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Dear Kevin,

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

Understanding your management processes and arrangements

Thank you for your letters of 15 March 2017.

As you will be aware, the CC CFO role was undertaken by Phillip Clayton in the early part of 2014-15, following which, Peter Jasper fulfilled the role for the remainder of the financial year ending 31 March 2015 and up to 30 April 2015. With effect from 1 May 2015 I assumed responsibility for both CFO roles supporting the PCC and CC.

Please find below responses to the various questions contained within your letters. Where relevant, individual PCC or CC comments have been included.

1. What are the management processes in relation to:

- ▶ **Undertaking an assessment of the risk that the financial statements may be materially misstated due to fraud or error (including the nature, extent and frequency of these assessments).**

The financial statements are prepared in line with the IFRS Code of Practice and are subject to internal quality assurance arrangements that review areas of highest risk. The accounts are subject to analytical review that would identify major movements between years and seek explanations that would assess the likelihood for material misstatement. The CFO provides managerial support and challenge throughout the preparation of the Statement of Accounts process, particularly in the areas of analytical review.

Key tasks in this area are covered within the agreed Closedown Timetable 2016-17, with responsibilities assigned to individuals and dates for action to be completed included. Compliance with the timetable is monitored throughout the year-end closedown period and reported to senior finance staff, with corrective action taken as required.

On an on-going basis checks are made at a corporate level through the management accounting processes to ensure the accuracy of financial coding.

The officers who prepare the statements are professionally qualified accountants who undertake CPD activities. Their work is segregated where feasible and they work to their professional bodies codes of conduct. The officers will be present at the meeting of the Audit Committee on 22 September 2017 when the Statements of Accounts for 2016-17 are presented, and Audit Committee members' detailed questions will be answered.

Further explanations of controls in place are provided under item number 8 below.

- ▶ **Identifying and responding to risks of fraud in the Police and Crime Commissioner for Suffolk (PCC) and Chief Constable for Suffolk Constabulary (CC), including any specific risks of fraud which management have identified or that have been brought to its attention, or classes of transactions, account balances, or disclose for which a risk of fraud is likely to exist.**

Internal Audit reports their findings to the Audit Committee via 4 main reports (Internal Audit Plan; Annual report; Half-yearly progress report: Review of Effectiveness of the System of Internal Audit) – these reports encapsulate many of the management processes required and the annual report and half-yearly report both contain a paragraph on fraud and notified frauds.

Audits on the main accounting systems are conducted annually and reported to the Audit Committee. Fraud is deterred through the existence of policies and procedures (which include segregation of duties, two authorising signatories required for many transactions etc.) and provides more detail than Financial Regulations. Regular internal audits, vetting of employed or re-employed staff and a whistle blowing policy all contribute to deterring fraud.

In addition to training for all staff and officers, the intranet site is proactively used on a regular basis to remind all officers and staff of their various responsibilities as set out in the various policies and procedures relating to fraud, ethical behaviour and other related matters.

The intranet also contains a highly confidential fraud reporting line, which is highlighted in the approved Confidential Reporting and Whistleblowing Policy (Breaches of Professional Standards) (Policy No.154), and was published on the Constabularies intranet sites on 20 January 2016.

The approved Anti-Fraud and Corruption Policy (Policy No.110) was published on the Constabularies intranet sites on 13 April 2016.

All former and current Audit Committee members are familiar with the Anti-Fraud and Corruption Strategy, which sets out the process for identifying and responding to fraud.

At any point during the preparation of the Statements of Accounts, I have open access to the PCC and CC to discuss any areas of concern pertaining to identifying and responding to risks of fraud in the PCC and Suffolk Constabulary, including any specific risks of fraud which management have identified or that have been brought to its attention, or classes of transactions, account balances, or disclose for which a risk of fraud is likely to exist.

To date, I have been satisfied that the processes summarised above minimise the risk of fraud in the areas described above.

The procedures for identifying and responding to the risk of fraud and possible breaches of internal control are clearly set out in the above-mentioned documents and any such future instances would be dealt with accordingly and reported as necessary.

- ▶ **Communicating to employees its views on business practice and ethical behaviour (for example by updating, communicating and monitoring against the PCC and CC's codes of conduct).**

Both the Office of the PCC and Suffolk Constabulary have adopted the Code of Ethics developed by the College of Policing, and a Joint Integrity Strategy Working Group has been established to implement an action and communication plan designed to raise employees awareness of the importance of the Code of Ethics. The action plan is monitored by the Chief Officer Team, and the Chief Constable reports back to the PCC and Audit Committee. The Audit Committee considered Paper AC 16/22 Update on Embedding of the Code of Ethics at its meeting on 23 September 2016.

The approved Confidential Reporting and Whistleblowing Policy (Breaches of Professional Standards), which was published on the Constabularies intranet sites on 20 January 2016, makes particular reference to the requirements under the Code of Ethics.

In particular regard to standards of conduct, please refer to the PCC and CC draft Annual Governance Statements 2016-17, which will be considered at the Audit Committee on 30 June 2017.

► **Encouraging employees to report their concerns about fraud.**

In addition to training for all staff and officers, the intranet site is proactively used on a regular basis to remind all officers and staff of their various responsibilities as set out in the various policies and procedures relating to fraud, ethical behaviour and other related matters.

The intranet also contains a highly confidential fraud reporting line, which is highlighted in the approved Confidential Reporting and Whistleblowing Policy (Breaches of Professional Standards) (Policy No.154), and was published on the Constabularies intranet sites on 20 January 2016.

The approved Anti-Fraud and Corruption Policy (Policy No.110) was published on the Constabularies intranet sites on 13 April 2016.

► **Communicating to the PCC and CC (i.e. those charged with governance) the processes for identifying and responding to fraud or error.**

The Anti-Fraud and Corruption Strategy approved by the former M&A Committee on 17 April 2009 brought together in a single document a number of inter-related strands covering the Police Authority and Constabulary's policies and procedures; the required standards of behaviour, the steps taken in preventing fraud and corruption; the detection and investigation arrangements in relation to suspected cases of fraud and corruption, and the arrangements in relation to suspected cases of fraud and corruption, and the arrangements for promoting awareness and commitment to providing relevant training.

The approved Anti-Fraud and Corruption Policy (Policy No.110) was published on the Constabularies intranet sites on 13 April 2016, the detail is understood by the PCC and CC.

The procedures for identifying and responding to the risk of fraud and possible breaches of internal control are clearly set out in the above-mentioned document and any such instances would be dealt with accordingly and reported as necessary.

2. What are Management's views about whether there are areas within the organisation that are at risk of fraud?

Fraud is deterred through the existence of policies and procedures (which include segregation of duties, two authorising signatories required for many transactions etc.) and provides more detail than Financial Regulations. Regular internal audits, vetting of employed or re-employed staff and a whistle blowing policy all contribute to deterring fraud.

I have not identified any particular areas within the respective organisations that are considered to have a higher risk of fraud than others.

3. Does Management have knowledge of any actual or suspected or alleged instances of fraud?

I have no knowledge of any actual or suspected or alleged instance of fraud in 2016-17.

4. Is Management satisfied that internal controls to prevent and detect fraud, including segregation of duties, exist and work effectively?

Audits on the main accounting systems are conducted annually and the results will be considered by the Audit Committee on 30 June 2017. The main financial systems audits covering the general ledger, treasury management, expenditure systems, income systems, payroll systems and procedures, and capital expenditure controls, were all assessed as either 'substantial' or 'reasonable' assurance. Other aspects of the annual audit planned work assess the effectiveness of internal controls, including segregation of duties, with any weaknesses being addressed following the audits.

Please refer to item number 2 above with regard to segregation of duties and item number 1 (bullet point 4) above in respect of controls in place to help prevent, deter, and detect fraud.

In the knowledge of the controls that are in place and the various positive audit conclusions that have been reached, I am satisfied that internal controls, including segregation of duties, exist and work effectively and that there are controls in place to prevent, deter and detect fraud.

5. Are there any deficiencies in internal control?

At its meeting on 30 June 2017 the Audit Committee will consider two papers, a) A Review of the Effectiveness of the System of Internal Control 2016-17, and b) The Annual Assurance Report 2016-17, which I anticipate will include recommendations that the review of the effectiveness of internal audit work can be relied upon as a source of evidence, and that the Audit Committee can take assurance in the operation of internal controls.

6. Are you aware of any instances where controls have been overridden?

I am not aware of any instances where controls have been overridden.

7. Is there any organisational or management pressure to meet financial or operating targets?

I consider that the financial and operational performance measures are openly and jointly agreed between the PCC and Chief Constable, and I am not aware of any inappropriate organisational or management pressure, or incentives offered, either to me or my colleagues to meet such targets.

Responsibility for monitoring achievement against jointly agreed targets rests with the Accountability and Performance Panel of the PCC.

8. Are there any particular areas of the accounts that are more susceptible to false entries or omissions or other forms of manipulation? Are management aware of any such manipulation having occurred?

The financial statements are prepared in line with the IFRS code of Practice and are subject to internal quality assurance arrangements that review areas of highest risk. I provide managerial support and challenge throughout the preparation of the Statement of Accounts process, particularly in areas of analytical review. Segregation of duties is rigorously applied across the Constabulary and PCC functions, ranging from the ordering and receipt of goods and services through to the authorisation of payments to staff and suppliers.

In regard to prepayments and accruals included in the draft Statements of Accounts, there is a clear audit trail for individual entries, including where appropriate, detailed calculations. There are no risk factors which are high risk of fraud. As a consequence of these (and other) controls being in place, I am confident that there are no accounting entries that I believe or suspect to be false or intentionally misleading in the draft Statements of Accounts.

9. How does management gain assurance that all relevant laws and regulations have been complied with? Have there been any instances of non-compliance during 2016-17?

Each year the PCC and Chief Constable, as corporations' sole and thereby separate legal entities, must by virtue of the Accounts and Audit Regulations 2015, each produce Annual Governance Statements (AGS). Draft PCC AGS and CC AGS covering 2016-17 will be considered at the Audit Committee on 30 June 2017.

The preparation and publication of an Annual Governance Statement in accordance with the publication "Delivering Good Governance: Guidance Note for Policing Bodies in England and Wales issued by CIPFA in July 2016 is necessary to meet this statutory obligation.

The draft PCC AGS and CC AGS have been produced in accordance with the template provided for in the CIPFA Guidance. The template required a number of areas to be addressed, including:

- undertaking the core functions of an audit committee, as identified in CIPFA's Audit Committee – Practical Guidance for Local Authorities;
- ensuring compliance with relevant laws and regulations, internal policies and procedures and that expenditure is lawful;
- whistle blowing and for receiving and investigating complaints from the public and handling citizen and other redress;
- identifying the development needs of members and senior officers in relation to their strategic roles, supported by appropriate training.

There have been no reported breaches of relevant laws and regulations during 2016-17.

10. Are there any actual or potential litigation or claims that would affect the financial statements?

A review of potential litigation or claims has been undertaken, which concluded that there are potential claims arising from:

- A contractual dispute with Ipswich Town Football Club following the outcome of a judgement in the case between Leeds United Football Club and West Yorkshire Police;
- Municipal Mutual Insurance Ltd (MMI Ltd) ceased trading in 1992, with the full liability of claims not being met by the scheme of arrangements which was put in place;
- The potential underpayment of historic overtime claims from certain staff groups;
- The alleged unlawful discrimination arising from the Transition Provisions in the Police Pension Regulations 2015;
- Detention officers' job evaluation claims dispute;
- The validity of evidence provided by a forensic testing company to the police service is currently under investigation.

These have currently been assessed as a contingent liability; however, the position will be kept under review throughout the period of the audit.

11. How does management satisfy itself that it is appropriate to adopt the going concern basis in preparing the financial statements?

In his Letter of Representation dated 28 September 2012 (relating to the financial year ended 31 March 2012), the former Police Authority Treasurer included reference to being satisfied that it was appropriate to adopt the going concern basis in the preparation of the financial statements, having taken note of a) the impact of known changes in Government policy, b) Accounting Code of Practice paragraph 3.8.2.9 that an intention by government to transfer services from one authority to another does not negate the presumption that the Authority is a going concern, and c) the Authority's operational or business risks, including whether there are sufficient working capital and reserves to help to continue to meet the Authority's objectives.

In terms of financial performance for the year ending 31 March 2017, this will be considered at the Accountability and Performance Panel meeting on 16 June 2017, where the revenue outturn of the Group, after the planned use of specific and earmarked reserves, was an underspend of £0.228m

(0.21% of the net revenue budget). Discussion of the year-end financial position will be set in the context of successfully delivering planned recurring savings of £5.0m in 2016-17, and financially managing the cost of a number of ongoing major operations within the budget approved by the PCC and delegated to the Chief Constable.

Assurance of medium term financial stability is detailed in the PCC's approved Medium Term Financial Plan (MTFP) 2017-18 to 2020-21 (Decision No (9-2017) and the new Police and Crime Plan 2017-2021 (Decision No 2-2017), which balances agreed operational priorities within the financial resources available from Home Office grants, council tax and other income.

The current MTFP shows a recurring savings requirement of £6.757m over the period of the MTFP (2017-18 to 2020-21), of which savings plans of £4.106m have been identified, leaving savings to be identified of £2.651m (including £1.592m in 2018-19). The financial impact on reserves of implementing the MTFP as approved would result in the total reserves being £6.983m as at 31 March 2021.

A joint Norfolk and Suffolk Service and Financial Planning Working Group has been established to oversee development of the Outcome Based Budgeting Tool, which will help inform the savings plans which are being developed to address the savings to be achieved of £2.651m over the period of the MTFP. Discussions continue between the PCC (including the Senior Management Team) and Chief Constable (including Chief Officers) regarding the savings plans options.

Reference has been made in a number of the above responses to the draft PCC and CC Annual Governance Statements which will be considered at the Audit Committee on 30 June 2017. These papers provide a comprehensive summary of the new PCC and CC governance framework comprising the systems, process, culture and values by which they direct themselves and maintain control, and the activities which they account to and engage with the community.

It enables the PCC and CC to monitor the achievements of strategic objectives and to consider whether these objectives have led to the delivery of appropriate, cost-effective services, including achieving value for money. As such, therefore, we would recommend that the draft PCC and CC Annual Governance Statements are read in conjunction with the responses to the specific questions raised, as they provide important context and relevant supplementary information.

I trust this letter provides you with sufficient detail regarding the management processes and arrangements that are in place across the PCC and Constabulary in those areas detailed in your letter. If you require clarification on any of the issues, please do not hesitate to contact us.

Yours sincerely



Chris Bland
PCC and CC CFO