

# The Joint Annual Audit Letter for the Police and Crime Commissioner for Lancashire and the Chief Constable for Lancashire Police

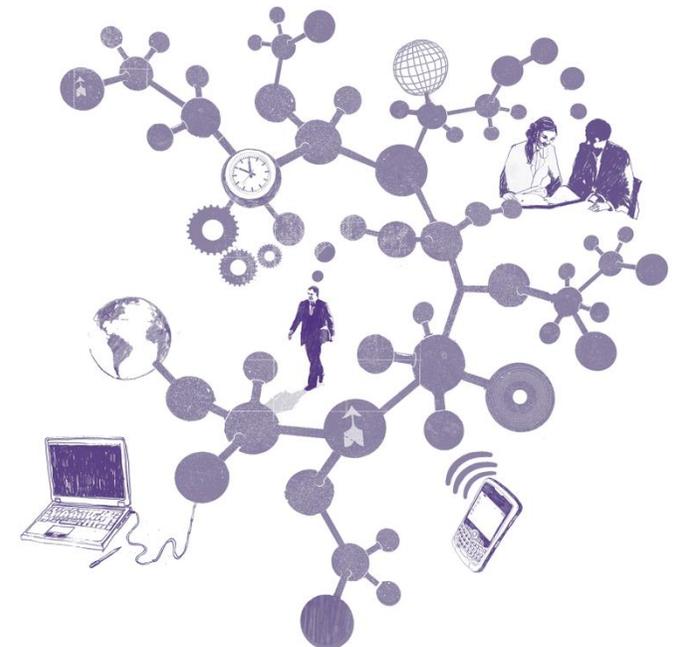
**Year ended 31 March 2016**

**October 2016**

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# Executive summary

## **Purpose of this letter**

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out for the Police and Crime Commissioner (PCC) for Lancashire and the Chief Constable (CC) for Lancashire Police for the year ended 31 March 2016.

This Letter is intended to provide a commentary on the results of our work to the PCC, the Chief Constable and their external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this letter we have followed the National Audit Office (NAO)'s Code of Audit Practice (the Code) and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'.

We reported the detailed findings from our audit work to the PCC and the Chief Constable as those charged with governance in our Audit Findings Report on 11 August 2016, and additionally to the Joint Audit and Ethics Committee on 15 August 2016.

## **Our responsibilities**

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the PCC's and the Chief Constable's financial statements (section two)
- assess the PCC's and the Chief Constable's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the PCC's and the Chief Constable's financial statements, we comply with International Standards on Auditing (UK and Ireland) (ISAs) and

other guidance issued by the NAO.

## **Our work**

### **Financial statements opinion**

We gave an unqualified opinion on the PCC's and the Chief Constable's financial statements on 11 August 2016. This was seven weeks earlier than the previous year.

### **Value for money conclusion**

We were satisfied that the PCC and the Chief Constable each put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources during the year ended 31 March 2016. We reflected this in our audit report issued on 11 August 2016.

### **Certificate**

We certified that we had completed the audit of the accounts of the PCC and the Chief Constable in accordance with the requirements of the Code on 17<sup>th</sup> October 2016.

## **Looking Ahead**

Over the coming twelve months, the PCC and Chief Constable will continue to deal with some significant challenges. In particular, there are considerable financial challenges facing the Police service and the need to deliver longer term service transformation. We look forward to working with, and supporting the PCC and Chief Constable as they respond to these challenges.

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the PCC's and Chief Constable's staff.

**Grant Thornton UK LLP**  
**October 2016**

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# Audit of the accounts

## **Our audit approach**

### **Materiality**

In our audit of the PCC's and Chief Constable's accounts, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for our audit of the PCC's and Chief Constable's accounts to be £6.678m which is 2% of the PCC's gross revenue expenditure. We used this benchmark, as in our view, users of the PCC's and Chief Constable's accounts are most interested in how the income raised from taxation and grants during the year has been spent.

We also set a lower level of materiality for certain disclosures such as officers' remuneration, exit packages, auditor's remuneration and related party transactions.

We set a lower threshold of £0.333m above which we reported errors in our Audit Findings Report.

### **The scope of our audit**

Our audit involves obtaining enough evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error. This includes assessing whether:

- the PCC's and Chief Constable' accounting policies are appropriate, have been consistently applied and adequately disclosed;

- significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the Narrative Report and Annual Governance Statement to check they are consistent with our understanding of the PCC and Chief Constable and with the accounts on which we give our opinion.

We carry out our audit in line with ISAs (UK and Ireland) and the NAO Code of Audit Practice. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion. Our audit approach was based on a thorough understanding of the PCC's and Chief Constable's business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

# Audit of the accounts

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk
<p><b>The revenue cycle includes fraudulent transactions</b></p> <p>Under ISA (UK&amp;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>	<p>As part of our audit work we considered the risk factors set out in ISA240 and the nature of the revenue streams. We determined that the risk of fraud arising from revenue recognition could be rebutted for both the PCC and Chief Constable because:</p> <ul style="list-style-type: none"> <li>• there was little incentive to manipulate revenue recognition</li> <li>• for the PCC opportunities to manipulate revenue recognition was very limited as revenue is principally grant allocations from central and local government</li> <li>• for the Chief Constable opportunities to manipulate revenue recognition was very limited as revenue is principally an inter-group transfer from the PCC, with no cash transactions</li> <li>• the culture and ethical frameworks of local authorities, including Lancashire PCC and Chief Constable, means that all forms of fraud are seen as unacceptable.</li> </ul> <p>Our audit work did not identify any issues in respect of revenue recognition.</p>
<p><b>Management over-ride of controls</b></p> <p>Under ISA (UK&amp;I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.</p>	<p>As part of our work we:</p> <ul style="list-style-type: none"> <li>• reviewed entity controls</li> <li>• tested journal entries</li> <li>• reviewed and challenged accounting estimates, judgements and decisions made by management</li> <li>• reviewed any unusual significant transactions.</li> </ul> <p>Our audit work did not identified any evidence of management over-ride of controls</p>
<p><b>Valuation of pension fund net liability</b></p> <p>The Police Officer Pension schemes pension fund liability, as reflected in the balance sheet and notes to the accounts, represents a significant estimate in the financial statements.</p> <p>The Local Government Pension Scheme (LGPS) pension fund liability as reflected in the balance sheet, and asset and liability information disclosed in the notes to the accounts represent significant estimates in the financial statements.</p>	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> <li>• documented and performed a walkthrough of the key controls put in place by management to ensure that the pension fund liability was not materially misstated</li> <li>• reviewed the competence, expertise and objectivity of the actuary who carried out the pension fund valuation</li> <li>• gained an understanding of the basis on which the valuation was made, undertaking procedures to confirm the reasonableness of the actuarial assumptions made</li> <li>• reviewed the consistency of the pension fund asset (LGPS only) and liability and the disclosures in notes to the statements with the actuarial report.</li> </ul> <p>We did not identify any issues to report.</p>

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# Audit of the accounts

## **Audit opinion**

The PCC and Chief Constable made the accounts available for audit well in advance of the statutory timetable, and provided good quality working papers to support them. The finance team responded promptly and efficiently to our queries during the course of the audit.

We gave an unqualified opinion on the PCC's and Chief Constable's accounts on 11 August 2016, in advance of the 30 September 2016 national deadline, which was considerably earlier than last year.

## **Issues arising from the audit of the accounts**

We reported the key issues from our audit of the accounts to the PCC and Chief Constable on 11 August 2016. Only a few amendments were required and there were no changes to the primary statements.

## **Annual Governance Statement and Narrative Report**

We are also required to review the PCC's and Chief Constable's Annual Governance Statement and Narrative Report. They were published with the draft accounts in line with the national deadlines.

The documents were prepared in line with the relevant guidance and were consistent with the supporting evidence provided by the PCC and Chief Constable and with our knowledge of the PCC and Chief Constable.

## **Other statutory duties**

We also have additional powers and duties under the Act, including powers to issue a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors

the opportunity to raise questions about the PCC's and Chief Constable's accounts and to raise objections received in relation to the accounts.

No issues arose which required use of our other statutory duties.

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# Value for Money conclusion

## Background

We carried out our review in accordance with the NAO Code of Audit Practice (the Code), following the guidance issued by the NAO in November 2015 which specified the 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.*

## Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the key risks where we concentrated our work. We identified the following areas requiring further work:

- The PCC and CC need to achieve savings in excess of £18m between 2016/17 and 2019/20 due to reductions in the Police Core Settlement and Police General Grant. Financial plans need to address the resourcing of changing service priorities and demands. We considered how the MTFs and related future plans address the resourcing of changing service priorities and demands.
- The PCC and CC see ICT as an important driver to deliver the wider service priorities over the next few years. We reviewed the key ICT change projects and their impact for Lancashire PCC and Constabulary.
- There is an increased focus on enabling closer working between the emergency services. We reviewed how such partnerships are developing.

The further work we performed around these risks is set out in the table overleaf.

We concluded that:

- The PCC and Constabulary have strong financial planning arrangements in place including a well-established rolling five year financial plan and a clear strategy and good track record in delivering savings. The PCC and Constabulary recognise the considerable financial challenges facing the Police service and the need to deliver longer term service transformation and are actively addressing the change agenda.
- The PCC and Constabulary are committed to significant investment in ICT as a key part of the transformation agenda and there is an ambitious programme of system replacement and development over the next two years.
- The PCC and Constabulary collaborate well with other public sector agencies, particularly at the operational level. This is clearly illustrated in the Early Actions initiative.

## Overall VfM conclusion

We are satisfied that in all significant respects the PCC and Chief Constable each put in place proper arrangements to secure economy, efficiency and effectiveness in their use of resources for the year ending 31 March 2016.

# Value for Money

## Value for money risks

Risk identified	Work carried out	Findings and conclusions
<p><b>Financial Strategy</b></p> <p>The PCC and CC need to achieve savings in excess of £18m between 2016/17 and 2019/20 due to reductions in the Police Core Settlement and Police General Grant. Whilst the latest financial settlement has reduced budget pressures, there remains uncertainty as to actual levels of future funding. Financial plans also need to address the resourcing of changing service priorities and demands.</p>	<p>We reviewed the Medium Term Financial Strategy (MTFS) and supporting plans to understand the budget, investment and savings profile. We considered how the MTFS and related future plans address the resourcing of changing service priorities and demands.</p>	<p>The PCC and Constabulary continue to have strong financial management arrangements in place. There is clear strategy to deliver savings and a strong track record in this area. The Group has achieved £60m of savings since 2011/12 and estimate that a further £30m of savings will be required for the period 2016/17 to 2020/21. Savings proposals of over £14m have been approved by the PCC for the period 2016/17-2019/20. The PCC and Constabulary clearly recognise the considerable challenge of continuing to deliver the still significant budget reductions to operate within available funding in the shorter term and yet deliver the long term transformation and change that is required.</p>
<p><b>ICT</b></p> <p>The PCC and CC see ICT as an important driver to deliver the wider service priorities and are committed to a significant investment in the ICT infrastructure over the next few years. This includes a new case and custody system, a replacement HR system and being the first region to replace the 'airwave's system in 2017.</p>	<p>Update our understanding of the key ICT change projects and consider their impact for Lancashire PCC and Constabulary, including any wider governance and value for money implications</p>	<p>The PCC and Constabulary are committed to significant investment in ICT as a key part of the transformation agenda, recognising that improving systems and equipment is crucial to changing how operational policing is delivered. This is evident in the capital programme commitment. The Constabulary ICT Programme Board meets bi-monthly and reports into the Constabulary Strategic Board. The Programme Board receives a regular ICT Highlight Reports which provides an update, including RAG rating, on on-going strategic projects and other projects with recent significant developments. Recent developments demonstrate the PCC's and Constabulary's commitment to invest in IT systems to help transform services. The Constabulary and PCC will need to ensure there is sufficient capacity to successfully manage such a significant agenda.</p>

# Value for Money

**Table 2: Value for money risks**

Risk identified	Work carried out	Findings and conclusions
<p><b>Joint working</b></p> <p>There is an increased focus on enabling closer working between the emergency services. The PCC and the Constabulary are continuing to develop joint working partnerships, including with fire, health and local government sectors and others. We are keen to update our understanding of how these partnerships are developing and whether they are delivering benefits.</p>	<p>Update our understanding of the local devolution model and other joint working arrangements and consider their impact for Lancashire PCC and Constabulary, including any wider governance and value for money implications.</p>	<p>The Police service is not formally part of the Combined Authority agreement, which focusses on Transport, Economic development and Health and Well-being. However, the Policing services do have close links with some strands of the Health and Well-Being agenda and it is expected that the PCC and Constabulary will likely become increasingly involved through these related services. The PCC and Constabulary enjoy close collaboration with other public sector agencies, particularly at the operational level, with considerable work delivered in conjunction with partners, including a recent formal collaboration with Cumbria Police.</p>

# Appendix A: Reports issued and fees

We confirm below our final fees charged for the audit and confirm there were no fees for the provision of non audit services.

## Fees

	Planned £	Actual fees £	2014/15 fees £
Police and Crime Commissioner audit	32,168	32,168	42,890
Chief Constable audit	18,750	18,750	25,000
<b>Total fees (excluding VAT)</b>	<b>50,918</b>	<b>50,918</b>	<b>67,890</b>

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

## Reports issued

Report	Date issued
Audit Plan	March 2016
Audit Findings Report	August 2016
Annual Audit Letter	October 2016



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