

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

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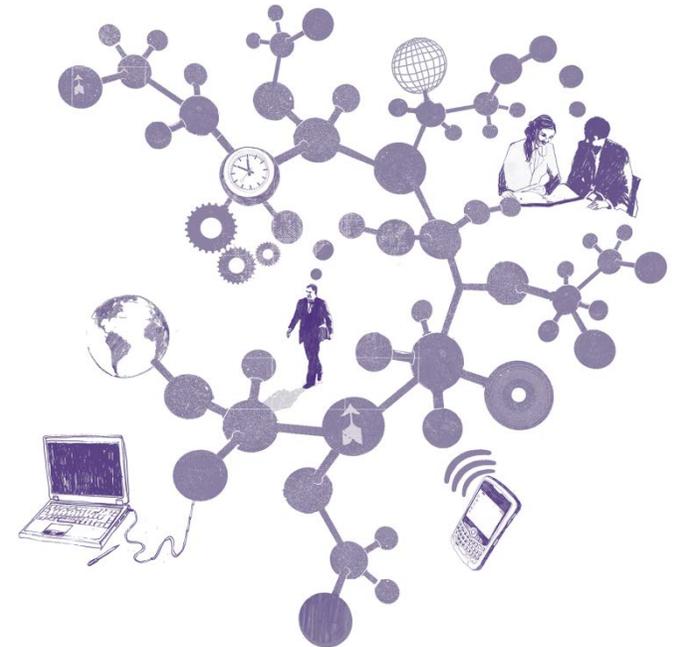
**Year ended 31 March 2016**

28 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 Gloucestershire Police and Crime Commissioner (the PCC) and the Gloucestershire Chief Constable (the Chief Constable) for the year ended 31 March 2016.

This Letter is intended to provide a commentary on the results of our work to the PCC, 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 Chief Constable, as Those Charged With Governance, in our Joint Audit Findings Report taken to the Joint Audit Committee on 11 September 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 opinions on the PCC and Chief Constable financial statements (section two)
- assess the PCC's and Chief Constable's arrangements for securing economy, efficiency and effectiveness in their use of resources (the value for money conclusion) (section three).

In our audits of the financial statements of the PCC and Chief Constable, we comply with International Standards on Auditing (UK and Ireland) (ISAs) and other guidance issued by the NAO.

## Our work

### Financial statements opinions

We gave unqualified opinions on the PCC and Chief Constable financial statements on 22 September 2016.

### Value for money conclusions

We were satisfied that the PCC and Chief Constable both put in place proper arrangements to ensure economy, efficiency and effectiveness in their use of resources during the year ended 31 March 2016. We reflected this in our audit opinions on 22 September 2016.

### Certificate

We certified that we had completed the audit of the accounts of the PCC and Chief Constable in accordance with the requirements of the Code on 22 September 2016.

## Working with the PCC and Chief Constable

We would like to record our appreciation for the assistance and co-operation provided to us during our audits by the PCC, the Chief Constable and their 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 and Chief Constable 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 audits of the PCC and Chief Constable accounts as a proportion of the smaller of gross revenue expenditure of the PCC and gross revenue expenditure of the Chief Constable. For 2015/16, this was determined to be £2,217,000, which is approximately 2% of the Police and Crime Commissioner's gross revenue expenditure. We used this benchmark, as in our view, users of the PCC and Chief Constable accounts are most interested in how they spent the income raised from taxation and grants during the year.

We set a lower threshold of £111,000, above which we reported errors to the PCC and Chief Constable.

We also set a lower level of specific materiality for certain areas such as officers' remuneration and auditor's remuneration.

### 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 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 audits 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 opinions.

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	Applicable to PCC / Chief Constable / both?	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>	Both	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams, we have determined that the risk of fraud arising from revenue recognition can be rebutted for both the PCC and Chief Constable because:</p> <ul style="list-style-type: none"> <li>• there is little incentive to manipulate revenue recognition;</li> <li>• for the PCC opportunities to manipulate revenue recognition are very limited as revenue is principally grant allocations from central and local government;</li> <li>• for the Chief Constable opportunities to manipulate revenue recognition are very limited as revenue is principally an inter-group transfer from the PCC, with no cash transactions; and</li> <li>• the culture and ethical frameworks of local authorities, including Gloucestershire PCC and Chief Constable, mean that all forms of fraud are seen as unacceptable.</li> </ul> <p><b>We did not identify any issues to report.</b></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>	Both	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> <li>• tested a sample of journal entries</li> <li>• reviewed accounting estimates, judgements and decisions made by management</li> <li>• reviewed unusual significant transactions.</li> </ul> <p><b>We did not identify any evidence of management over-ride of controls.</b></p>
<p><b>Completeness of operating expenses</b></p> <p>Creditors understated or not recorded in the correct period</p>	Both	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> <li>• documented our understanding of processes and key controls over the transaction cycle</li> <li>• undertook a walkthrough of the key controls to assess whether those controls were in line with our documented understanding</li> <li>• tested for unrecorded liabilities by undertaking sample testing of payments made after the year end to ensure that they were accounted for in the correct year.</li> </ul> <p><b>We did not identify any issues to report.</b></p>

# 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	Applicable to PCC / Chief Constable / both?	How we responded to the risk
<p><b>Valuation of property, plant and equipment</b></p> <p>The PCC's land and buildings were valued in 2015/16 by an internal valuation expert.</p> <p>These valuations represent a significant accounting estimate in the financial statements.</p>	PCC	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> <li>• documented our understanding of processes and key controls over the transaction cycle</li> <li>• walked through the key controls to assess the whether those controls were in line with our documented understanding</li> <li>• tested revaluations to ensure that they had been input correctly into the PCC's asset register and that gains and losses had been correctly calculated</li> <li>• evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value.</li> </ul> <p><b>We did not identify any issues to report.</b></p>
<p><b>Completeness of employee remuneration</b></p> <p>Employee remuneration, benefit obligations and expenses understated</p>	Chief Constable	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> <li>• documented our understanding of processes and key controls over the transaction cycle</li> <li>• walked through the key controls to assess the whether those controls were in line with our documented understanding</li> <li>• reviewed and tested the reconciliation of payroll expenditure recorded in the general ledger to the subsidiary systems and interfaces</li> <li>• carried out an analysis of trends and relationships to identify any anomalous areas for further investigation</li> <li>• substantively tested a sample of payments made throughout the year</li> <li>• undertook testing to confirm the completeness and cut-off of payroll transactions</li> </ul> <p><b>We did not identify any issues to report.</b></p>

# 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	Applicable to PCC / Chief Constable / both?	How we responded to the risk
<p><b>Police Pension Fund benefits payable</b></p> <p>Benefits improperly computed and/or claims liability understated</p>	Chief Constable	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> <li>• documented our understanding of processes and key controls over the transaction cycle</li> <li>• walked through of the key controls to assess the whether those controls were in line with our documented understanding</li> <li>• reviewed and tested the reconciliation of pension benefit payments recorded in the general ledger to the subsidiary systems and interfaces</li> <li>• carried out substantive testing of monthly pension benefit payments made in the year</li> <li>• carried out substantive testing of lump sum pension benefit payments made in the year</li> </ul> <p><b>We did not identify any issues to report.</b></p>
<p><b>Valuation of pension fund net liability</b></p> <p>Actuarial amounts not determined properly</p>	Chief Constable	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> <li>• documented our understanding of processes and key controls over the transaction cycle</li> <li>• walked through of the key controls to assess the whether those controls were in line with our documented understanding</li> <li>• reviewed the competence, expertise and objectivity of the actuary who carried out your pension fund valuation</li> <li>• undertook procedures to confirm the reasonableness of the actuarial assumptions made</li> <li>• reviewed the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary.</li> </ul> <p><b>We did not identify any issues to report</b></p>

# 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	Applicable to PCC / Chief Constable / both?	How we responded to the risk
<p><b>Valuation of the newly operational PFI Scheme</b></p> <p>PFI scheme calculations are incorrect</p> <p>This represents a significant estimate by management, with the liability split between the three police bodies involved in the collaboration, and there is a risk that the transactions are not recorded properly.</p>	PCC	<p>As part of our audit work we:</p> <ul style="list-style-type: none"><li>• documented our understanding of processes and key controls over the transaction cycle</li><li>• walked through the key controls to assess whether those controls were in line with our documented understanding</li><li>• agreed the PFI disclosures in the accounts against the PFI accounting model.</li></ul> <p><b>We did not identify any issues to report.</b></p>

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# Audit of the accounts

## Audit opinion

We gave unqualified opinions on the PCC's and Chief Constable's accounts on 22 September 2016, in advance of the 30 September 2016 national deadline.

The PCC and Chief Constable made the accounts available for audit in line with the agreed timetable, and provided a good set of working papers to support them. The finance team responded promptly and efficiently to our queries during the course of the audit.

## Issues arising from the audit of the accounts

We reported the key issues from our audit of the accounts of the PCC and Chief Constable to the Joint Audit Committee on 11 September 2016.

We reflected the following issue and recommendation in our Joint Audit Findings Report:

- The Chief Accountant reviews all journals over £100,000 and 10% of all other journals. However, we identified that a number of year end journals had not been passed to the Chief Accountant for review due to an error in processing. We recommend that all year end journals are made available for review by the Chief Accountant or other senior management.

## 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 on their websites 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.

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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.

The key risks we identified and the work we performed are set out overleaf, and applied to both the PCC and Chief Constable.

## Overall VfM conclusion

We are satisfied that in all significant respects the PCC and Chief Constable both put in place proper arrangements to secure economy, efficiency and effectiveness in its 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>Medium term financial position</b> The PCC and Chief Constable have a balanced financial plan for 2016/17, but the medium term plan still requires identification of approximately £4.9 savings. 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.</p>	<p>The medium term financial plan forecasts a balanced position for 2016/17. For the three subsequent years, savings of £1.7m, £1.8m and £1.3m 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 2016/17. 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 2016/17 to 2019/20 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% inflation, 2% annual increase in council tax and 0% change in grant income.</p> <p>There were two strategic planning days in June 2016 at which it was reported that "the MTFS to 2019/20 was approved in February 2016. At present there are no proposed changes to the plan agreed in February".</p>
<p><b>New operating model</b> The Chief Constable is implementing a new operating model. The operating model underpins the medium term financial plan.</p>	<p>We reviewed the progress made in implementing the new operating model and considered how this supports the medium term financial plan. As part of this review, we also considered the programme management arrangements that have been put in place.</p>	<p>The constabulary implemented a new operating model in July 2015. Around 700 officers and staff experienced a change in their working arrangements. At the same time, mobile working was rolled out. This new way of working was needed to enable the constabulary to meet its savings target.</p> <p>A post implementation review has taken place and this resulted in a detailed report. The report showed that there had been some positive aspects to the implementation and some not quite so positive. Overall most benefits have either been partially or fully achieved and, at the same time, victim satisfaction has improved. 14 key recommendations were made as a result of the review.</p> <p>Review of the implementation of the operating model and other projects is overseen by the Improvement and Efficiency Programme Board.</p> <p>Given that costs have reduced and satisfaction has increased, it is reasonable to conclude that satisfactory arrangements are in place. This conclusion is supported by the fact that a post implementation review was undertaken and further analysis of activity is to be undertaken to try to ensure that the current operating model reflects need.</p>

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# Working with the PCC and Chief Constable

## Our work with you in 2015/16

We are really pleased to have worked with you over the past year. We have continued to build on a positive and constructive relationship. Together we have delivered some great outcomes.

An efficient audit – we delivered the accounts audit opinion 8 days before the deadline and in line with the timescale we agreed with you. Our audit team are knowledgeable and experienced in your financial accounts and systems. Our relationship with your team provides you with a financial statements audit that continues to finish ahead of schedule releasing your finance team for other important work.

Sharing our insight – we provided regular joint audit committee updates covering best practice. We have also shared with you our insights on advanced closure of local authority accounts, in our publication "Transforming the financial reporting of local authority accounts" and will continue to provide you with our insights as you bring forward your production of your year-end accounts.

Providing training – we provided training on accounts issues. The training was attended by the Chief Accountant.

We will continue to work with you and support you over the next financial year.

# Appendix A: Reports issued and fees

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

## Fees

	Planned £	Actual fees £	2014/15 fees £
Statutory audit of PCC	31,035	31,035	41,380
Statutory audit of Chief Constable	15,000	15,000	20,000
<b>Total fees (excluding VAT)</b>	<b>46,035</b>	<b>46,035</b>	<b>61,380</b>

## Reports issued

Report	Date issued
Joint Audit Plan	March 2016
Joint Audit Findings Report	September 2016
Joint Annual Audit Letter	October 2016



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