



Joint Annual Audit Letter

Year ending 31 March 2018

Gloucestershire Police and Crime Commissioner and Gloucestershire Chief Constable

31 August 2018



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Executive Summary

Purpose

Our Joint Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out for the Police and Crime Commissioner for Gloucestershire (the PCC) and the Chief Constable for Gloucestershire (the Chief Constable) for the year ended 31 March 2018.

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 and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the Joint Audit Committee in our Joint Audit Findings Report on 27 July 2018.

Our work

Materiality	We determined materiality for the audit of the group and PCC and Chief Constable's financial statements to be £2,152,000, which is 2% of the Chief Constable's gross revenue expenditure.
Financial Statements opinion	We gave unqualified opinions on the group and PCC and Chief Constable financial statements on 30 July 2018.
Whole of Government Accounts (WGA)	We issued our assurance statement on the PCC and Chief Constable's consolidation return following guidance issued by the NAO.
Use of statutory powers	We did not identify any matters which required us to exercise our additional statutory powers.
Value for Money arrangements	We were satisfied that the PCC and Chief Constable each put in place proper arrangements to ensure economy, efficiency and effectiveness in the use of resources. We reflected this in our audit reports to the PCC and Chief Constable on 30 July 2018.
Certificate	We certify that we have completed the audit of the accounts of the group and PCC and the Chief Constable in accordance with the requirements of the Code of Audit Practice.

Working with the PCC and Chief Constable

During the year we have delivered a number of successful outcomes with you including:

- An efficient audit – we delivered an efficient audit with you in June, reporting to the Audit Committee on 27 July 2018 and signing the audit opinions on 30 July 2018.
- Sharing our insight – we provided regular audit committee updates covering best practice. We also shared our thought leadership reports.
- Providing training – we provided your finance team with free training on financial accounts and annual reporting issues in advance of the year end to ensure that they were aware of latest accounting developments.

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

Respective 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 group and PCC and the 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 audit of the group and PCC and Chief Constable financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

Audit of the Accounts

Our audit approach

Materiality

In our audit of the group and PCC and Chief Constable financial statements, 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 the audit of the group accounts to be £2,152,000, which is 2% of the Chief Constable's gross revenue expenditure.

We set a lower threshold of £108,000, above which we reported errors to Those Charged With Governance (the PCC and Chief Constable as Corporations Sole) in our Joint Audit Findings Report.

The scope of our audit

Our audit involves obtaining sufficient 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 accounting policies are appropriate, have been consistently applied and adequately disclosed;
- the 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 remainder of the Statement of Accounts and the narrative report and annual governance statement published alongside the Statement of Accounts to check they are consistent with our understanding of the group and PCC and Chief Constable, and with the financial statements included in the Statement of Accounts on which we gave our opinions.

We carry out our audits in accordance with ISAs (UK) and the NAO Code of Audit Practice. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Our audit approach is based on a thorough understanding of the PCC 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

Significant Audit Risks

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

Risks identified in our audit plan	Relevant to PCC or Chief Constable?	Findings
<p>Management override of controls</p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management override of controls is present in all entities. The PCC and Chief Constable face external scrutiny of their spending, and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>Management override of controls is a risk requiring special audit consideration.</p>	Both	<p>We:</p> <ul style="list-style-type: none"> gained an understanding of the accounting estimates, judgements applied and decisions made by management and consider their reasonableness; obtained a full listing of journal entries and identified and subsequently tested any unusual journal entries for appropriateness; and evaluated the rationale for any changes in accounting policies or significant unusual transactions or estimates. <p>Our audit work did not identify any issues in respect of management override of controls.</p>
<p>Valuation of property, plant and equipment</p> <p>A full desktop valuation of the PCC's land and buildings was performed as at 31 March 2018. This represents a significant estimate by management in the financial statements.</p> <p>We identified the valuation of land and buildings revaluations and impairments as a risk requiring special audit consideration.</p>	PCC	<p>We:</p> <ul style="list-style-type: none"> reviewed management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work; considered the competence, expertise and objectivity of any management experts used; discussed the basis on which the valuation is carried out and challenged the key assumptions where appropriate; reviewed and challenged the information used by the valuer to ensure it was robust and consistent with our understanding; tested revaluations made during the year to ensure they were input correctly into the Force's asset register; and 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. <p>Our audit work did not identify any issues in respect of property, plant and equipment valuations.</p>

Audit of the Accounts

Significant Audit Risks

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

Risks identified in our audit plan	Relevant to PCC or Chief Constable?	Findings
<p>Valuation of pension fund net liability</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 fund liability as reflected in the balance sheet and notes to the accounts also 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>We identified the valuation of the pension net liability as a risk requiring special audit consideration.</p>	<p>Chief Constable (and group)</p>	<p>We:</p> <ul style="list-style-type: none"> identified the controls put in place by management to ensure that the pension fund liability is not materially misstated. We also assessed whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement; evaluated the competence, expertise and objectivity of the actuary who carried out your pension fund valuations and gained an understanding of the basis on which the valuations were carried out; undertook procedures to confirm the reasonableness of the actuarial assumptions made; checked the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial reports; and gained assurances over the data provided to the actuary to ensure it was robust and consistent with our understanding. <p>Our audit work did not identify any issues in respect of the valuation of the pension fund net liability.</p>
<p>Transfer of Pension Service Provider</p> <p>The Police Pension Service provider transferred from Capita Pensions to Kier Pensions in the financial year.</p> <p>There is a risk that the pension data transferred between providers is not complete.</p>	<p>Chief Constable (and group)</p>	<p>We:</p> <ul style="list-style-type: none"> documented our understanding of management's processes and controls related to the transfer of data from Capita to Kier; reviewed the parallel runs undertaken by Kier and Capita in December 2017 to ensure that both service organisations were processing the same transactions and data; reviewed the closing member numbers per Capita to the opening member numbers per Kier with follow up of any significant differences; and reviewed the closing and opening of bank accounts in relation to the pension payments and followed up on any reconciliations performed. <p>Our audit work did not identify any issues in respect of the transfer of the police pension service provider.</p>

Audit of the Accounts

Audit opinion

We gave unqualified opinions on both the group and PCC and Chief Constable's financial statements on 30 July 2018, in advance of the national deadline.

Preparation of the accounts

The PCC and Chief Constable presented us with draft accounts in accordance with the national deadline, 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 to the Joint Audit Committee on 27 July 2018.

We did not report any adjusted errors and only reported a small number of disclosure and misclassification issues. We reported two unadjusted errors in relation to overtime expenditure and seconded officer income and expenditure.

Annual Governance Statement and Narrative Report

We are required to review the PCC's and Chief Constable's Annual Governance Statements and Narrative Reports. These are published on the websites in the Statement of Accounts in line with the national deadlines.

The documents were prepared in line with the CIPFA Code and relevant supporting guidance. We confirmed that both documents were consistent with the financial statements prepared by the PCC and Chief Constable and with our knowledge.

Certificate of closure of the audit

We are also required to certify that we have completed the audit of the accounts of the group and PCC and the Chief Constable in accordance with the requirements of the Code of Audit Practice. We issued these certificates with our audit opinions on 30 July 2018.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in November 2017 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.

Overall Value for Money 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 the use of resources for the year ending 31 March 2018.

Value for Money conclusion

Risk identified in our audit plan	Findings and conclusions
<p>Financial Strategy and position</p> <p>Gloucestershire Police have been required to deliver substantial savings since 2010/11, and forecast significant savings requirements going forward.</p> <p>The latest funding settlement announcement in December 2017 provides a better than anticipated financial outlook, however significant savings and strong financial management will still be required.</p>	<p>The revenue budget outturn was a very small overspend of £0.072m (0.07%), which was funded through reserves. The non-consolidated pay award was funded through the revenue budget contingency in year, though the original plan was to fund this additional cost from reserves.</p> <p>The MTFP to 2021/22 was updated following the December 2017 funding settlement announcement which gave the PCC the option to increase the precept by up to £1 per month for an average Band D property, which materially changed the funding options available to the PCC. This updated MTFP includes the same savings target as the pre-funding settlement version, a total of £3.538m over the life of the MTFP, however the additional precept increase provides an additional £1.711m of funding in 2018/19 for the key priority areas of local policing, child protection and body worn video. Revenue budgets are balanced throughout the MTFP after the assumed savings, with £1.439m of savings required in 2018/19 for which schemes have been fully identified.</p> <p>The increased precept in 2018/19 provides funds for investment in the priority areas of local policing, child protection and body worn video. These areas link directly to the Police and Crime Plan, and also map across to the Constabulary's Corporate Strategy. This ensures that the vision and strategic direction of the two organisations are aligned. The Constabulary introduced a new neighbourhood policing offer in 2017/18, and an element of the additional precept funding has been used to support local policing. This is also the case for body-worn video investment, and both of these programmes directly link to the 'Stay local' and 'Go digital' elements of the Constabulary Corporate Strategy.</p> <p>Review of the key assumptions used in the production of the MTFP suggests that they are reasonable and are broadly in line with those adopted by Gloucestershire's neighbouring forces. Gloucestershire's precept assumption for 2019/20 is currently more prudent than we are seeing used at the majority of the police sector, the MTFP is modelled on a 2% increase in 2019/20 rather than the £12 per annum for a Band D property which is being used by a number of other areas. This provides additional flexibility should it be required to reduce savings requirements or to react to changes in other assumptions, such as any potential impact of a funding formula review.</p> <p>The capital plan is balanced over the period to 2021/22 without the need to undertake any additional borrowing, however the plan only includes provisions for asset replacement programmes and the completion of already begun capital schemes. At the time of our audit the Estates Strategy was being developed. There is an intention to update the capital plan and associated funding assumptions once this work is finished.</p> <p>A national comparison by the Home Office showed that as a percentage of the total funding, the PCC held higher reserves than the national average at 31 March 2017, though the MTFP forecasts that by 31 March 2022 earmarked revenue and capital reserves will have fallen significantly to £2.7m, with an additional £4.955m in the General Reserve. The PCC has published a reserves strategy that sets out how the earmarked reserves will be utilised over the short to medium term.</p> <p>The Constabulary have begun to consider how the future year savings will be delivered, and are currently planning a review to realign budgets with priorities and identify future recurrent savings. With balanced revenue budgets until 2021/22 and reasonably modest savings requirements, the Constabulary has sufficient time to properly consider its savings opportunities for the medium to long term.</p> <p>Taking the above information into account, we concluded that the risk was sufficiently mitigated and the PCC and Chief Constable each has proper arrangements for informed decision making and sustainable resource deployment.</p>

A. Reports issued and fees

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

Reports issued

Report	Date issued
Joint Audit Plan	15 March 2018
Joint Audit Findings Report	23 July 2018
Joint Annual Audit Letter	31 August 2018

Audit fees

	Proposed fee	Final fee
Police and Crime Commissioner audit	£31,035	£31,035
Chief Constable audit	£15,000	£15,000
Total	£46,035	£46,035

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



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