

Joint Audit Plan for the Police and Crime Commissioner for Lancashire and the Chief Constable for Lancashire Constabulary

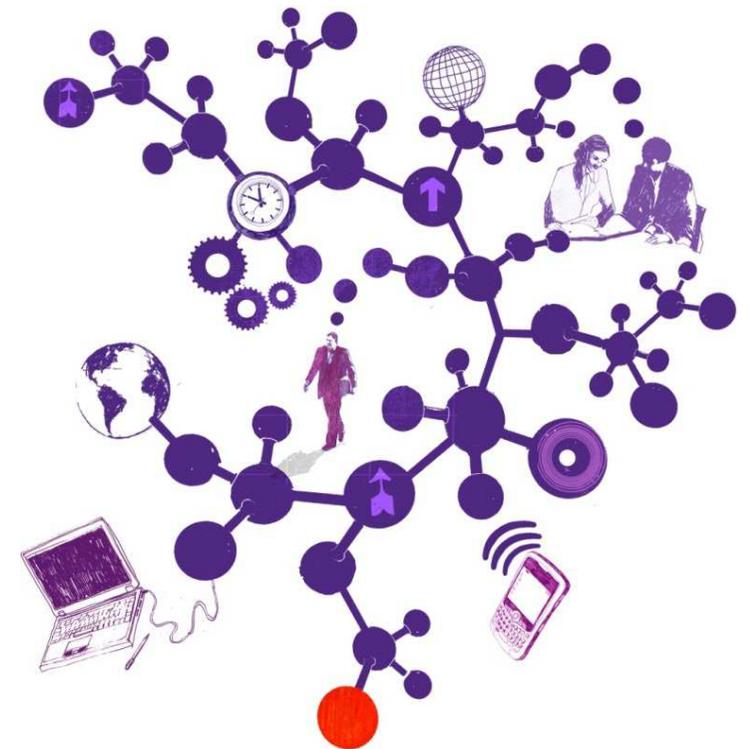
Year ended 31 March 2015

February 2015

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Understanding your business

In planning our audit we need to understand the challenges and opportunities the Police and Crime Commissioner (PCC) and the Chief Constable are facing. We set out a summary of our understanding below.

Challenges/opportunities

1. Delivering Major Change

- An ambitious and well established transformation programme is already underway. The 'Futures Programme' is charged with developing service proposals to address the current and future budget gap.

2. Ensuring Financial Resilience

- The PCC and CC will need to continue to deliver their planned savings. Savings of £61million have been identified since 2011/12 and a further £19 million need to be found during the remaining years of the PCC's 4 year financial plan up to 2017/18. Plans are being developed to deliver the additional savings albeit against a background of some degree of uncertainty about further future financial challenges.

3. Workforce strategy

- In 2013/14 the Constabulary significantly underspent on Police Officers and Police Staff due to the level of vacancies. The Constabulary has undertaken a recruitment drive recently and has appointed approximately 60 new police officers.

4. Commissioning, Strategic Partnerships and Collaboration

- From October 2014 the PCC is responsible for commissioning victim support services in the area
- There is an expectation from government that police bodies should work collaboratively to improve services and achieve efficiencies

5. Stage 2 Transfer

- The Stage 2 Transfer came in to effect on 1 April 2014 and formalised the legal allocation of staff, assets and liabilities between the PCC and the CC.

Our response

- As part of our value for money conclusion we will review progress on delivering the 'Futures Programme' and how this is reported.

- We will review the PCC and CC arrangements for setting and monitoring the savings plans and its progress on achieving the savings.

- As part of our value for money conclusion we will review progress on delivering the workforce strategy and how this has impacted on 2014/15 revenue spending.

- We will review the PCC's arrangements for commissioning victim support services as part of our value for money conclusion work
- We will consider your plans for collaboration and partnership working as part of our value for money conclusion work

- We will consider the impact of the transfer on your arrangements to secure value for money
- We will discuss with you the potential impact on your financial statements for 2014/15 and future accounting periods

Developments relevant to your business and the audit

In planning our audit we also consider the impact of key developments in the sector and take account of national audit requirements as set out in the Code of Audit Practice and other relevant guidance.

Developments and other requirements

1. Reducing the overall cost of policing

- The Home Office released details of the 2015/16 police funding formula in December 2014
- Fiscal austerity is expected to continue until at least 2019, regardless of the outcome of the next general election
- The Home Office budget has already been cut by almost 25% over the five years to 2015/16 (*Institute for Fiscal Studies*)

2. Financial reporting

- Changes to the CIPFA Code of Practice for 2014/15

3. Corporate governance

- Annual Governance Statement (AGS)
- Explanatory foreword

4. Other requirements

- The PCC is required to submit a Whole of Government Accounts (WGA) consolidation pack which summarises the group accounts

Our response

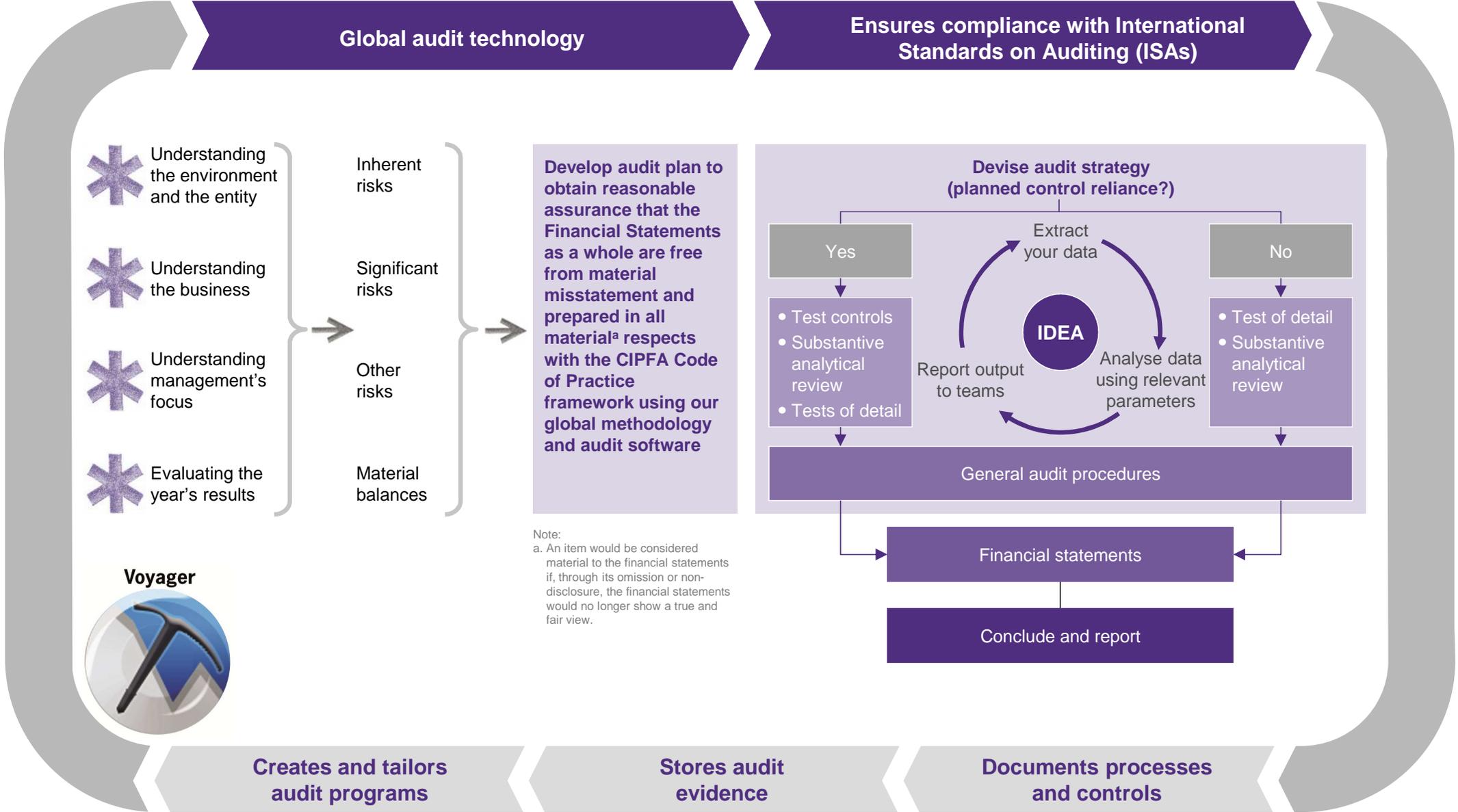
- We will discuss the impact of the settlement on the medium term financial strategy and police and crime plan through our regular meetings with you
- We will review your performance against the 2014/15 budget, including consideration of performance against savings targets included in the MTFS and police and crime plan
- We will undertake a review of financial resilience as part of our value for money conclusion

- We will work with you to determine the impact of any changes to the Code on your financial statement
- Our audit opinion will provide assurance that the financial statements have been prepared in accordance with the applicable financial reporting framework

- We will review your arrangements for the compilation and publication of Annual Governance Statements for both the PCC and the Chief Constable
- We will review both AGSs and the explanatory forewords to consider whether they are consistent with our knowledge and with your accounts

- We will carry out work on the PCC and Group's WGA consolidation pack on behalf of the National Audit Office

Our audit approach



Significant risks identified

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

In this section we outline the significant risks of material misstatement which we have identified. There are two presumed significant risks which are applicable to all audits under auditing standards (International Standards on Auditing – ISAs) which are listed below:

Significant risk	Relevant to PCC / CC / both?	Description of risk	Work planned to address the risk
The revenue cycle includes fraudulent transactions	Both	Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.	<p>We have rebutted this presumed risk for the PCC because:</p> <ul style="list-style-type: none"> • revenue is principally grant allocations from central government and council tax income from the taxpayers <p>We have rebutted this presumed risk for the Chief Constable because:</p> <ul style="list-style-type: none"> • revenue is an inter group transfer from the PCC • revenue does not involve cash transactions <p>We therefore do not consider this to be a significant risk for either the PCC or the Chief Constable</p>
Management over-ride of controls	Both	Under ISA 240 there is a presumed risk that the risk of management over-ride of controls is present in all entities.	<p>Work completed to date:</p> <ul style="list-style-type: none"> • Updating our understanding of accounting estimates, judgments and decisions made by management <p>Further work planned:</p> <ul style="list-style-type: none"> • Review and challenge of significant accounting estimates, judgments and decisions made by management • Detailed testing of high risk journal entries • Review accounting treatment for significant, unusual transactions

Other risks identified

'The auditor should evaluate the design and determine the implementation of the entity's controls, including relevant control activities, over those risks for which, in the auditor's judgment, it is not possible or practicable to reduce the risks of material misstatement at the assertion level to an acceptably low level with audit evidence obtained only from substantive procedures' (ISA 315).

In this section we outline the other risks of material misstatement which we have identified as a result of our planning.

Cycle	Relevant to PCC / CC / both?	Description of risk	Work completed to date	Further work planned
Operating expenses	Both	Creditors related to core activities understated or not recorded in the correct period	<ul style="list-style-type: none"> Identification of controls and walkthrough testing of the operating expenses transaction cycle 	<ul style="list-style-type: none"> Testing the reconciliation of operating expenditure recorded in the general ledger to the subsidiary systems and interfaces Testing of payments made after the year-end to identify potential unrecorded liabilities and gain assurance over the completeness of the payables balance in the accounts Substantive testing of operating expenses
Employee remuneration	Both	Employee remuneration and benefit obligations and expenses understated	<ul style="list-style-type: none"> Identification of controls and walkthrough testing of the employee remuneration transaction cycle 	<ul style="list-style-type: none"> Testing the reconciliation of payroll expenditure recorded in the general ledger to the subsidiary systems and interfaces Analysis of trends and relationships to identify any anomalous areas for further investigation Testing to confirm the completeness of payroll transactions and appropriate cut-off
Pensions Benefits Payable	Both	Benefits improperly computed / claims liability understated	<ul style="list-style-type: none"> Identification of controls and walkthrough testing of the pension benefit payments transaction cycle 	<ul style="list-style-type: none"> Testing the reconciliation of pension benefit payments recorded in the general ledger to the subsidiary systems and interfaces We will rationalise pensions paid with reference to changes in pensioner numbers and increases applied in the year together with a comparison of pensions paid on a monthly basis to ensure that any unusual trends are satisfactorily explained. Substantive testing of monthly pension benefit payments made in the year Substantive testing of lump sum pension benefit payments made in the year

Group audit scope and risk assessment

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

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

Component	Significant?	Level of response required under ISA 600	Planned audit approach
PCC (parent)	Yes	Comprehensive	Full scope statutory audit performed by Grant Thornton UK LLP
Chief Constable (subsidiary)	Yes	Comprehensive	Full scope statutory audit performed by Grant Thornton UK LLP

Value for money

Value for money

The Code requires us to issue a conclusion on whether the PCC and the Chief Constable have put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VfM) conclusion.

Our VfM conclusion is based on the following criteria specified by the Audit Commission:

We are currently undertaking a risk assessment to identify areas of risk to our VfM conclusion. We will undertake work to address any issues raised within the risk assessment.

The results of our VfM audit work and the key messages arising will be reported in our Joint Audit Findings report to the PCC and Chief Constable and in the Annual Audit Letter.

Table one: Value for money criteria

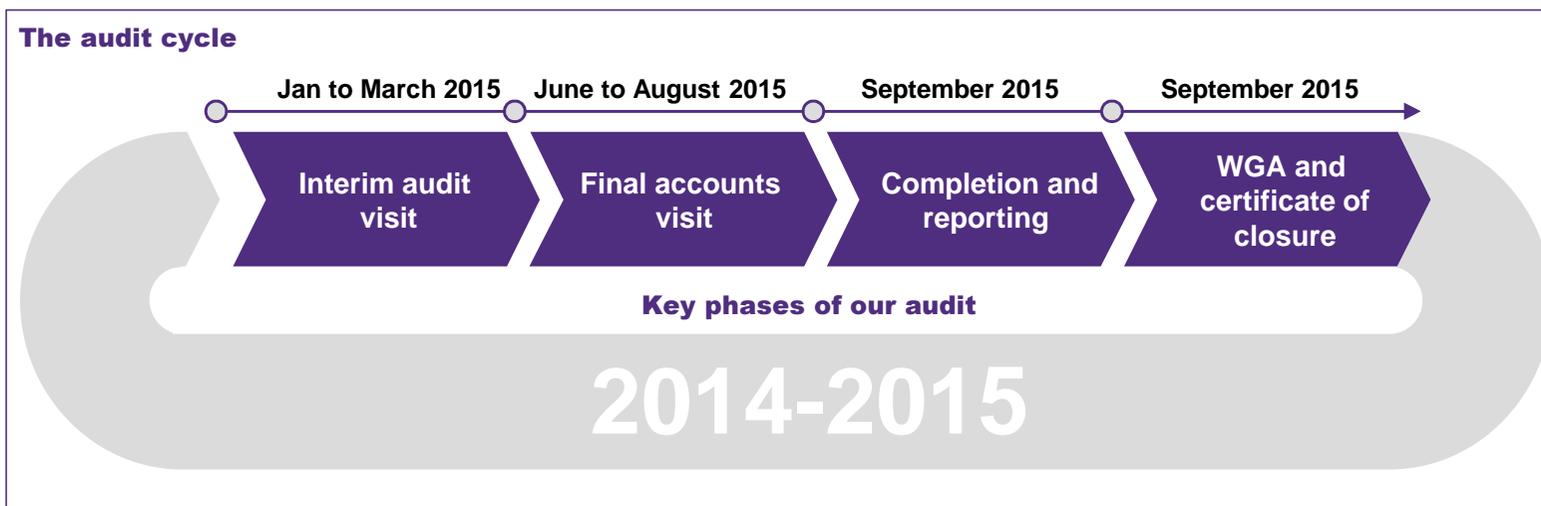
VfM criteria	Focus of the criteria
The organisation has proper arrangements in place for securing financial resilience	The organisation has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future
The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness	The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity

Results of interim audit work

The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below:

	Relevant to PCC / Chief Constable / Both?	Work performed and findings to date	Conclusion
Internal audit	Both	<p>We have completed a high level review of internal audit's overall arrangements. Our work has not identified any issues which we wish to bring to the PCC's or the Chief Constable's attention.</p> <p>We also reviewed internal audit's work on the PCC's and the Chief Constable's key financial systems to date. We have not identified any significant weaknesses impacting on our responsibilities.</p>	<p>Overall, we have concluded that the internal audit service continues to provide an independent and satisfactory service to the PCC and the Chief Constable and that internal audit work contributes to an effective internal control environment at both entities</p> <p>Our review of internal audit work has not identified any weaknesses which impact on our audit approach.</p>
Walkthrough testing	Both	<p>We have completed our walkthrough tests of controls on employee remuneration and operating expenses. Our work has not identified any issues which we wish to bring to your attention. Internal controls have been implemented in accordance with our documented understanding.</p> <p>We have still to undertake our walkthrough tests on pensions benefits payable.</p>	<p>Our work to date has not identified any weaknesses which impact on our audit approach.</p>
Review of information technology controls	Both	<p>Our information systems specialist will perform a high level review of the general IT control environment, as part of the overall review of the internal controls system. This will include a follow up of the issues raised in the previous year.</p>	<p>This work will be undertaken in April / May 2015. We will report any significant findings to you in our Audit Findings Report.</p>

Key dates



Date	Activity
On-going	Planning
January to March 2015	Interim site visit
2 March 2015	Presentation of audit plan to the Joint Audit Committee
2 March 2015	Present audit plan to PCC and the Chief Constable as Those Charged with Governance
June to August 2015	Year end fieldwork
TBA	Audit findings clearance meeting with the PCC's and the Chief Constable's Chief Finance Officers
21 September 2015	Report audit findings to the Joint Audit Committee. The PCC and Chief Constable may wish to be present at this meeting, as those charged with governance, prior to their approval of the accounts.
September 2015	Assurance work on Whole of Government Accounts (WGA) return (on behalf of the National Audit Office)
By 30 September 2015	Issue certificate of closure of the audit, including consideration of any significant subsequent events that would impact on our financial statements opinion or value for money conclusion

Fees and independence

Statutory audit fees

	Planned fee
Police and Crime Commissioner Audit	£42,890
Chief Constable Audit	£25,000
Total fees for the group (excluding VAT)	£67,890

Our fee assumptions include:

- Supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list
- The scope of the audit, and the PCC and the Chief Constable and their activities, have not changed significantly
- The PCC and the Chief Constable will make available management and accounting staff to help us locate information and to provide explanations.

Fees for other services

Service	Fees billed to date
None	Nil

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.

Full details of all fees charged for audit and non-audit services will be included in our Audit Findings report at the conclusion of the audit.

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

Communication of audit matters with those charged with governance

International Standards on Auditing (ISA) 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 Plan, outlines our audit strategy and plan to deliver the audits, while The Audit Findings will be issued prior to approval of the financial statements and will present key issues and other matters arising from the audits, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audits on a timely basis, either informally or via a report to the PCC and the Chief Constable.

Respective responsibilities

This plan has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission (www.audit-commission.gov.uk).

We have been appointed as the PCC's and the Chief Constable's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. 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 Audit Commission and includes nationally prescribed and locally determined work. Our work considers the PCC's and the Chief Constable's key risks when reaching our conclusions under the Code.

It is the responsibility of the PCC and of the Chief Constable to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the PCC and 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 issue 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 the auditor's report, or emphasis of matter		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓



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