



# The Annual Audit Letter for Gloucestershire Police and Crime Commissioner and Chief Constable for Gloucestershire

**Year ended 31 March 2017**

October 2017

**Iain Murray**

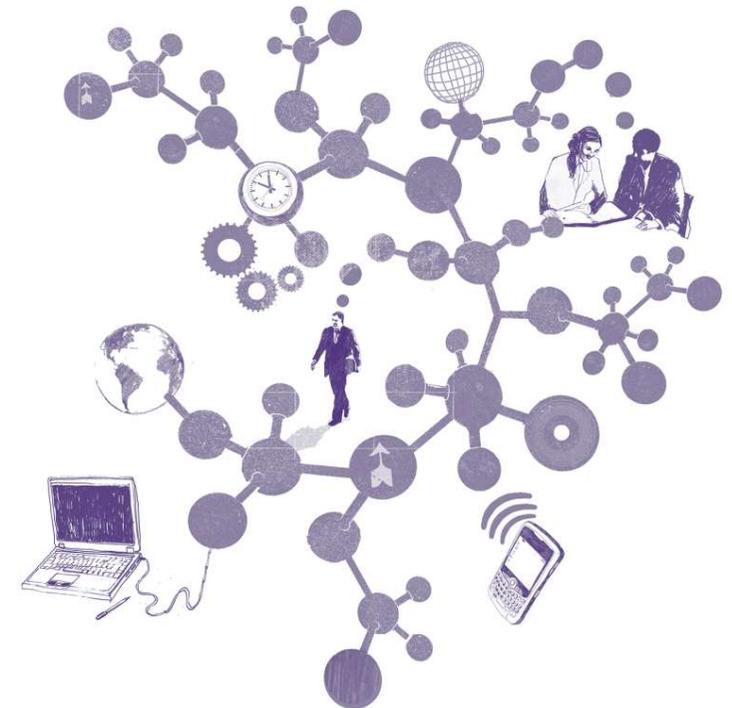
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# Executive summary

## **Purpose of this letter**

Our Annual Audit Letter (Letter) summarises the key findings arising from the work we have carried out at Gloucestershire Police and Crime Commissioner (the PCC) and Chief Constable for the year ended 31 March 2017.

This Letter provides a commentary on the results of our work to the PCC and Chief Constable and their external stakeholders, and highlights issues 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's and Chief Constable's Joint Audit Committee Committee (as those charged with governance) in our Audit Findings Report on 26 September 2017.

## **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 Chief Constable's financial statements (section two)
- assess the PCC's and 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 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 Chief Constable's financial statements on 28 September 2017.

### **Value for money conclusion**

We were satisfied that the PCC and Chief Constable put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources during the year ended 31 March 2017. We reflected this in our audit opinion on 28 September 2017.

### **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 28 September 2017.

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 2017**

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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 overall materiality for the financial statements as a proportion of the smaller of gross revenue expenditure of the PCC and the gross revenue expenditure of the Chief Constable. This was £2,132,000 (being 2% of gross revenue expenditure of the PCC). We used gross revenue expenditure as the benchmark, as in our view, users of the PCC's and Chief Constable's accounts are most interested in how they have they have spent the income the PCC Group have received during the year.

We set a lower threshold of £107,000, above which we reported errors and uncertainties to the PCC and Chief Constable 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 they are free from material misstatement, whether caused by fraud or error. This includes assessing whether:

- the PCC's and Chief Constable's accounting policies are appropriate, have been consistently applied and adequately disclosed;
- significant accounting estimates made management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the narrative reports and annual governance statements to check they were consistent with our understanding of the PCC and Chief Constable and with the accounts included in the Statement of Accounts on which we gave 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 businesses 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 – Police and Crime Commissioner and Chief Constable

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

Transaction cycle	Description of risk	Relevant to PCC / Chief Constable / Both?	Work completed	Assurance gained & issues arising
<b>Employee remuneration</b>	Employee remuneration and benefit obligations and expenses understated (Employee remuneration understated)	Both	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• Documented our understanding of processes and key controls over the transaction cycle</li> <li>• Undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding</li> <li>• Completion of a payroll trend analysis</li> <li>• Reconciliation of payroll system to the general ledger</li> </ul>	Our audit work has not identified any significant issues in relation to the risk identified
<b>Operating expenses</b>	Creditors understated or not recorded in the correct period (Operating expenses understated)	Both	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• Documented our understanding of processes and key controls over the transaction cycle</li> <li>• Undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding</li> <li>• Obtained an understanding of the accruals process</li> <li>• Tested for unrecorded liabilities, including review of payments made after the year end.</li> </ul>	Our audit work has not identified any significant issues in relation to the risk identified

# Audit of the accounts – Police and Crime Commissioner and Chief Constable (continued)

Transaction cycle	Description of risk	Relevant to PCC / Chief Constable / Both?	Work completed	Assurance gained & issues arising
<b>Police Pensions Benefits Payable</b>	Benefits improperly computed / Claims liability understated	Chief Constable	We have undertaken the following work in relation to this risk: <ul style="list-style-type: none"> <li>• Documented our understanding of processes and key controls over the transaction cycle</li> <li>• Undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding</li> <li>• Tested a sample of new pension benefits coming into payment to confirm eligibility and agreed amounts to underlying evidence</li> <li>• Tested a sample of commutation payments to underlying evidence.</li> </ul>	Our audit work has not identified any significant issues in relation to the risk identified
<b>Valuation of Property, Plant and Equipment</b>	The PCC commissions a full revaluation of all assets every five years and, in the intervening years, a desktop valuation.  The Code requires that the PCC ensures that the carrying value at the balance sheet date is not materially different from the current value. This represents a significant estimate by management in the financial statements.	PCC	We have undertaken the following work in relation to this risk: <ul style="list-style-type: none"> <li>• Reviewed management’s processes and assumptions for the calculation of the estimate</li> <li>• Reviewed the competence, expertise and objectivity of the valuer</li> <li>• Reviewed the instructions issued to valuation experts and the scope of their work</li> <li>• Reviewed the basis on which the valuation was carried out, including consideration of the key assumptions</li> <li>• Reviewed and challenged the information used by the valuer to ensure it was robust and consistent with our understanding</li> <li>• Tested revaluations made during the year to ensure they were input correctly into the PCC’s asset register.</li> </ul>	Our audit work has not identified any significant issues in relation to the risk identified

# Audit of the accounts – Police and Crime Commissioner and Chief Constable (continued)

Transaction cycle	Description of risk	Relevant to PCC / Chief Constable / Both?	Work completed	Assurance gained & issues arising
<p><b>Valuation of Pension Fund Net Liability</b></p>	<p>The Local Government Pension Scheme (LGPS) pension net 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>The Police Officer Pension schemes pension fund liability as reflected in its balance sheet and notes to the accounts represent significant estimates in the financial statements.</p> <p>These estimates by their nature are subject to significant estimation uncertainty, being very sensitive to small adjustments in the assumptions used.</p>	<p>Both</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• Documented the key controls that were put in place by management to ensure that the pension fund liability was not materially misstated.</li> <li>• Undertaken walkthrough of the key controls to assess the whether those controls were implemented as expected and mitigate the risk of material misstatement in the financial statements.</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 IAS19 valuation was carried out, undertaking procedures to confirm the reasonableness of the actuarial assumptions made</li> <li>• Reviewed the consistency of the pension fund asset and liability and disclosure notes to the financial statements with the actuarial report from your actuary</li> </ul>	<p>Our audit work has not identified any significant issues in relation to the risk identified</p>

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# Audit of the accounts

## **Audit opinion**

We gave an unqualified opinion on the PCC's and Chief Constable's accounts on 28 September 2017.

The PCC and Chief Constable made the accounts available for audit in line with the agreed timetable, and provided a good set of supporting working papers. The accounts presented for audit were prepared to a very good standard, subject only to a small number of disclosure amendments. The finance team responded promptly and efficiently to our queries during the audit.

## **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 and the Joint Audit Committee on 26 September 2017.

Our audit did not identify any material errors or uncertainties in the PCC, Chief Constable and Group financial statements. Management amended the PCC, Group and Chief Constable accounts for the disclosure changes identified during the audit. These were primarily to correct minor errors and improve the presentation of the accounts.

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

We are required to review the PCC's and Chief Constable's Annual Governance Statements and Narrative Reports. Both entities published them on their websites with the draft accounts in line with the national deadlines.

All 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.

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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 2016 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.

The key risks we identified and the work we performed are set out on pages 10 and 11.

## Other matters

Gloucestershire Police are partners in a number of regional collaborations with local Forces, including Tri-Force. A strong governance framework and resultant assurances are key to ensuring that key collaborations deliver the benefits that they are designed to. We have reviewed the Tri-Force governance framework. Our findings are set out on page 12.

## Overall VfM conclusion

We are satisfied that in all significant respects the both the PCC and the Chief Constable put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2017.

# Value for Money

## Value for money risks

Risk identified	Work carried out	Findings and conclusions
<p>The PCC and Chief Constable have a balanced financial plan for 2017/18, but the medium term plan still requires identification of approximately £6.4 million of savings for the subsequent three years. The plan is based on a number of key assumptions for both income and expenditure.</p>	<p>We reviewed the PCC's and Chief Constable's medium term financial plan, including the assumptions that underpin the plan. We also considered the outturn for 2016/17.</p>	<p>The PCC and Chief Constable reported an underspend of £881,000 for 2016/17. This reflects a mix of over and underspends including supplies and services (£674,000 underspend, police officers (£361,000 underspend) and police staff (£291,000 overspend).</p> <p>The medium term financial plan forecasts a balanced position for 2017/18. For the three subsequent years, savings of £2.7m, £2.6m and £1.1m respectively need to be identified. The PCC and Chief Constable has a good track record in identifying and delivering savings and therefore this is not seen as a significant risk.</p> <p>Appendix D of the budget paper sets out the planned savings for 2017/18. Having made enquiries of the finance team, we are satisfied that the planned savings are adequately supported.</p> <p>Appendix C of the budget paper for 2017/18 to 2020/21 set outs the main assumptions covering inflation, pay awards, increments, grants and council tax increases. The assumptions are considered to be reasonable e.g. 1.8% to 2.5% inflation, 1.99% annual increase in council tax and 1.4% reduction in grant income. However, the current economic uncertainty means that there will be increased volatility in these assumptions and therefore they should be kept under review.</p> <p><b>On that basis we concluded that the risk was sufficiently mitigated and the PCC and Chief Constable each has proper arrangements.</b></p>

**Value for money risks**

Significant risk	Work to address	Findings and conclusions
<p>The Chief Constable implemented a new operating model in 2015. A post implementation review was undertaken in 2016, which highlighted that further action was required. An action plan was developed to address these issues</p>	<p>Separate reviews of demand and neighbourhood policing by the Chief Constable and PCC have taken the place of a further review of the implementation of the operating model. We reviewed documents relating to both projects.</p>	<p>We reviewed the implementation of the ‘new’ Operating Model as part of the 2014/15 audit and then reviewed the post implementation review of the Model as part of the 2015/16 audit. This year we planned to follow up the issues identified by the PCC/Chief Constable from the post implementation review. However, the new projects on demand and neighbourhood policing are now in place.</p> <p>The Neighbourhood Policing project has been in progress for some months and a number of work streams have been established to help to achieve the Neighbourhood Policing Vision 2025.</p> <p>With regard to demand management, a project has been commissioned and currently the Constabulary are in the preparatory, evidence gathering and stakeholder engagement stage. A business case is to be developed for scrutiny by the ‘Change Advisory Group’ or other appropriate governing body to review, revise and submit to the initial Operational Programme Board in September 2017. A recent paper recommended that “the current work focusses on incoming and known demand based on the premise of the Operating Model review”, which provides assurance that consideration of the appropriateness of the Operating Model continues.</p> <p>It is clear that the PCC and Chief Constable are looking at ways to improve the service that’s delivered within a reducing budget. For both of the projects outlined above, there is a 2025 vision and therefore a short term fix is not being sought, rather a long term solution to deliver good services to the public.</p> <p><b>On that basis we concluded that the risk was sufficiently mitigated and the PCC and Chief Constable each has proper arrangements.</b></p>

### Tri-force - findings and conclusions

The Tri-Force Specialist Operations Unit is a collaboration between the forces of Avon & Somerset, Gloucestershire and Wiltshire. It was created in April 2014, and provides firearms, dogs and roads policing capabilities across the force areas. The Police and Crime Commissioners and Chief Constables of all three forces signed the collaboration agreement in April 2014. This confirms that the collaboration is 23% funded by Gloucestershire Police – equivalent to £5.088m in 2016/17.

The collaboration agreement also sets out key governance and management arrangements, included provisions for a Commissioning Board and a Management Board as part of the governance framework. During the 2016/17 year, the governance arrangements were reviewed and updated. A Tri-Force Steering Committee was established, with delivery and project boards reporting into it. The Steering Committee in turn reports to the Management Board. The first meeting of the Tri-Force Steering Group was held in February 2017, and the agenda included updated and more detailed terms of reference (ToR) for both the Commissioning Board and the Management Board. These represent an encouraging improvement on the previous ToR, however it is not currently clear from the Commissioning Board ToR whether decisions can be made based upon a majority or must be unanimous, nor the number of attendees required for the meeting to be quorate.

The Home Office published Statutory Guidance for Police Collaboration in October 2012, which includes consideration of governance structures, and the governance structure introduced for the Tri-Force Collaboration meets these criteria.

The February meeting of the Tri-Force Steering Committee included an Outcomes Framework which has been developed by to monitor and report on the effectiveness of operational delivery and keeps the relevant stakeholders abreast of current performance. Performance indicators are aligned to four categories which are directly linked to the objectives agreed with operational leads for each of the portfolio areas.

An example assurance pack, presented during the February 2017 meeting of Tri-Force Steering Committee sets out the indicators, linked to the relevant themes, and provides commentary on these. However, data for a number of the indicators can not currently be obtained using the reporting mechanisms and systems of all three forces. The data available is dependent upon the force in question, and each force has a number of areas where the data is not yet available. This does not therefore allow meaningful comparisons to be drawn for all of the data reported. Review of the indicators also suggests that some do not provide analysis into the performance, quality or effectiveness of Tri Force. The performance measures should also be output focused, to allow conclusions to be drawn about the effectiveness and value of the collaboration.

A Tri-Force risk register, which has a total of six RAG rated operational risks, is considered at the Commissioning Board. The register was established in January 2017, and includes the elements expected from a risk register such as risk category, inherent risk score (considering impact and likelihood), mitigation plans, residual risk score (considering impact and likelihood), risk owner and risk lead.

The above developments show signs of improved and improving governance arrangements, although it is too early to say that they are fully effective as many have only recently been developed. The recent promotion of the Tri-Force ACC provides an opportunity to reflect and reassess future arrangements and governance. It will be important that this does not detrimentally impact on the momentum generated and progress gained, particularly in the last 6 months.

# Appendix A: Reports issued and fees

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

## Fees

	Proposed fee £	Actual fees £	2015/16 fees £
Police and Crime Commissioner audit	31,035	31,035	31,035
Chief Constable audit	15,000	15,000	15,000
<b>Total fees (excluding VAT)</b>	<b>46,035</b>	<b>46,035</b>	<b>46,035</b>

The proposed 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	20 March 2017
Audit Findings Report	31 July 2017
Annual Audit Letter	20 October 2017



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