

The Police and Crime Commissioner for Norfolk and the  
Chief Constable of Norfolk Constabulary

Annual Audit Letter for the year ended 31 March 2015

October 2015

Ernst & Young LLP





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9 October 2015

Simon Bailey  
The Chief Constable of Norfolk Constabulary  
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NR18 0WW

Dear Stephen and Simon,

## **Annual Audit Letter 2014-15**

The purpose of this annual audit letter is to communicate the key issues arising from our work to the Police and Crime Commissioner (PCC) for Norfolk and The Chief Constable (CC) of Norfolk Constabulary and external stakeholders, including members of the public.

We have already reported the detailed findings from our audit work in our 2014-15 annual results report to the PCC for Norfolk and The CC of Norfolk Constabulary, as discussed at 21 September 2015 Audit Committee.

The matters reported here are those we consider most significant for the PCC for Norfolk and the CC of Norfolk Constabulary.

We would like to take this opportunity to thank officers of the PCC for Norfolk and the CC of Norfolk Constabulary for their assistance during the course of our work.

Yours sincerely

Neil A Harris  
Executive Director  
For and behalf of Ernst & Young LLP  
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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

We have undertaken our 2014/15 audit work in accordance with the Audit Plan which we issued on 13 February 2015 to the 10 March 2015 Audit Committee.

We have conducted our audit work 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 for Norfolk and the CC of Norfolk Constabulary are responsible for preparing and publishing their Statement of Accounts, accompanied by an Annual Governance Statement (AGS). In the joint AGS the PCC for Norfolk and the CC of Norfolk Constabulary report publicly each year on how far they comply with their own code of governance, including how they have monitored and evaluated the effectiveness of their governance arrangements in the year, and any changes planned in the coming period.

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

As auditors we are responsible for:

- Forming an opinion on the group and individual financial statements, including the Norfolk Police Officer Pension Fund, and on the consistency of other information published with them;
- Reviewing and reporting by exception on the PCC for Norfolk's and the CC of Norfolk Constabulary's AGS;
- Forming a conclusion on the arrangements the PCC for Norfolk and the CC of Norfolk Constabulary have to secure economy, efficiency and effectiveness in their use of resources; and
- 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	Result
Audit of the group and individual financial statements of the PCC for Norfolk and the CC of Norfolk Constabulary and the Norfolk Police Officer Pension Fund for the financial year ended 31 March 2015 in accordance with International Standards on Auditing (UK & Ireland)	On 21 September 2015 we issued an unqualified audit opinion on the group and individual financial statements of the PCC for Norfolk and the CC of Norfolk Constabulary and the Norfolk Police Officer Pension Fund.
Form a conclusion on the arrangements the PCC for Norfolk and the CC of Norfolk Constabulary have made for securing economy, efficiency and effectiveness in its use of resources	On 21 September 2015 we issued an unqualified value for money conclusion to the PCC for Norfolk and the CC of Norfolk Constabulary.
Report to the National Audit Office on the accuracy of the consolidation pack the PCC for Norfolk including the CC of Norfolk needs to prepare for the Whole of Government Accounts	We reported our findings to the National Audit Office on 21 September 2015 that the group financial statements of the PCC for Norfolk including the CC of Norfolk are below the threshold set and so do not require an audit.

Consider the completeness of disclosures on the PCC for Norfolk's and the CC of Norfolk Constabulary's joint AGS, identify any inconsistencies with other information which we know about from our work and consider whether it complies with CIPFA/ SOLACE guidance	Management amended the joint Annual Governance Statement to include specific reference to high priority recommendations highlighted in reports from Her Majesty's Inspectorate of Constabulary during 2014/15 and to enhance the disclosure regarding the financial position of the PCC for Norfolk and the CC of Norfolk Constabulary.
Consider whether we should make a report in the public interest on any matter coming to our notice in the course of the audit	We did not issue such a report.
Determine whether we need to take any other action in relation to our responsibilities under the Audit Commission Act	We did not issue such a report.
<b><i>As a result of the above we have also:</i></b>	
Issued a report to the PCC for Norfolk and the CC of Norfolk Constabulary as those charged with governance with the significant findings from our audit.	Our Audit Results Report was issued on 21 September 2015 to the PCC for Norfolk and the CC of Norfolk Constabulary and the Audit Committee.
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.	On 21 September 2015 we issued our audit completion certificate.

## 2. Key findings

### 2.1 Financial statement audit

The Statement of Accounts is an important tool to show both how the PCC for Norfolk and the CC of Norfolk Constabulary have used public money and how they can demonstrate their financial management and financial health.

We audited the PCC for Norfolk's and the CC of Norfolk Constabulary's Statement of Accounts and the Norfolk Police Officer Pension Fund 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. We issued an unqualified audit report on 21 September 2015.

We reported our detailed findings to those charged with governance, being the PCC for Norfolk and the CC of Norfolk Constabulary, within the Audit Results Report issued to the 21 September 2015 Audit Committee.

The main issues identified as part of our audit were:

#### **Significant risk 1: Risk of management override of financial controls**

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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.

The PCC for Norfolk and the CC of Norfolk Constabulary continue to face significant financial pressures due to reduced external funding. Management faces pressures to meet budget and savings targets. This presents a risk that the financial statements may be materially misstated.

We have completed testing as set out in our Audit Plan. We did not identify any instances of management override.

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#### **Significant risk 2: Private Finance Initiative: Operations and Communications Centre and Police Investigation Centres**

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Our Audit Plan highlighted that we would review the assumptions within the PCC for Norfolk's Private Finance Initiatives (PFI). The PFIs cover the Police Operations and Communications Centre (OCC) and Police Investigation Centres (PICs), which the PCC for Norfolk shares with the Police and Crime Commissioner for Suffolk.

The work was of a complex and technical nature involving an EY expert. Our initial review indicated the possibility of material misstatements in the accounting entries in the financial statements. We therefore re-designated the review of the PFI Schemes as a significant risk.

Dependent upon certain assumptions, the PCC for Norfolk's management PFI expert, KPMG calculated the effect of the modelling changes on the net liability for the OCC PFI at 31 March 2015 would be £266,000. The error would increase reserves by reducing the balance of the long-term obligation at 31 March 2015. Upon consideration of KPMG's work and on the basis of certain assumptions, we accepted KPMG's conclusions. Management did not amend for this error as it is immaterial to the financial statements. Therefore we:

- Sought a specific representations from the PCC for Norfolk and management as regards the assumptions and the decision not to amend the PCC for Norfolk's financial statements in our letters of representation; and
- Recommended that in future years management use the updated accounting model to calculate the liability and interest charge to remove the risk of potential future errors

We concluded that no material error existed in the accounting entries for the PICs,

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### **Other key findings: Enterprise Resource Planning (ERP) implementation: Audit findings and conclusions**

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Norfolk and Suffolk Constabularies implemented the Enterprise Resource Planning (ERP) system to support Human Resources, Duty Rotas, Finance, Procurement and Payroll from 1 April 2015. We considered that given the size of the project there were risks to the capacity of the finance team for the production of the 2014/15 financial statement and for the transfer of legacy data.

Management took steps to mitigate the highlighted risks. The finance team provided a full set of financial statements, supported by full working papers, for audit by mid-June 2015 and still has access to historic legacy data.

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### **Other findings: Explanatory Foreword**

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Management has amended the Explanatory Foreword in the PCC for Norfolk's and the CC of Norfolk Constabulary's accounts to include a commentary on the financial position.

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## **2.2 Value for money conclusion**

As part of our work we must also conclude whether the PCC for Norfolk and the CC of Norfolk Constabulary have proper arrangements to secure economy, efficiency and effectiveness in their 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 for Norfolk and the CC of Norfolk Constabulary 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 on 21 September 2015. We noted the following issues as part of our audit.

### **Key finding 1: Financial Resilience**

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We consider financial resilience to be a significant risk to the Value for Money Conclusion. Assuming a 1.97% increase in council tax each year, by 31 March 2020, the financial deficit for the PCC for Norfolk and the CC of Norfolk Constabulary is £26.4 million. The Medium Term Financial Plan (MTFP) records savings to be made of £17.2 million, leaving a deficit to bridge of £9.2 million. The MTFP shows that after use of the remaining budget support reserve of £5.6 million a further budget gap of £3.2 million will remain at 31 March 2020. The strategy depends upon the exhaustion of the budget support reserve of £22.3 million.

Our work found strong governance processes in place to deliver £7 million savings requirement for 2015/16. At present, the CC of Norfolk Constabulary has outline plans to address the remaining £10.2 million savings gap for 2016/17 to 2019/20 with business cases and projects being developed and estimates for the impact on police staffing.

Good progress has been made to date. However, the key risks are:

- With government intentions unknown, further cuts may be necessary beyond 2019/20 when the budget support reserve is not available for use. The PCC and CC plan to have £10 million of earmarked and general fund reserves for use by 31 March 2020. Although this shows prudent financial planning, should austerity continue, the PCC and CC may have to draw on these reserves if further savings plans are not developed; and
- Managing the scale and phasing of the savings programme to ensure that structures can accommodate the changes required.



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To address the financial challenge, the PCC and CC need to continue to:

- Complete the development of business cases for the savings proposed;
- Drive through the savings required;
- Review the levels of reserves to support the PCC's and CC's finances; and
- Plan for more transformational change in the way services are delivered.

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### **Other finding 1: The PCC for Norfolk's Commissioning Arrangements**

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The PCC for Norfolk has powers to make grants to bodies to deliver reductions in crime and disorder and to commission services. In addition, the Ministry of Justice provides grant funding to the PCC for Norfolk to support victims.

For 2015/16, the PCC's commissioning budget is £1.1 million and the PCC for Norfolk's Office is administering a further £4.8 million grant from the Ministry of Justice.

The PCC for Norfolk's commissioning strategy for 2014 – 2016 from July 2014 specifies that organisations receiving grant funding will be subject to full scrutiny, including reviews of governance structure, financial sustainability and desired outcomes for those schemes in receipt of the monies.

Our review notes that, whilst arrangements are still developing, the PCC for Norfolk's Office had addressed the key findings from the November 2014 Internal Audit to ensure procedures reflect the strategy.

We are aware that the PCC for Norfolk's Office corroborates information in monitoring awarding of grants including reviews of the accounts of relevant charities. Documentation of independent corroboration of outcomes of grant disbursements would enhance further governance arrangements further. Examples would be documenting information from PCC for Norfolk visits, police reports and updates to the needs assessments in awarding grants.

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## **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 for Norfolk for Whole of Government Accounts purposes.

We reported our findings to the National Audit Office on 21 September 2015 that the group financial statements of the PCC for Norfolk including the CC of Norfolk are below the threshold set and so do not require an audit.

## **2.4 Annual Governance Statement**

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

Management amended the joint Annual Governance Statement to include specific reference to high priority recommendations highlighted in reports from Her Majesty's Inspectorate of Constabulary during 2014/15 and to enhance the disclosure regarding the financial position of the PCC for Norfolk and the CC of Norfolk

## **2.5 Objections received**

We did not receive any objections to the 2014/15 PCC for Norfolk and the CC of Norfolk Constabulary financial statements 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 PCC for Norfolk and the CC of Norfolk Constabulary and the Audit Committee on 10 March 2015 and on 21 September 2015.

In our professional judgement the firm is independent and the objectivity of the audit engagement partner 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 the PCC for Norfolk and the CC of Norfolk Constabulary 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 for Norfolk's and the CC of Norfolk Constabulary's financial statements.

## 4. Looking ahead

Description	Impact
2015/16 is the first year that management will use the Enterprise Resource Planning system to compile the financial statements.	Management has reported some problems following the implementation of the ERP system, principally in the difficulties in running reports and in the coding of income and expenditure. Management is looking to resolve the remaining issues in time for the production of the 2015/16 financial statements.

## 5. Fees

Our March 2015 Audit Plan recorded planned fees in line with the Audit Commission's scale fee for the audit.

	* Proposed Final fee 2014-15	Planned fee 2014-15	Scale fee 2014-15	Final fee 2013-14
<b>Total Audit Fee – The PCC for Norfolk – Code Work</b>	£48,939	£45,100	£45,100	£48,090
<b>Total Audit Fee – The CC of Norfolk Constabulary – Code Work</b>	£20,000	£20,000	£20,000	£21,085
<b>Non-audit work</b>	£68,939	£65,100	£65,100	£69,175

\* Since we issued the Audit Plan, we undertook more audit work than planned in considering the possibility of material errors within the accounting model underpinning the Private Finance Initiative covering the Operations and Communications Centre.

The total proposed extra fees chargeable to the PCC for Norfolk are £3,839.

Any variations to scale fees are subject to agreement by the Chief Finance Officer of the PCC for Norfolk and approval from the Public Sector Appointments Ltd.

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