ✓ Action completed
 X Not yet addressed

Adjusted misstatements – Police and Crime Commissioner and Group

A number of adjustments to the PCC's 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	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £'000	Impact on total net expenditure £'000
1 CIES (Police and Crime Commissioner) Police services expenditure OPCC Funding to Cheshire Constabulary To correctly reflect the OPCC expenditure and funding to the Constabulary in the PCC CIES	<i>Dr</i> 2,413 <i>Cr</i> 2,413		£0
2 Note 16 Re-statement of earmarked reserves General Fund Carry forward Revenue Reserve for Capital Expenditure To transfer the GF underspend in 2016/17 to the revenue reserve for capital expenditure		<i>Dr</i> 1,769 <i>Cr</i> 205 <i>Cr</i> 1,564	£0
3 CIES (Group) Actuarial (gains)/losses on pension assets/liabilities Financing & Investment Income and Expenditure To correctly reflect the net interest on the net defined liability	<i>Dr</i> 22,360 <i>Cr</i> 22,360		£0
Overall impact	£0	£0	£0

Unadjusted misstatements – Police and Crime Commissioner and Group

The table below provides details of adjustments identified during the audit which have not been made within the final set of financial statements. Those charged with governance are required to approve management's proposed treatment of all items recorded within the table below:

Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £'000	Reason for not adjusting
1 Short term creditors Central government creditor Commutations and lump sum benefits (in PPF) 2015/16 Correction of short term creditor b/f and c/f for a lump sum retirement benefit payment	<i>Cr</i> £502	<i>Dr</i> £502	The error arose in 2015/16 and has been corrected in 2017/18. No in year effect on 2016/17.
Overall impact	Cr £502	Dr £502	No impact on cash levels or reserves held.

Misclassifications and disclosure changes – Police and Crime Commissioner and Group

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	Narrative Report	Some revisions made to the details within the report to update the narrative on the financial position of the PCC and Group.
2 Disclosure	n/a	Post balance sheet events (note 6)	Note updated to reflect the decision of the Commissioner to transfer the General Fund underspend in 2016/17 to the Revenue Reserve for capital. The general fund is now £5,778k (from £7,542k), the Revenue Reserve for Capital is £2655k (previously £1,091k).
3 Disclosure	n/a	Material items of income and expenditure (note 8)	Grants and Contributions (within taxation and non specific grant income) corrected to £2,661k (from £3,259k)
4 Disclosure	n/a	Officer remuneration (note 11)	Various amendments including: <ul style="list-style-type: none"> • Chief Executive Remuneration corrected to include severance in the analysis and bandings • Corrections to salaries and other disclosures for senior officers and relevant police officers emoluments due to the omission of some entries • Corrections to the analysis of termination benefits
5 Disclosure	n/a	External audit costs (note 12)	Audit costs now split between the PCC and Chief Constable in the analysis
6 Disclosure	n/a	Partnerships and collaborations (note 13)	Correction of some of the % analysis of the contributions to the various collaborations

Misclassifications and disclosure changes – Police and Crime Commissioner and Group

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
7	Disclosure	n/a	Grant income (note 14)	Correction to the PFI grant figure interest element £2,281k (from £2,375k) and the PFI initiative credited to services £4,948k (from £4,854k)
8	Disclosure	n/a	Usable reserves (note 17)	Updated the reserves figures for the General Fund £5,773k, carry forward £205k and Revenue reserve for capital expenditure £2,655 to reflect the transfer of the 2016/17 underspend for capital purposes.
9	Disclosure	n/a	Various	Corrections to: <ul style="list-style-type: none"> • Cashflow statement net cash flow addition error • note 18 (PPE) to state the basis of revaluation • note 23 (financial instruments) on the methodology for the fair value estimates on PWLB) • note 30 (PFI) for the analysis of payments • PCC and Group CIES 2015/16 expenditure analysis noted as restated • some details within the note to the expenditure and funding analysis
10	Disclosure	n/a	Employee benefits pensions (note 34)	Various corrections to the pensions tables and analyses to align these to the information provided by the actuary.
11	Disclosure	n/a	Annual governance statement	The OPCC updated some of the narrative in the AGS to ensure this aligned clearly to the revised CIPFA/SOLACE Delivering Good Governance Framework (2016 edition).

Misclassifications and disclosure changes – Chief Constable

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	Narrative Report	Some revisions made to the details within the report to reflect the financial position of the Chief Constable.
2 Disclosure	n/a	Movement in reserves (MIRS)	Streamlined the table to remove the zero columns for pensions and accumulated absences reserves.
3 Disclosure	n/a	Comprehensive income and expenditure (CIES)	Added restatement to the header for 2015/16 to reflect to revised analysis of police services expenditure. Also corrected some notes references
4 Disclosure	n/a	Various	Corrections to some additions (Police Pension Fund, IAS 19 note 9) and other narrative and cross references
5 Disclosure	n/a	Accounting policy notes (note 1)	Removal of notes not applicable to the Chief Constable: Government Grants and Contributions (note 1.9), Heritage Assets (1.10) and Intangible Assets (1.11)
6 Disclosure	n/a	Partnerships and collaborations (note 10)	Correction of some of the % analysis of the contributions to the various collaborations
7 Disclosure	n/a	Officer remuneration (note 12)	Corrections to the: <ul style="list-style-type: none"> • Remuneration banding • Salaries and other disclosures for senior officers and relevant police officers emoluments due to the omission of some entries • Analysis of termination benefits
8 Disclosure	n/a	Employee benefits pensions (note 14)	Various corrections to the pensions tables and analyses to align these to the information provided by the actuary.

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 2016. AGN 03 identifies one single 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.

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 February 2017 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 identified the following significant risk, which we communicated to you in our Audit Plan dated February 2017.

Blue Light Collaboration

The Policing and Crime Bill came into effect in April 2017.

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 Service and Cheshire Constabulary and establish 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.

We identified risks in respect of specific areas of proper arrangements using the guidance contained in AGN03.

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

We carried out further detailed work only in respect of the significant risk we identified from our initial and ongoing risk assessment.

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

Overall conclusion – Police and Crime Commissioner

Based on the work we performed to address the significant risks, we concluded that:

- the PCC had proper arrangements in all significant respects to ensure they delivered value for money in their use of resources.

Overall conclusion – Chief Constable

Based on the work we performed to address the significant risks, we concluded that:

- the Chief Constable had proper arrangements in all significant respects to ensure they delivered value for money in their use of resources.

The text of our proposed reports can be found at Appendices B and C.

Key findings PCC and Chief Constable

Financial position

The main matters to note from our work are:

- 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 PCC and Chief Constable updated the Medium Term Financial Strategy (MTFS) 2017-22 in January 2017 with the annual budget 2017/18 forming the first year. The MTFS is underpinned by the outputs from priority based budgeting (PBB) and updated Reserves and Estates strategies. This is the third year of PBB which directs resources into priority activities within the available funding.
- The 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 MTFS is continually refined as key factors become clear, including future police funding assumptions which are currently under review

- The PCC Group holds reserves to support future investments, to manage risk and enable savings to be delivered. The current Reserves Strategy plans to maintain the general reserve between 3% and 4% of net revenue budget to reflect the scale of change and current demands on policing. The current level of this reserve is £7.5m.
- 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. These are the priorities of the Commissioner. 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.
- The Commissioner's 2017/18 budget identifies savings plans of £5.4m which includes investments to meet the priorities detailed in the Police and Crime Plan 2016-21.
- Over the period of this MTFs, total reserves are forecast to decrease to a level of £7m by 2021/22.

Collaboration

- 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. We identified the Blue Light collaboration with Cheshire Fire and Rescue as an area of risk due to the more complex governance arrangements and impact on operational capabilities.
- 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.

- The PCC maintains a register of all collaborations which are monitored against plan through monthly Programme Board meetings. As part of the development of the register the PCC is working to ensure that appropriate governance and accountability arrangements are in place.

HMIC assessments

- We have taken assurance 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
- In the Police efficiency report (November 2016) HMIC commented that Cheshire Constabulary has a good understanding of demand for its services and has processes in place to make informed choices about the level of resources and levels of service across departments. At a strategic level, workforce plans and financial plans are aligned, and the Constabulary has some well-developed and ambitious plans for the future, centred on increased use of digital technology and ICT.
- In the Police Legitimacy report (December 2016) HMIC commented that Cheshire Constabulary is good in how it treats the people it serves with fairness and respect, its ethical and lawful behaviour, and the way it treats officers and staff internally with fairness and respect.
- The HMIC Police effectiveness report (March 2017) concluded that the Constabulary has maintained high standards of investigation and levels of service to vulnerable people, and it has improved its ability to tackle serious and organised crime. The constabulary's approach to preventing crime remains good.

Governance and Operations

- Since coming into office in 2016 the newly elected PCC set out his priorities for policing in Cheshire as part of his Police and Crime Plan 2016-21. The Plan reflects key threats and risks, the views of local communities and aims to deliver the national Strategic Policing Requirement (SPR). The Chief Constable is satisfied the MTFs and proposed efficiency savings and investments will enable him to meet the requirements of the SPR and achieve the priorities of the Police and Crime Plan.

Key findings

We set out below our key findings against the significant risk we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Work to address	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>

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 other services.

Fees

	Proposed fee £	Final fee £
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

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

Fees for other services

Service	Fees £
Audit related services:	tba
• MFSS costs analysis	

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.

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. The table above summarises all other services which were identified.

Section 5: Communication of audit matters

- 01. Executive summary
- 02. Audit findings
- 03. Value for Money
- 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.

This document, The Audit Findings, outlines those key issues and other matters arising from the audit, which we consider should be communicated in writing rather than orally, 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.co.uk/appointing-auditors/terms-of-appointment/>)

We have been appointed as the PCC's and 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 Chief Constable's key risks when reaching our conclusions under the Code.

It is the responsibility of the PCC and 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 Chief Constable are 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 or emphasis of matter		✓
Unadjusted misstatements and material disclosure omissions		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓
Significant matters in relation to the Group audit including: Scope of work on components, involvement of group auditors in component audits, concerns over quality of component auditors' work, limitations of scope on the group audit, fraud or suspected fraud.	✓	✓

Appendices

A. Joint action Plan

B. Audit opinion - Police and Crime Commissioner

B. Audit opinion – Chief Constable

Appendix A: Joint action plan

Rec no.	Recommendation	Priority	Management response	Implementation date and responsibility
1	<p>Year end invoice processing:</p> <ul style="list-style-type: none"> The OPCC examine the control arrangements in place for ensuring that MFSS accurately process invoices, particularly around the year end When the finance team examine the year end creditor invoices they also check payment dates to ensure these are accurately included in the correct accounting year 	Medium	Management accept the recommendation and will strengthen the control arrangements in place. This will include a review of transactions posted to accounts payable control account codes.	Retained finance From July 2017
2	<p>Control account reconciliations:</p> <ul style="list-style-type: none"> The OPCC consider the frequency and quality of the reconciliations provided by MFSS and monitor the accuracy of these. 	Medium	<p>Management accept the recommendation and will strengthen the control arrangements by:</p> <ul style="list-style-type: none"> A monthly review of MFSS reconciliations by the governance officer within retained finance Including the monthly reconciliations as a standard agenda item at the MFSS service review meeting. This will cover timeliness, exceptions and any required corrective actions. 	Retained finance and MFSS From July 2017
3	<p>Access vulnerability IT</p> <p>We discussed an IT access vulnerability with finance and IT and recommended that password are changed in line with the detailed findings (shared with the IT team).</p> <p>We also recommend that the OPCC introduce a procedure for ensuring that these accounts are reviewed following any upgrades or patches.</p>	High	Management accept the recommendation and will address the vulnerability as a matter of urgency. This should be fully rectified within the forthcoming weeks	IT, MFSS and finance From July 2017

Priority
● High – Significant effect on control system
● Medium – Effect on control system
● Low – Best practice

Appendix B: Audit opinion – Police and Crime Commissioner

We anticipate we will provide the PCC and the group 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 2017 under the Local Audit and Accountability Act 2014 (the "Act"). The financial statements comprise the Police and Crime Commissioner Expenditure and Funding Analysis, the Group Expenditure and Funding Analysis, the Police and Crime Commissioner Comprehensive Income and Expenditure Statement, the Group Comprehensive Income and Expenditure Statement, the Police and Crime Commissioner Movement in Reserves Statement, the Group Movement in Reserves Statement, the Police and Crime Commissioner Balance Sheet, the Group Balance Sheet, the Police and Crime Commissioner Cash Flow Statement, the Group Cash Flow Statement and the related notes and include the police pension fund financial statements of Cheshire pension fund comprising the 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 2016/17.

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 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 2016/17, 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, the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the "Code of Audit Practice") 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 2017 and of the Police and Crime Commissioner's and Group's expenditure and income for the year then ended; and
- the financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 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 for the financial year for which the financial statements are prepared 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: Framework (2016)' published by CIPFA and SOLACE; or
- we have reported a matter in the public interest under section 24 of the Act in the course of, or at the conclusion of the audit; or
- we have made a written recommendation to the Police and Crime Commissioner under section 24 of the Act in the course of, or at the conclusion of the audit; or
- we have exercised any other special powers of the auditor under the Act.

We have nothing to report in respect of the above matters.

Conclusion on the Police and Crime Commissioner's arrangements for securing economy, efficiency and effectiveness in its use of resources**Respective responsibilities of the Police and Crime Commissioner and auditor**

The Police and Crime Commissioner is responsible for putting in place proper arrangements for securing 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 for securing economy, efficiency and effectiveness in its use of resources

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2016, 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 this criteria as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Police and Crime Commissioner put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

We planned our work in accordance with the Code of Audit Practice. 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 for securing economy, efficiency and effectiveness in its use of 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 2016, we are satisfied that in all significant respects *the Police and Crime Commissioner* put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

Certificate

We certify that we have completed the audit of the financial statements of the Police and Crime Commissioner in accordance with the requirements of the Act and the Code of Audit Practice.

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

The Colmore Building
20 Colmore Circus
BIRMINGHAM
West Midlands
B4 6AT

25 July 2017

Appendix C: Audit opinion – 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 2017 under the Local Audit and Accountability Act 2014 (the "Act"). The financial statements comprise Expenditure and Funding Analysis, 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 of Cheshire pension fund comprising the 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 2016/17.

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 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 2016/17, 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, the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the "Code of Audit Practice" 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 2017 and of its expenditure and income for the year then ended; and
- the financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 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 for the financial year for which the financial statements are prepared 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: Framework (2016)' published by CIPFA and SOLACE; or
- we have reported a matter in the public interest under section 24 of the Act in the course of, or at the conclusion of the audit; or
- we have made a written recommendation to the Chief Constable under section 24 of the Act in the course of, or at the conclusion of the audit; or
- we have exercised any other special powers of the auditor under the Act.

We have nothing to report in respect of the above matters.

Conclusion on the Chief Constable's arrangements for securing economy, efficiency and effectiveness in its use of resources**Respective responsibilities of the Chief Constable and auditor**

The Chief Constable is responsible for putting in place proper arrangements for securing 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 for securing economy, efficiency and effectiveness in its use of resources

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2016, 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 this criteria as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Chief Constable put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

We planned our work in accordance with the Code of Audit Practice. 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 for securing economy, efficiency and effectiveness in its use of 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 2016, we are satisfied that in all significant respects *the Chief Constable* put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

Certificate

We certify that we have completed the audit of the financial statements of the Chief Constable in accordance with the requirements of the Act and the Code of Audit Practice.

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

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25 July 2017



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