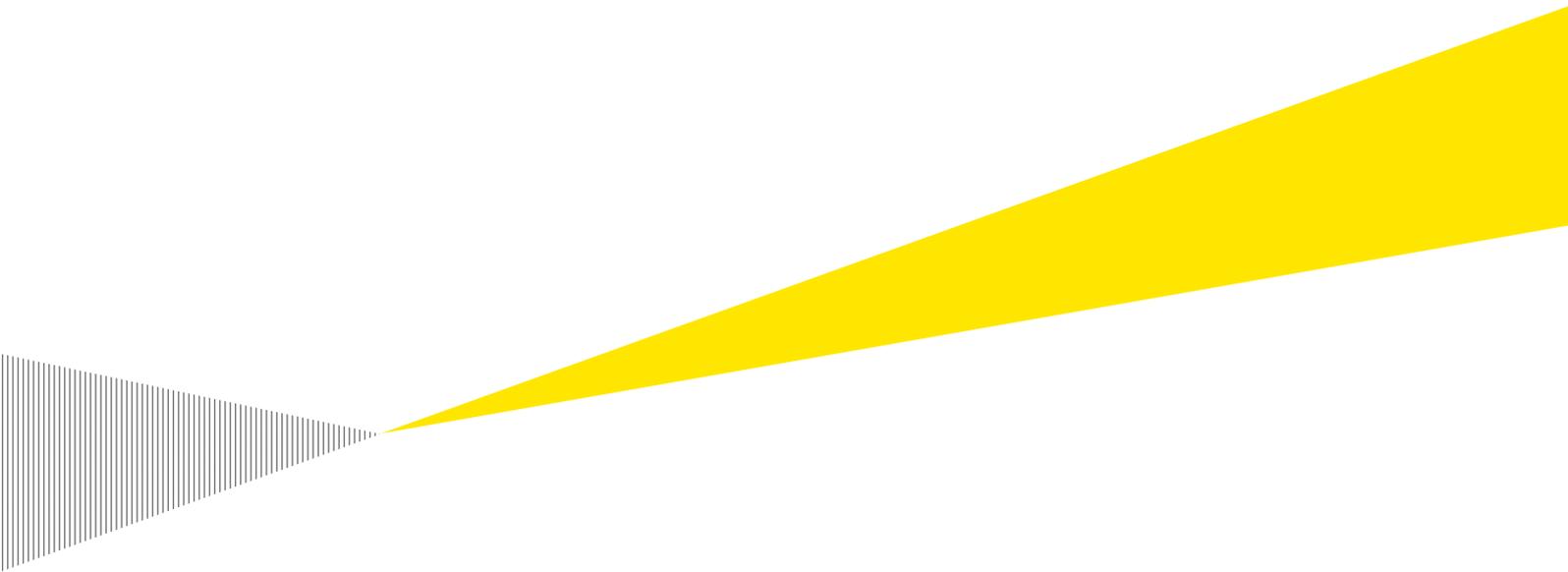


# Annual Audit Letter

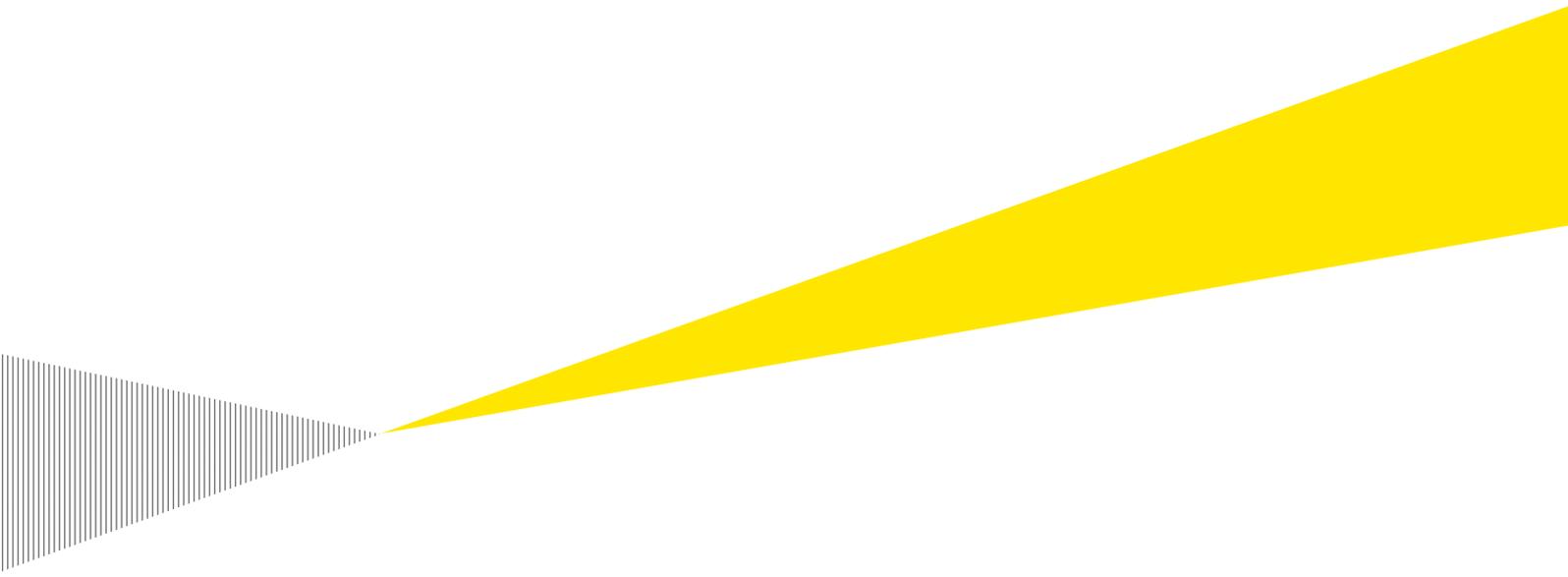
The Police and Crime Commissioner for Suffolk and the  
Chief Constable of Suffolk

31 October 2014



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Ernst & Young LLP  
400 Capability Green  
Luton  
Bedfordshire LU1 3LU

Tel: 01582 643000  
Fax: 01582 643001  
www.ey.com/uk

31 October 2014

Tim Passmore  
The Police and Crime Commissioner for Suffolk  
Office of the Police and Crime Commissioner for Suffolk  
Martlesham Heath  
Ipswich  
Suffolk  
IP5 3QS

Douglas Paxton  
The Chief Constable of Suffolk  
Police Headquarters  
Martlesham Heath  
Ipswich  
Suffolk  
IP5 3QS

Dear Tim and Douglas,

## Annual Audit Letter

The purpose of this Annual Audit Letter is to communicate to those charged with governance (the Police and Crime Commissioner (PCC) for Suffolk and the Chief Constable (CC) of Suffolk) and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to their attention.

We have already reported the detailed findings from our audit work to those charged with governance in the following report:

2013/14 Audit Results Report for the PCC for Suffolk and the CC of Suffolk	Issued 15 September 2014
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The matters reported here are the most significant for the PCC for Suffolk and the CC of Suffolk.

I would like to take this opportunity to thank the officers of the PCC for Suffolk and the CC of Suffolk for their assistance during the course of our work.

Yours faithfully

Neil A Harris  
Audit Director  
For and behalf of Ernst & Young LLP  
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In April 2014 the Audit Commission issued a revised version of the ‘Statement of responsibilities of auditors and audited bodies’ (Statement of responsibilities). It is available from the accountable officer of each audited body and via the [Audit Commission’s website](#).

The Statement of responsibilities serves as the formal terms of engagement between the Audit Commission’s appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The Standing Guidance serves as our terms of appointment as auditors appointed by the Audit Commission. The Standing Guidance sets out additional requirements that auditors must comply with, over and above those set out in the Code of Audit Practice 2010 (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Annual Audit Letter is prepared in the context of the Statement of responsibilities. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

## Executive summary

Our 2013/14 audit work has been undertaken in accordance with the Audit Plan we issued on 18 March 2014 and is conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

The PCC for Suffolk and the CC of Suffolk are responsible for preparing and publishing their Statement of Accounts, accompanied by an Annual Governance Statement. In the Annual Governance Statements, the PCC for Suffolk and the CC of Suffolk report publicly on an annual basis on the extent to which they comply with their own codes of governance, including how they have monitored and evaluated the effectiveness of their governance arrangements in the year, and on any planned changes in the coming period. The PCC for Suffolk and the CC of Suffolk are also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in their use of resources.

As auditors we are responsible for:

- ▶ Forming an opinion on the financial statements;
- ▶ Reviewing the Annual Governance Statements;
- ▶ Forming a conclusion on the arrangements that the PCC for Suffolk and the CC of Suffolk have in place to secure economy, efficiency and effectiveness in their use of resources; and
- ▶ Undertaking any other work specified by the Audit Commission.

Summarised below are the conclusions from all elements of our work:

<p>Audit the group and individual financial statements of the PCC for Suffolk and the CC of Suffolk and the Suffolk Police Pension Fund for the financial year ended 31 March 2014 in accordance with International Standards on Auditing (UK &amp; Ireland)</p>	<p>On 25 September 2014 we issued an unqualified audit opinion in respect of the group and individual financial statements of PCC for Suffolk and the CC of Suffolk and the Suffolk Police Pension Fund.</p>
<p>Form a conclusion on the arrangements the PCC for Suffolk and the CC of Suffolk have made for securing economy, efficiency and effectiveness in their use of resources.</p>	<p>On 25 September 2014 we issued an unqualified value for money conclusion.</p>
<p>Issue a report to those charged with governance (the PCC for Suffolk and the CC of Suffolk) communicating significant findings resulting from our audit of the financial statements and the Suffolk Police Pension Fund.</p>	<p>On 23 September 2014 we presented our Audit Results Report to the PCC for Suffolk and the CC of Suffolk.</p>
<p>Report to the National Audit Office on the accuracy of the consolidation pack the PCC for Suffolk and the CC of Suffolk are required to prepare for the Whole of Government Accounts.</p>	<p>We reported our findings to the National Audit Office on 25 September 2014.</p>

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<p>Consider the completeness of disclosures in the PCC for Suffolk and the CC of Suffolk's Annual Governance Statements, identify any inconsistencies with the other information of which we are aware from our work and consider whether it complies with CIPFA / SOLACE guidance.</p>	<p>Management amended the Annual Governance Statements to include specific reference for several items, the most significant concerned:</p> <ul style="list-style-type: none"><li>▶ Include disclosures for action being taken to address significant findings from Internal Audit reports and the financial position of the PCC for Suffolk and the CC of Suffolk.</li></ul>
<p>Consider whether, in the public interest, we should make a report on any matter coming to our notice in the course of the audit.</p>	<p>We did not issue such a report.</p>
<p>Determine whether any other action should be taken in relation to our responsibilities under the Audit Commission Act.</p>	<p>We did not take such action.</p>
<p>Issue a certificate that we have completed the audit in accordance with the requirements of the Audit Commission Act 1998 and the Code of Practice issued by the Audit Commission.</p>	<p>On 25 September 2014 we issued our audit completion certificate.</p>

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# Key findings

## Financial statement audit

We audited the Statement of Accounts of the PCC for Suffolk and the CC of Suffolk in line with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission. We issued an unqualified audit report on 25 September 2014.

In our view, the quality of the process for producing the accounts, including the supporting working papers was good.

The main issues identified as part of our audit were:

### Significant risk 1: Presentation of the financial statements for the PCC for Suffolk and the CC of Suffolk, including group accounting

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- ▶ The presentation of the 2012/13 financial statements was based on the single overarching principal and agent relationship between the PCC and CC.
  - ▶ In March 2014, CIPFA and the Audit Commission issued guidance that the existence of distinct responsibilities under statute relating individually to the PCC and CC, particularly CC for operational policing, meant that a single overarching principal and agent relationship between the PCC and CC cannot exist.
  - ▶ As a result the PCC for Suffolk and the CC of Suffolk re-stated their accounts based on a prior period adjustment because of a change in accounting policy, reflecting the evolution of guidance and embedding of the governance, strategic, financial and operational relationship between the PCC and CC.
  - ▶ Management amended the financial statements in line with revised guidance.
  - ▶ The PCC and CC have adequately re-stated their financial statements for 2013/14 and 2012/13 (prior period) to recognise the CC acting as Principal for operational policing.
  - ▶ The CC accounts now include income, expenditure and liabilities associated with operational policing activities, the most significant of which is police officer costs and pensions liabilities.
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### Significant risk 2: Risk of Fraud and Error

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- ▶ We obtained reasonable assurance as to whether both sets of financial statements as a whole are free of material misstatements whether caused by error or fraud.
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### Significant risk 3: Risk of Management Override

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- ▶ We obtained reasonable assurance as to whether both sets of financial statements as a whole are free of material misstatements because of management override of controls.
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### Other key findings:

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Management corrected for all the misstatements we identified within the financial statements. None of these adjustments impacted on the overall useable reserves of the PCC and CC.

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## Value for money conclusion

We are required to carry out sufficient work to conclude on whether the PCC for Suffolk and the CC of Suffolk have put in place proper arrangements to secure economy, efficiency and effectiveness in their use of resources.

In accordance with guidance issued by the Audit Commission, in 2013/14 our conclusion was based on two criteria:

- ▶ The organisation has proper arrangements in place for securing financial resilience; and
- ▶ The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

We issued an unqualified value for money conclusion on 25 September 2014. We addressed the following significant and other risks as part of our audit.

### Significant Risk 1: Medium Term Financial Plan

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- ▶ In its July 2014 report, Policing in Austerity, Her Majesty's Inspectorate of Constabulary (HMIC) recognised that the CC of Suffolk's response to the financial challenge of the spending review to date has been good. However, HMIC judged that the CC required improvement as regards taking the necessary steps to ensure a secure financial position for the short and long term. HMIC recognise that close collaboration with Norfolk Constabulary has enabled the CC to make savings it has to date. However, economies of scale may not be available in the future leading to significant reductions in police officers, impacting on service delivery.
- ▶ Our work noted that management had drafted a revised Medium Term Financial Plan (MTFP) in July 2014 for the period 2014/15 to 2017/18, based at present on no increase in council tax for which a government freeze grant may be receivable.
- ▶ The July MTFP continues to show a total deficit position for the PCC and CC of £16.4 million by 2017/18. Of this sum, the element without attached savings plans is £11.4 million by 2017/18.
- ▶ The PCC and CC are aware of the need to progress savings plans and in response, the PCC and CC have established governance structures to progress a range of projects to address the £11.4 million gap in savings. These include:
  - ▶ Establishing a Suffolk Change Programme Board to oversee saving plans to achieve £9.9 million savings; and
  - ▶ Using the Autumn 2014 budget meetings to secure £1.5 million non-pay related savings.
- ▶ Managing the scale and phasing of the savings programme to ensure that structures can accommodate the changes required represents a significant challenge for the CC.
- ▶ If savings aren't achieved, the PCC and CC would on current projections need to draw on the General Fund balance of £5 million by 2016/17 to achieve a balanced budget, with all reserves exhausted by 2017/18.
- ▶ To secure the ongoing sustainability of the PCC's and CC's financial position and the ability to maintain service levels in future years, the PCC and CC will need to:
  - ▶ Develop robust plans quickly;
  - ▶ Manage the process of change so as to not impact adversely on service delivery;
  - ▶ Drive through the savings required;
  - ▶ Consider carefully the impact of any decisions to continue to freeze council tax; and
  - ▶ Review continually the levels of reserves to support the PCC's and CC's finances.
- ▶ Since our work, the CC of Suffolk reported to the HMIC in September 2014 on progress indicating that since July 2014, the CC has identified savings plans of £9.6 million towards the £16.4 million required with plans to address the remaining £6.8 million.

### Other Risks:

- ▶ We had no issues to report from our review of the budget setting process for 2014/15.
- ▶ Our review of other governance arrangements within the Office of the PCC noted that:
  - ▶ The Home Office had approved the PCC's plans to transfer staff from the Office of the PCC to the CC by 31 March 2014;
  - ▶ Mechanisms are in place for the PCC to hold the CC to account; and
  - ▶ The Office of the PCC had developed arrangements to ensure that commissioning monies are expended on schemes that will deliver the desired outcomes.

## Objections received

No objections were received in respect of the 2013/14 financial statements.

## Whole of government accounts

We reported to the National Audit office on 25 September 2014 the results of our work performed in relation to the accuracy of the consolidation pack the PCC for Suffolk and the CC of Suffolk is required to prepare for the whole of government accounts. We did not identify any material areas of concern.

## Annual governance statement

We are required to consider the completeness of disclosures in the Annual Governance Statements for the PCC for Suffolk and the CC of Suffolk, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it complies with CIPFA / SOLACE guidance.

Management amended the Annual Governance Statements to:

- ▶ Include disclosures for action being taken to address significant findings from Internal Audit reports and the financial position of the PCC for Suffolk and the CC of Suffolk.

## Audit fees

Our March 2014 Audit Plan recorded planned fees in line with the Audit Commission's scale fee for the audit. Since we issued the Plan, we have proposed the following increases to the scale fee.

	Proposed final fee 2013/14 £'000	Planned fee 2013/14 £'000	Scale fee 2013/14 £'000	Explanation of variance
Total Audit Fee – PCC Code work	<b>44</b>	42	42	We are proposing a scale variation increase of £1,512 for work on financial resilience
Total Audit Fee – CC Code work	<b>24</b>	20	20	We are proposing a scale variation increase of £3,780 for work on financial resilience
Non-audit work (provide details)	0	0	0	

Management has agreed the proposed scale fee variation increases of £1,512 and £3,780, but these fees are still subject to agreement by the Audit Commission.

## Control themes and observations

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Our audit is not designed to express an opinion on the effectiveness of internal control. However, we communicate, as required, to those charged with governance (the PCC for Suffolk and the CC of Suffolk) any significant deficiencies in internal control.

The matters reported are shown below and are limited to those deficiencies that we identified during the audit and that we concluded are of sufficient importance to merit being reported.

Description	Impact
We have not identified any material weakness in the design or operation of an internal control that might result in a material error in your financial statements.	No action required.
Our 2012/13 report noted that the PCC and CC did not advertise the audit in accordance with the Accounts and Audit Regulations 2011.	Both the PCC and CC have met the requirements of the Regulations for 2013/14.
Previous audit reports have reported weaknesses within the register to support Property, Plant and Equipment.	Management continue to respond to audit requests and provide reports to support disclosures to the financial statements. Management are seeking to address the issue through the Enterprise Resource Planning System from 1 April 2015.
A significant challenge during 2014/15 is the introduction across both Suffolk and Norfolk Constabularies of the Enterprise Resource Planning (ERP) system to support Human Resources, Duties, Finance, Procurement and Payroll. The ERP will assist joint working and improve the efficiency of support departments to enable savings to be realised. The system is due to start in April 2015.	The Constabularies are managing the risks associated with the project implementation, including that of the transfer of legacy data.

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Ernst & Young LLP, 1 More London Place, London, SE1 2AF.

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