

The Police and Crime Commissioner for Hertfordshire
and the Chief Constable for Hertfordshire

Annual Audit Letter for the year ended 31 March 2015

October 2015

Ernst & Young LLP



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The Joint Audit Committee
The Police and Crime Commissioner for Hertfordshire /
Chief Constable for Hertfordshire
Hertfordshire Constabulary Headquarters
Stanborough Road
Welwyn Garden City
Hertfordshire
AL8 6XF

5 October 2015

Dear David and Andy

Annual Audit Letter 2014-15

The purpose of this Annual Audit Letter is to communicate to both the Police and Crime Commissioner for Hertfordshire (the PCC) and the Chief Constable for Hertfordshire (the CC) and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to their attention.

We have already reported the detailed findings from our audit work to those charged with governance of the PCC and CC in the following reports:

2014/15 Audit Results Report for Office of the
Police and Crime Commissioner for
Hertfordshire and

Issued on 14 September 2015

2014/15 Audit Results Report Office of the
Chief Constable for Hertfordshire (the CC)

Issued on 14 September 2015

We do not repeat them here.

The matters reported here are those we consider most significant for the bodies.

We would like to take this opportunity to thank officers for their assistance during the course of our work.

Yours faithfully

Neil Harris
Executive Director
For and on behalf of Ernst & Young LLP
Enc.

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Relevant parts of the Audit Commission Act 1998 are transitionally saved by the Local Audit and Accountability Act 2014 (Commencement No. 7, Transitional Provisions and Savings) Order 2015 for 2014/15 audits.

The Audit Commission's 'Statement of responsibilities of auditors and audited bodies' (Statement of responsibilities). It is available from the accountable officer of each audited body and via the [Audit Commission's website](#).

The Statement of responsibilities serves as the formal terms of engagement between the Audit Commission's appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The Standing Guidance serves as our terms of appointment as auditors appointed by the Audit Commission. The Standing Guidance sets out additional requirements that auditors must comply with, over and above those set out in the Code of Audit Practice 2010 (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Annual Audit Letter is prepared in the context of the Statement of responsibilities. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

1. Executive summary

Our 2014/15 audit work was undertaken in accordance with the Audit Plan issued on 20 March 2015 and was conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

The PCC and CC are responsible for preparing and publishing its Statement of Accounts, accompanied by an Annual Governance Statement (AGS). In the AGS the PCC and CC reports publicly each year on how far it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in year, and any changes planned in the coming period.

The PCC and CC are also responsible for having proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

As auditors we are responsible for:

- forming an opinion on the financial statements, and on the consistency of other information published with them for the PCC and CC
- reviewing and reporting by exception on the AGS for the PCC and CC
- forming a conclusion on the arrangements the PCC and CC has to secure economy, efficiency and effectiveness in its use of resources
- undertaking any other work specified by the Audit Commission and the Code of Audit Practice.

Summarised below are the results of our work across all these areas:

Area of work	Office of the Police and Crime Commissioner	Office of the Chief Constable
Audit of the financial statements the Police and Crime Commissioner and Group and Chief Constable Statements for the financial year ended 31 March 2015 in accordance with International Standards on Auditing (UK & Ireland)	On 24/09/15 we issued an unqualified audit opinion on the PCC and Group's financial statements	On 24/09/15 we issued an unqualified audit opinion on the CC's financial statements
Form a conclusion on the arrangements the PCC and CC has made for securing economy, efficiency and effectiveness in its use of resources	On 24/09/15 we issued an unqualified value for money conclusion	On 24/09/15 we issued an unqualified value for money conclusion
Report to the National Audit Office on the accuracy of the consolidation pack the PCC and CC needs to prepare for the Whole of Government Accounts	We reported our findings to the National Audit Office on 24/09/15	We reported our findings to the National Audit Office on 24/09/15
Consider the completeness of disclosures on the PCC and CC's AGS, identify any inconsistencies with other information which we know about from our work and consider whether it complies with CIPFA/ SOLACE guidance	No issues to report	No issues to report

Consider whether we should make a report in the public interest on any matter coming to our notice in the course of the audit	No issues to report	No issues to report
Determine whether we need to take any other action in relation to our responsibilities under the Audit Commission Act	No issues to report	No issues to report
<i>As a result of the above we have also:</i>		
Issued a report to those charged with governance of the PCC and CC with the significant findings from our audit.	Our Audit Results Report was issued on 14 September 2015 to the Police and Crime Commissioner	Our Audit Results Report was issued on 14 September 2015 to the Chief Constable
Issued a certificate that we have completed the audit in accordance with the requirements of the Audit Commission Act 1998 and the Code of Practice issued by the Audit Commission.	Issued on 24 September 2015	Issued on 24 September 2015

2. Key findings

2.1 Financial statement audit

The PCC and CC's Statement of Accounts is an important tool to show both how the PCC and CC have used public money and how it can demonstrate its financial management and financial health.

We audited the PCC and CC's Statement of Accounts in line with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission and issued an unqualified audit report on 24 September 2015.

Our detailed findings were reported to those charged with governance within the Audit Results Report issues on 14 September 2015.

Our audit results demonstrated, through the few matters we had to communicate, that the Office of the Police & Crime Commissioner for Hertfordshire and Office of the Chief Constable for Hertfordshire prepared their financial statements adequately.

The main issues identified as part of our audit were:

Significant risk 1: Risk of Misstatement due to Fraud and Error

ISA (UK&I) 240 requires that we plan our audit work to consider the risk of fraud. This includes consideration of the risk that management may override controls in order to manipulate the financial statements.

Management has the primary responsibility to prevent and detect fraud. It is important that management, with the oversight of those charged with governance, has put in place a culture of ethical behaviour and a strong control environment that both deters and prevents fraud. Our responsibility is to plan and perform audits to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatements whether caused by error or fraud. As auditors, we approach each engagement with a questioning mind that accepts the possibility that a material misstatement due to fraud could occur, and design the appropriate procedures to consider such risk.

One area which may be particularly susceptible to manipulation is the capitalisation of revenue expenditure on Property, Plant and Equipment given the extent of the Capital programme. This risk applies to the Office of the PCC, Office of the CC and the Group.

Our audit testing has not identified any instances of misstatement due to fraud and error.

2.2 Value for money conclusion

As part of our work we must also conclude whether the PCC and CC has proper arrangements to secure economy, efficiency and effectiveness in the use of resources. This is known as our value for money conclusion.

In accordance with guidance issued by the Audit Commission, our 2014-15 value for money conclusion was based on two criteria. We consider whether the PCC and CC had proper arrangements in place for:

- ▶ securing financial resilience, and
- ▶ challenging how it secures economy, efficiency and effectiveness.

We issued an unqualified value for money conclusion for the PCC and CC.

Key finding 1: Arrangements for Securing Financial Resilience

The PCC and CC's medium term financial plan includes budget gaps of £18.5m over the next three years and use of reserves of £8m over the next four years.

We have undertaken a review of the medium term financial plan and the assumptions included within it. We have also assessed the level of reserves (both general fund and earmarked) that the Office of the PCC and Office of the CC has at the 31 March 2015.

We are comfortable that the level of reserves held by the Office of the PCC and Office of the CC covers the budget gap identified within the medium term financial plan to an appropriate level and that the Office of the PCC and Office of the CC has savings plans in place to address the budget gap going forward.

Recommendations

1. The PCC and CC need to closely monitor the delivery of planned savings programmes. This includes the delivery of collaborative and local savings plans, to mitigate the risk of non-delivery or slippage of current savings programmes.
2. The PCC and CC must update the information, risks and assumptions within the MTFS as the position on future funding settlements becomes clear and in light of any changes to the delivery of the savings programme.

2.3 Whole of Government Accounts

We performed the procedures required by the National Audit Office on the accuracy of the consolidation pack prepared by the PCC and CC for Whole of Government Accounts purposes. We had no issues to report.

2.4 Annual Governance Statement

We are required to consider the completeness of disclosures in the PCC and CC's AGS, identify any inconsistencies with the other information which we know about from our work, and consider whether it complies with relevant guidance.

We completed this work and did not identify any areas of concern.

2.5 Objections received

We did not receive any objections to the 2014/15 financial statements (PCC and CC) from members of the Public.

2.6 Other powers and duties

We identified no issues during our audit that required us to use powers under the Audit Commission Act 1998, including reporting in the public interest.

2.7 Independence

We communicated our assessment of independence to the Joint Audit Committee on 24 September 2015. In our professional judgement the firm is independent and the objectivity of the audit engagement Executive Director and audit staff has not been compromised within the meaning of regulatory and professional requirements

3. Control themes and observations

As part of our work, we obtained enough understanding of internal control to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control, we must tell those charged with governance about any significant deficiencies in internal control we find during our audit.

We did not identify any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in the PCC and CC's financial statements.

4. Fees

Our fee for 2014-15 is in line with the scale fee set by the Audit Commission and reported in our 20 March 2015 Audit Plan.

	Final fee 2014-15	Planned fee 2014-15	Scale fee 2014-15	Final fee 2013-14
The Office of Police and Crime Commissioner for Hertfordshire – Code Work	42,310	42,310	42,310	42,310
The Chief Constable for Hertfordshire Constabulary – Code Work	20,000	20,000	20,000	20,000
Total Audit Fee – Code work	£62,310	£62,310	£62,310	£62,310

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