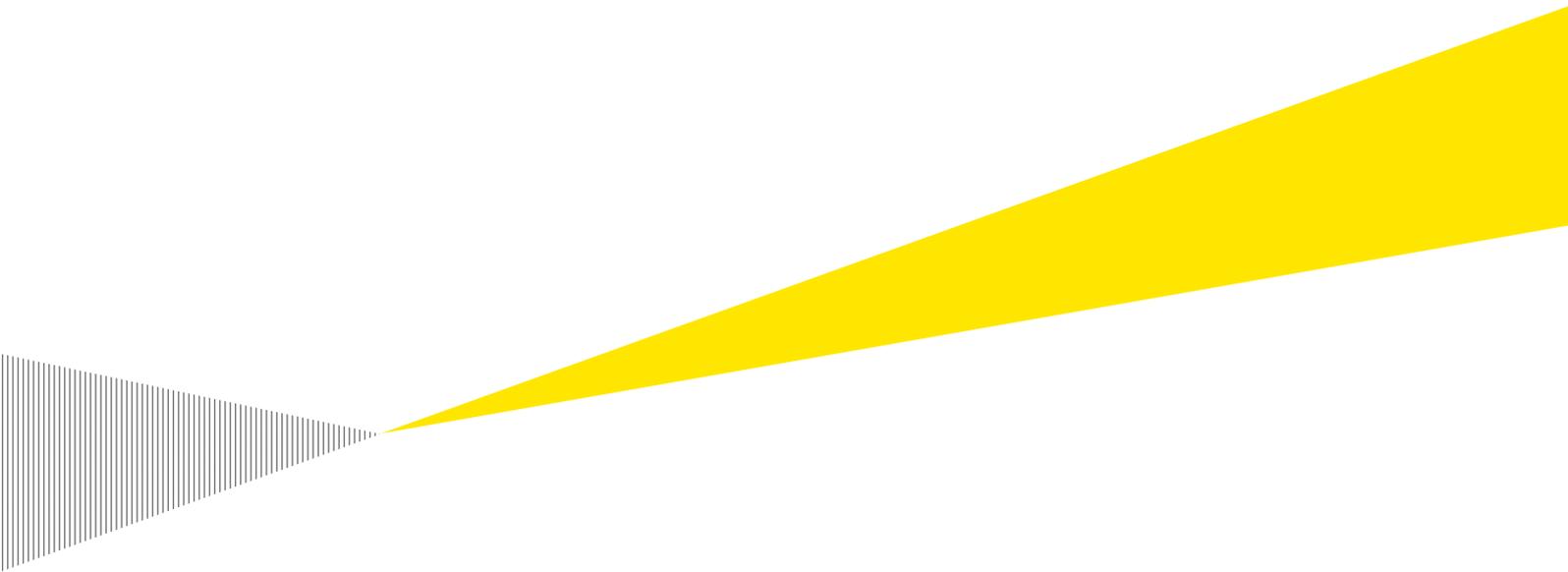


Annual Audit Letter

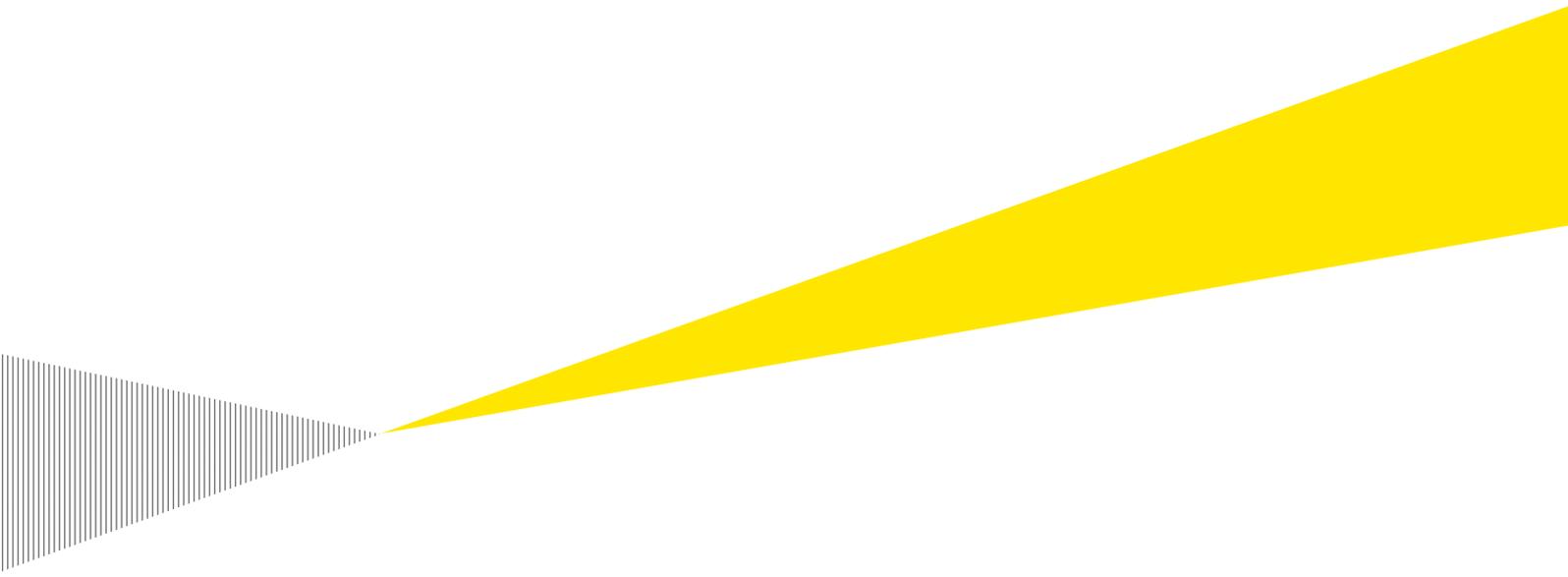
The PCC for Norfolk and the CC for Norfolk
Constabulary

30 October 2014



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30 October 2014

Simon Bailey
The Chief Constable for Norfolk Constabulary
Operations and Communications Centre
Jubilee House
Falconers Chase
Wymondham
Norfolk
NR18 0WW

Dear Stephen and Simon,

Annual Audit Letter

The purpose of this Annual Audit Letter is to communicate to those charged with governance (the Police and Crime Commissioner (PCC) for Norfolk and the Chief Constable (CC) for Norfolk) 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 in the following report:

2013/14 Audit Results Report for the PCC for Norfolk and the CC for Norfolk Constabulary
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Issued 22 September 2014

The matters reported here are the most significant for the PCC for Norfolk and the CC for Norfolk Constabulary.

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

Yours faithfully

Neil A Harris
Audit Director
For and behalf of Ernst & Young LLP
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In April 2014 the Audit Commission issued a revised version of the ‘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.

Executive summary

Our 2013/14 audit work has been undertaken in accordance with the Audit Plan we issued on 6 March 2014 and is 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 for Norfolk and the CC for Norfolk Constabulary are responsible for preparing and publishing their Statements of Account, accompanied by a joint Annual Governance Statement. In the joint Annual Governance Statement, the PCC for Norfolk and the CC for Norfolk Constabulary report publicly on an annual basis on the extent to which they comply with their own codes of governance, including how they have monitored and evaluated the effectiveness of their governance arrangements in the year, and on any planned changes in the coming period. The PCC for Norfolk and the CC for Norfolk Constabulary are also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in their use of resources.

As auditors we are responsible for:

- ▶ Forming an opinion on the financial statements;
- ▶ Reviewing the Annual Governance Statement;
- ▶ Forming a conclusion on the arrangements that the PCC for Norfolk and the CC for Norfolk Constabulary have in place to secure economy, efficiency and effectiveness in their use of resources; and
- ▶ Undertaking any other work specified by the Audit Commission.

Summarised below are the conclusions from all elements of our work:

<p>Audit the group and individual financial statements of the PCC for Norfolk and the CC for Norfolk Constabulary and the Norfolk Police Pension Fund for the financial year ended 31 March 2014 in accordance with International Standards on Auditing (UK & Ireland)</p>	<p>On 29 September 2014 we issued an unqualified audit opinion in respect of the group and individual financial statements of PCC for Norfolk and the CC for Norfolk Constabulary and the Norfolk Police Pension Fund.</p>
<p>Form a conclusion on the arrangements the PCC for Norfolk and the CC for Norfolk Constabulary have made for securing economy, efficiency and effectiveness in their use of resources.</p>	<p>On 29 September 2014 we issued an unqualified value for money conclusion.</p>
<p>Issue a report to those charged with governance (the PCC for Norfolk and the CC for Norfolk Constabulary) communicating significant findings resulting from our audit of the financial statements and the Norfolk Police Pension Fund.</p>	<p>On 29 September 2014 we presented our Audit Results Report to the PCC for Norfolk and the CC for Norfolk Constabulary.</p>
<p>Report to the National Audit Office on the accuracy of the consolidation pack the PCC for Norfolk and the CC for Norfolk Constabulary are required to prepare for the Whole of Government Accounts.</p>	<p>We reported our findings to the National Audit Office on 29 September 2014.</p>

Consider the completeness of disclosures in the PCC for Norfolk and the CC for Norfolk Constabulary's joint Annual Governance Statement, identify any inconsistencies with the other information of which we are aware from our work and consider whether it complies with CIPFA / SOLACE guidance.

Management amended the joint Annual Governance Statement to include specific reference for several items, the most significant concerned:

- ▶ The inclusion of the Head of Internal Audit's Opinion on Internal Control; and
- ▶ Enhanced disclosures for significant governance issues highlighted by Internal Audit reports in 2013/14 and action being taken to address the financial position of the PCC for Norfolk and the CC for Norfolk Constabulary.

Consider whether, in the public interest, we should make a report on any matter coming to our notice in the course of the audit.

We did not issue such a report.

Determine whether any other action should be taken in relation to our responsibilities under the Audit Commission Act.

We did not take such action.

Issue 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 29 September 2014 we issued our audit completion certificate.

Key findings

Financial statement audit

We audited the Statements of Account of the PCC for Norfolk and of the CC for Norfolk Constabulary 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 29 September 2014.

In our view, the quality of the process for producing the accounts, including the supporting working papers was good.

The main issues identified as part of our audit were:

Significant risk 1: Presentation of the financial statements for the PCC for Norfolk and the CC for Norfolk Constabulary, including group accounting

- ▶ The presentation of the 2012/13 financial statements was based on the single overarching Principal and Agent relationship between the PCC and CC.
 - ▶ In March 2014, CIPFA and the Audit Commission issued guidance that the existence of distinct responsibilities under statute relating individually to the PCC and CC, particularly the CC for operational policing, meant that a single overarching principal and agent relationship between the PCC and CC cannot exist.
 - ▶ As a result the PCC for Norfolk and the CC for Norfolk Constabulary re-stated their accounts based on a prior period adjustment because of a change in accounting policy, reflecting the evolution of guidance and embedding of the governance, strategic, financial and operational relationship between the PCC and CC.
 - ▶ Management amended the financial statements in line with revised guidance.
 - ▶ The PCC and CC have adequately re-stated their financial statements for 2013/14 and 2012/13 (prior period) to recognise the CC acting as Principal for operational policing.
 - ▶ The CC accounts now include income, expenditure and liabilities associated with operational policing activities, the most significant of which is police officer costs and pensions liabilities.
-

Significant risk 2: Risk of Fraud and Error

- ▶ We did not identify any material instances of fraud or error.
-

Significant risk 3: Risk of Management Override

- ▶ We did not identify any material instances of management override of controls.
-

Other key findings:

Management corrected all the misstatements we identified within the financial statements. None of these adjustments impacted on the overall useable reserves of the PCC and CC. As a result of our audit, management included a note within the CC financial statements to record Amounts Reported for Resource Allocation Decisions. In making the disclosure, management identified and corrected a material error by transferring £5.6 million of capital charges for fixed assets from the financial statements of the CC for Norfolk Constabulary to the financial statements of the PCC for Norfolk.

Value for money conclusion

We are required to carry out sufficient work to conclude on whether the PCC for Norfolk and the CC for Norfolk Constabulary have put in place proper arrangements to secure economy, efficiency and effectiveness in their use of resources.

In accordance with guidance issued by the Audit Commission, in 2013/14 our conclusion was based on two criteria:

- ▶ The organisation has proper arrangements in place for securing financial resilience; and
- ▶ The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

We issued an unqualified value for money conclusion on 29 September 2014. We addressed the following significant and other risks as part of our audit.

Significant Risk 1: Decision making in the Office of the PCC for Norfolk

- ▶ During 2013/14, governance and financial control weaknesses were identified within the Office of the PCC for Norfolk.
 - ▶ Internal Audit's report of December 2013 into media reports as regards arrangements for the PCC for Norfolk's expenses found weaknesses in the PCC's expenses policy and the process for recording and approving expenses.
 - ▶ EY's review of the documentation to support pension entitlement payments found a lack of documentation to support decision-making in the exercise of discretionary powers to make such payments. In addition, there was insufficient evidence to demonstrate how the guidance provided by management for approving payments had been considered.
 - ▶ Since these matters were raised, the Office of the PCC has taken action to:
 - ▶ Update the Audit Committee on actions to address the findings from the Internal audit report;
 - ▶ Publish a revised Travel and Subsistence Expenditure Scheme for the PCC for Norfolk;
 - ▶ Introduce new procedures for evidencing and checking mileage claims of the PCC; and
 - ▶ Obtain relevant guidance to make informed decisions, including external legal guidance where warranted.
 - ▶ In December 2013, the Police and Crime Panel referred a complaint by a member of the public regarding the PCC for Norfolk's expenses to the Independent Police Complaints Commission (IPCC). In June 2014, the IPCC decided the matter should be investigated by the City of London Police and the IPCC should manage that investigation. The investigation is ongoing. We are proposing to take no further action at this stage.
 - ▶ The Office of PCC is to report to a Sub Committee of the Police and Crime Panel following the formal response by the IPCC.
 - ▶ We agreed a scale fee variation increase of £2,229 with the Chief Finance Officer for the PCC, which the Audit Commission approved in July 2014.
-

Significant Risk 2: Medium Term Financial Plan

- ▶ In its July 2014 report, Policing in Austerity, Her Majesty's Inspectorate of Constabulary (HMIC) recognised that the CC for Norfolk's response to the financial challenge of the spending review to date has been outstanding. HMIC also judged that the CC had made good progress in taking the necessary steps to secure the financial position for the short and long term. HMIC recognise that close collaboration with Suffolk Constabulary has contributed to the savings that the CC has made to date.
- ▶ In July 2014, the CC for Norfolk presented a revised savings plan for 2014/15 to 2018/19 to the Norfolk Police and Crime Panel. Assuming a 1.97% increase in council tax each year, the revised July Savings Plan shows a total deficit position for the PCC and CC of £20.3 million by 2018/19.
- ▶ At present, the CC has outline plans to address £15.9 million of this gap with business cases and projects being developed and estimates for the impact on police staffing. The CC is looking to identify savings plans to bridge the remaining £4.4 million gap.
- ▶ The approach assumes the planned exhaustion of the earmarked budget support reserve which stands at £21 million at 31 March 2014. The CC plans to use the reserve in the medium term to support the budget pending the savings coming on stream.
- ▶ However, with government intentions unknown, further cuts may be necessary beyond 2017/18 when such a reserve is not available for use leaving the PCC and CC to draw on remaining £13.1 million earmarked and general fund reserves.
- ▶ Managing the scale and phasing of the savings programme to ensure that structures can accommodate the changes required represents a significant challenge for the CC.
- ▶ To mitigate these risks, the PCC and CC are taking action to:
 - ▶ Complete the development of business cases for the savings identified;
 - ▶ Manage the process of change so as to not impact adversely on service delivery; and
 - ▶ Drive through the savings required.

Other Risks:

- ▶ We had no issues to report from our review of the budget setting process for 2014/15.
- ▶ Our review of other governance arrangements within the Office of the PCC noted that:
 - ▶ The Home Office had approved the PCC's plans to transfer of staff from the Office of the PCC to the CC by 31 March 2014;
 - ▶ Mechanisms are in place for the PCC to hold the CC to account; and
 - ▶ The Office of the PCC had developed arrangements to ensure that commissioning monies are expended on schemes that will deliver the desired outcomes.
- ▶ The PCC's Chief Finance Officer (CFO) has acted in a dual capacity covering both the PCC and the CC since April 2014. The CIPFA Financial Management Code of Practice does not envisage a dual CFO role. We have considered the dual role and understand it is currently a temporary arrangement. We are satisfied during this period that the CFO has made appropriate arrangements working in partnership with the CC's Assistant Chief Officer (Resources) to manage any conflicts of interest. As such we were not minded to challenge the arrangement for 2013-14, but have recommended that the PCC and CC should seek their own legal advice should they consider making this arrangement permanent in the future. We understand that the CFO is to take a report to the Audit Committee in Autumn 2014 setting out the future CFO arrangements, protocols and how conflicts will be managed.

Objections received

No objections were received in respect of the 2013/14 financial statements.

Whole of government accounts

We reported to the National Audit office on 29 September 2014 the results of our work performed in relation to the accuracy of the consolidation pack the PCC for Norfolk and the CC for Norfolk Constabulary are required to prepare for the whole of government accounts. We identified one immaterial difference between the consolidation pack and the statements of account, which we reported to the National Audit Office.

Annual governance statement

We are required to consider the completeness of disclosures in the joint Annual Governance Statement for the PCC for Norfolk and the CC for Norfolk Constabulary, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it complies with CIPFA / SOLACE guidance.

Management amended the joint Annual Governance Statement to:

- ▶ Include the Head of Internal Audit's Opinion on Internal Control; and
- ▶ Enhance disclosures for significant governance issues highlighted by Internal Audit reports in 2013/14 and action being taken to address the financial position of the PCC for Norfolk and the CC for Norfolk Constabulary.

Audit fees

Our March 2014 Audit Plan recorded planned fees in line with the Audit Commission's scale fee for the audit. Since we issued the Plan, we have proposed the following increases to the scale fee.

	Proposed final fee 2013/14 £'000	Planned fee 2013/14 £'000	Scale fee 2013/14 £'000	Explanation of variance
Total Audit Fee – PCC Code work	48	45	45	<ul style="list-style-type: none"> ▶ Management and the Audit Commission have agreed a scale fee variation increase of £2,229 as regards work on governance within the Office of the PCC. ▶ We are proposing a scale fee variation increase of £761 for extra work on the financial statements, financial resilience and the dual role of the PCC and CC Chief Finance Officer.
Total Audit Fee – CC Code work	21	20	20	<ul style="list-style-type: none"> ▶ We are proposing a scale fee variation increase of £1,085 for extra work on the financial statements, financial resilience and the dual role of the PCC and CC Chief Finance Officer.
Non-audit work (provide details)	0	0	0	

Management has agreed the fees for the proposed scale fee variations of £761 and £1,085, but these fees are still subject to agreement by the Audit Commission.

Control themes and observations

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient 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 communicated to those charged with governance (the PCC for Norfolk and the CC for Norfolk Constabulary), as required, significant deficiencies in internal control.

The matters reported are shown below and are limited to those deficiencies that we identified during the audit and that we concluded are of sufficient importance to merit being reported.

Description	Impact
We have not identified any material weakness in the design or operation of an internal control that might result in a material error in your financial statements.	No action required.
Our 2012/13 Audit Results Report noted that the outturn report highlighted a £4.4million underspend against 2012/13 budget. Of particular concern was a £2.6m unexpected movement between Month 7 and Month 12.	The PCC's Chief Finance Officer requested a review by Internal Audit into how the unexpected variance had occurred. The PCC and CC have accepted Internal Audit's report and recommendations and have not reported a similar variance in 2013/14.
A significant challenge during 2014/15 is the introduction across both Norfolk and Suffolk Constabularies of the Enterprise Resource Planning (ERP) system to support Human Resources, Duties, Finance, Procurement and Payroll. The ERP will assist joint working and improve the efficiency of support departments to enable savings to be realised. The system is due to go live in April 2015.	The Constabularies are managing the risks associated with the project implementation, including that of the transfer of legacy data.

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