The Police and Crime Commissioner for Norfolk and the Chief Constable of Norfolk Constabulary

Ernst & Young LLP

Annual Audit Letter for the year ended 31 March 2016

October 2016

Building a better working world

Contents

In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued ‘‘Statement of responsibilities of auditors and audited bodies 2015-16’. It is available from the Chief Executive of each audited body and via the PSAA website (www.psaa.co.uk)

The Statement of responsibilities serves as the formal terms of engagement between 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 ‘Terms of Appointment from 1 April 2015’ issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (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

Executive Summary

We are required to issue an annual audit letter to the Police and Crime Commissioner for Norfolk (PCC) and the Chief Constable (CC) of Norfolk Constabulary following completion of our audit procedures for the year ended 31 March 2016.

Below are the results and conclusions on the significant areas of the audit process.

Area of Work	Conclusion
Opinion on the PCC's and CC's: ▸ Financial statements	Unqualified – the financial statements give a true and fair view of the financial position of the PCC Group, the PCC Single Entity, the CC Single Entity and the Police Pension Fund as at 31 March 2016, and of the expenditure and income for the year then ended
▸ Consistency of other information published with the financial statements	Other information published with the financial statements was consistent with the Annual Accounts.
Concluding on the PCC's and CC's arrangements for securing economy, efficiency and effectiveness	We concluded that you have put in place proper arrangements to secure value for money in your use of resources

Area of Work	Conclusion
Reports by exception: ▸ Consistency of Governance Statement	The Annual Governance Statement for the PCC and CC was consistent with our understanding of the PCC and CC.
▸ Public interest report	We had no matters to report in the public interest.
▸ Written recommendations to the PCC and CC, which should be copied to the Secretary of State	We had no matters to report.
▸ Other actions taken in relation to our responsibilities under the Local Audit and Accountability Act 2014	We had no matters to report.

Area of Work	Conclusion
Reporting to the National Audit Office (NAO) on our review of the PCC Group's Whole of Government Accounts return (WGA).	The PCC Group is below the specified audit threshold of £350 million. Therefore, we did not perform any audit procedures on the consolidation pack.

As a result of the above we have also:

Area of Work	Conclusion
Issued a report to the PCC and CC as those charged with governance communicating significant findings resulting from our audit.	Our Audit Results Report was issued on 20 September 2016 and discussed with the Audit Committee on 27 September 2016.
Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2015 Code of Audit Practice.	Our certificate was issued on 30 September 2016.

We would like to take this opportunity to thank the Office of the PCC and CC staff for their assistance during the course of our work.

Kevin Suter

Executive Director
Luton
For and on behalf of Ernst & Young LLP, Appointed Auditor

Purpose

Purpose

The Purpose of this Letter

The purpose of this annual audit letter is to communicate to external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to the attention of the PCC and CC.

We have already reported the detailed findings from our audit work in our 2015/16 Audit Results Report to the 27 September 2016 Audit Committee. We do not repeat those detailed findings in this letter. The matters reported here are the most significant for the PCC and CC.

Responsibilities

Responsibilities

Responsibilities of the Appointed Auditor

Our 2015/16 audit work has been undertaken in accordance with the Audit Plan that we presented to the 10 March 2016 Audit Committee and is conducted in accordance with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office.

As auditors we are responsible for:

- Expressing an opinion:
  - On the 2015/16 financial statements; and
  - On the consistency of other information published with the financial statements.
- Forming a conclusion on the arrangements the PCC and CC have to secure economy, efficiency and effectiveness in their use of resources.
- Reporting by exception:
  - If the annual governance statement for the PCC and CC are misleading or not consistent with our understanding of the PCC and CC;
  - Any significant matters that are in the public interest;
  - Any written recommendations to the PCC and CC, which should be copied to the Secretary of State; and
  - If we have discharged our duties and responsibilities as established by thy Local Audit and Accountability Act 2014 and Code of Audit Practice.

Alongside our work on the financial statements, we also review and report to the National Audit Office (NAO) on you Whole of Government Accounts return. The PCC Group is below the specified audit threshold of £350 million. Therefore, we did not perform any audit procedures on the return

Responsibilities of the PCC and CC

The PCC and CC are responsible for preparing and publishing the statements of accounts accompanied by an Annual Governance Statement. In the AGS, the PCC and CC reports publicly each year on how far they comply with their own code of governance, including how they have monitored and evaluated the effectiveness of their governance arrangements in year, and any changes planned in the coming period.

The PCC and CC are also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in their use of resources.

Financial Statement Audit

Financial Statement Audit

Key Issues

The PCC's and CC's Statements of Accounts are an important tool for the PCC and CC to show how they have used public money and how they can demonstrate their financial management and financial health.

We audited the Statements of Accounts in line with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office and issued an unqualified audit report on 30 September 2016.

Our detailed findings were reported to the 27 September 2016 Audit Committee.

The key issues identified as part of our audit were as follows:

Significant Risk	Conclusion
Management override of controls A risk present on all audits is that management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly, and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Auditing standards require us to respond to this risk by testing the appropriateness of journals, testing accounting estimates for possible management bias and obtaining an understanding of the business rationale for any significant unusual transactions.	We did not identify any evidence of material management override. We obtained a full list of journals posted to the general ledger during the year, and analysed these journals using criteria we set to identify any unusual journal types or amounts. We then tested a sample of journals that met our criteria and tested these to supporting documentation. We had no matters to report. Our review of accounting estimates did not identify any evidence of management bias. We did not identify any instances of inappropriate judgements being applied. We did not identify any other transactions during our audit which appeared unusual or outside the PCC and CC's normal course of business

Revenue and expenditure recognition Auditing standards also required us to presume that there is a risk that revenue and expenditure may be misstated due to improper recognition or manipulation. We respond to this risk by reviewing and testing material revenue and expenditure streams and revenue cut-off at the year end. For local authorities, including Police bodies, the potential for the incorrect classification of revenue spend as capital is a particular area where there is a risk of management override. We therefore review capital expenditure on property, plant and equipment to ensure it meets the relevant accounting requirements to be capitalised.	Our testing did not reveal any material misstatements with respect to revenue and expenditure recognition. Overall our audit work did not identify any issues or unusual transactions which indicated that there had been any misreporting of the PCC's and CC's financial position. We did not find errors from testing cut-off processes. Our testing did not identify any expenditure which had been inappropriately capitalised.
New Enterprise Resource Planning System Suffolk and Norfolk Constabularies have implemented the new Enterprise Resource Planning (ERP) system to support Human Resources, Duties, Finance, Procurement and Payroll. The ERP system aims to assist joint working and improve the efficiency of support departments to enable savings to be realised. The system was implemented in April 2015. We are aware that there were problems on inception and as this will be the first year that the financial statements are produced using the new ERP system there is a risk that the statements may be materially misstated.	Our review of the transfer of financial information and payroll data indicated that management had appropriate governance and control procedures in place to highlight and address errors arising from the transfer of data. · We did not identify any significant control deficiencies from our walk-through of key processes and controls; · Our mapping of the trial balance did not identify any coding anomalies; · Our review of balance sheet opening balances did not highlight any balances that had not migrated correctly from the previous system; · We did not find any issues of misclassification from our expenditure testing; and · Our testing of journal entries recorded in the general ledger and other adjustments have not identified incorrectly classified significant balances.

Other Key Findings	Conclusion
The PCC and CC published the relevant documents on their respective websites in time for the public inspection period beginning 1 July 2016. However, the PCC and CC did not publish the Annual Governance Statement on the same date.	We did not consider any further formal reporting was required as the PCC and CC corrected the omission by mid July 2016. We judged this would give the public sufficient time to consider all documents fully. The PCC and CC produced a good a good set of accounts, especially considering the work involved following the change in the financial system from 1 April 2015. Management prepared working papers for the first week of the audit visit of 25 July but best practice is to do this for the signing of the financial statements by the Section 151 Officer. As the timetable moves to 31 May in 2017/18, management needs to bring forward its preparations to meet this date. A specific area of focus is that management had difficulty in obtaining payroll reports to support our analytics data, which delayed our audit in this area.
The financial statements for the PCC Group and PCC Single Entity contain prior period adjustments for the material PFI grant of £3.3 million and Home Office grant of £16.6 million for 2014/15. Management identified the adjustments following the harmonisation of financial processes between Norfolk and Suffolk Constabularies. In previous years the PCC and Group has shown: · The PFI grant within taxation and non-specific grant income. The restatement includes the grant within the net cost of services; and · The Home Office grant in the Comprehensive Income and Expenditure Statement (CIES) within other operating expenditure. The restatement involves debiting the grant to the General Fund balance in the Movement in Reserves Statement. The financial statements record that the adjustment is presentational in the CIES, but having no impact on the Balance Sheet and the financial position of the Group PC, Single entity PCC and single Entity CC.	Following our audit, management amended Note 37 in the PCC accounts and Note 22 in the CC accounts to provide further disclosure of the prior period adjustments as regards to the individual Notes that the PCC and CC have restated. As a result, our work has incurred an extra fee. In future years we would welcome earlier notification and discussion regarding proposed prior period adjustments before the preparation of the financial statements, which will assist in mitigating any fee impact.

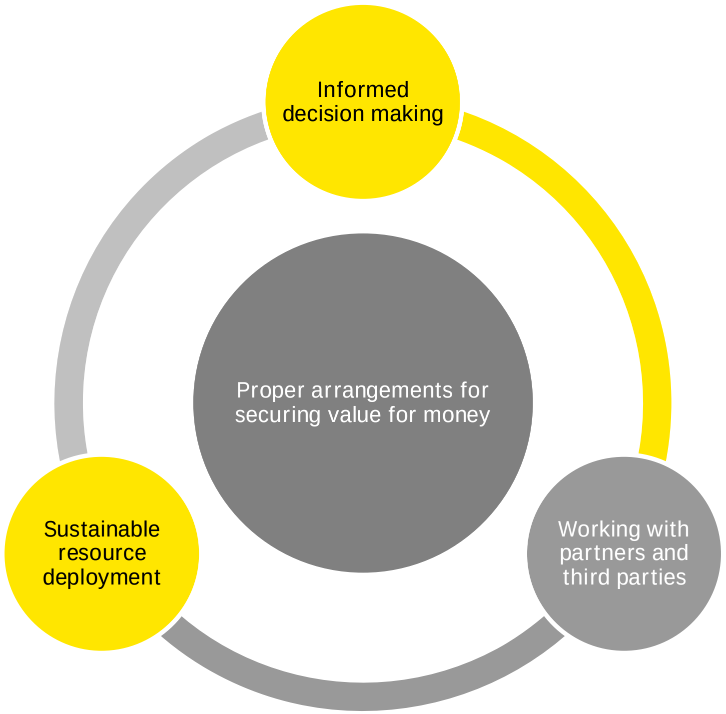
Value for Money

Value for Money

We are required to consider whether the PCC and CC have put in place 'proper arrangements' to secure economy, efficiency and effectiveness in their use of resources. This is known as our value for money conclusion.

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- Take informed decisions;
- Deploy resources in a sustainable manner; and
- Work with partners and other third parties.



We issued an unqualified value for money conclusion on 30 September 2016.

We identified one significant risk in relation to our value for money conclusion. This related to sustainable resource deployment, and the need for the PCC and CC to achieve their savings plans and their budget gap to deliver the Medium Term Financial Plan (MTFP). We have performed the procedures outlined in our Audit Plan to address this risk and our work did not identify any significant matters in relation to the PCC's and CC's arrangements. We therefore concluded that the PCC and CC had adequate arrangements in place.

As part of our work we made the following observations.

Key Findings

Consideration of arrangements for deployment of resources to achieve planned and sustainable outcomes

We consider the PCC's and CC's arrangements for deploying resources in a sustainable manner, to be a risk to the Value for Money Conclusion. To assess this risk we have reviewed the PCC's and CC's revised MTFP as of 10 February 2016 to review:

- The key assumptions made within the 2016/17 annual budget;
- The development of the savings plans; and
- The work of Her Majesty's Inspectorate of Constabulary (HMIC) on its PEEL assessment.

The key assumptions made within the 2016/17 annual budget

The process for setting the PCC's and CC's budget is sound. The precept setting process details the assumptions used which management checks against known practice with other constabularies. Management use scenario planning effectively to provide guidance to the PCC in determining options for budget setting and the level of precept.

We concluded that The MTFP identifies the key assumptions expected to underpin the 2016/17 budget. Assumptions include:

- Reductions in future levels of Government Grant;
- Pay inflation, inflation for other costs;
- Council tax increases, using sensitivity analysis to project the impact of decisions for freezing or increasing council tax by nearly 2%.; and
- The £2.1 million impact from the Government's intention to introduce a reformed State Pension of £144 per week from April 2017.

The development of the savings plans

During 2015, the PCC and CC had based the MTFP on expectations of a 25% reduction in police funding. The Government's December 2015 Police Grant Report noted a reduction of 0.6%. As a result PCC and CC reduced its January 2015 forecast budget gap of £3.2 million to £1.756 million as of 31 March 2020, based on annual 2% council tax increases.

The gap of £1.756 million is dependent on the delivery of the cumulative savings plans of £6.123 million to 31 March 2020.

However, the PC and CC have a record of achieving savings plans, with the MTFP recording £20.8 million saved from collaboration with Suffolk Constabulary and Norfolk only schemes from 2010/11 to 2015/16. Previous internal and external audit work has found governance arrangements in the Programme Management Office to be sound, This provides a good platform for the PCC and CC to achieve the required savings through the revised Scrutiny and Challenge process (using the new outcome based budgeting tools), Norfolk Local Policing Review and regional collaboration as outlined in the MTFP.

The MTFP forecasts usable reserves to fall from £24.5 million as at 31 March 2016 to £16.2 million by 31 March 2020. This is as a result in part of reducing the Budget Support Reserve from £21.4 million to £6.6 million to fund an extensive capital programme in 2061/7. The PCC and CC have identified and are on course to deliver the required £5.431 savings for 2016/17 but will need to keep the level of reserves under review if austerity continues or savings programmes slip.

The work of HMIC on its PEEL assessment.

The HMIC found that Norfolk Constabulary is exceptionally well-placed to face its future financial challenges. The HMIC awarded an outstanding rating in its Autumn 2015 review of how efficient Norfolk Constabulary is at keeping people safe and reducing crime. HMIC rated Norfolk Constabulary as:

- Outstanding in its use of resources to meet demand;
- Good in its sustainability and affordability of its workforce model; and
- Outstanding for the sustainable the Constabulary's financial position is in the short and long term.

We have concluded that the PCC and CC is responding well to the financial challenges it is facing. However, achieving savings plans and the budget gap still represent a challenge over the medium term. The PCC and CC need to develop robust plans and deliver savings from its initiatives, consider carefully the impact of any decisions to freeze council tax and continue to review the levels of reserves to support the PCC's and CC's finances.

Other Reporting Issues

Other Reporting Issues

Whole of Government Accounts

The PCC Group is below the specified audit threshold of £350 million. Therefore, we did not perform any audit procedures on the consolidation pack.

Annual Governance Statement

We are required to consider the completeness of disclosures in the PCC's and CC's annual governance statements, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it is misleading.

Management amended the annual government statement for the PCC and CC to record the results of HMIC inspections during 2015/16.

Report in the Public Interest

We have a duty under the Local Audit and Accountability Act 2014 to consider whether, in the public interest, to report on any matter that comes to our attention in the course of the audit in order for it to be considered by the PCC and CC or brought to the attention of the public.

We did not identify any issues which required us to issue a report in the public interest.

Written Recommendations

We have a duty under the Local Audit and Accountability Act 2014 to designate any audit recommendation as one that requires the PCC and CC to consider it at a public meeting and to decide what action to take in response.

We did not identify any issues which required us to issue a written recommendation.

Objections Received

We did not receive any objections to the 2015/16 financial statements from member of the public.

Other Powers and Duties

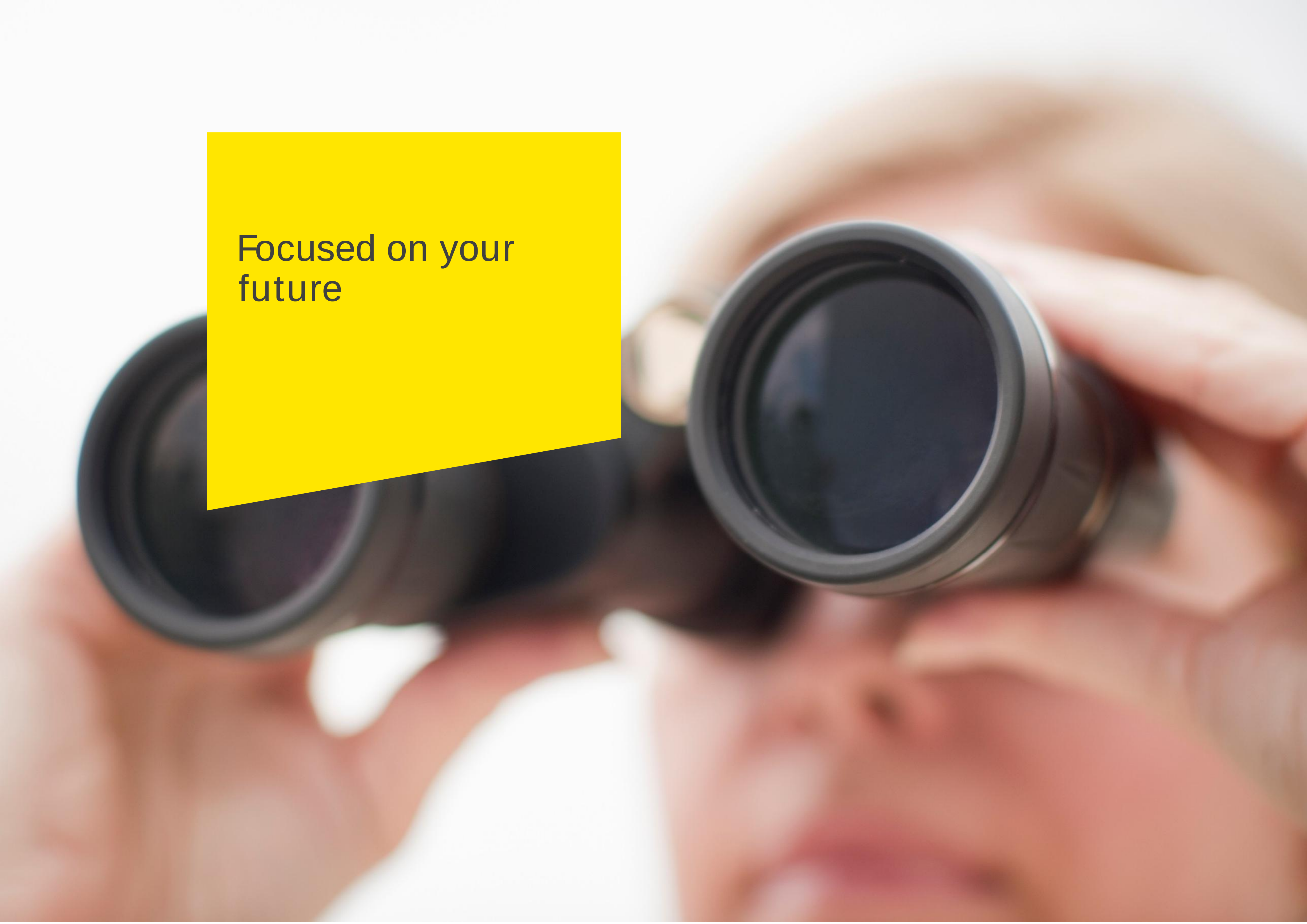
We identified no issues during our audit that required us to use our additional powers under the Local Audit and Accountability Act 2014.

Independence

We communicated our assessment of independence in our Audit Results Report to the 10 March 2016 and 27 September 2016 Audit Committees. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning regulatory and professional requirements.

Control Themes and Observations

We have adopted a fully substantive approach and have therefore not tested the operation of controls.



Focused on your future

Focused on your future

Area	Issue	Impact
EU referendum	Following the majority vote to end the UK's membership of the European Union (EU) in the EU Referendum held on 23 June 2016 there is a heightened level of volatility in the financial markets and increased macroeconomic uncertainty in the UK. All three major rating agencies (S&P, Fitch and Moody's) took action on the UK Sovereign credit rating and, following the rating action on the UK Government. For entities in the public sector, there is likely to be an impact on investment property valuations if confidence in the wider UK property market falls; and the valuation of defined benefit pension obligations may also be affected. It is too early to estimate the quantum of any impact of these issues, but there is likely to be significant ongoing uncertainty for a number of months while the UK renegotiates its relationships with the EU and other nations.	Many of the issues and challenges that face the UK public sector will continue to exist, not least because continued pressure on public finances will need responding to. Additionally it may well be that the challenges are increased if the expected economic impacts of the referendum and loss of EU grants outweigh the benefits of not having to contribute to the EU and require even more innovative solutions. We are committed to supporting our clients through this period, and help identify the opportunities that will also arise. We will engage with you on the concerns and questions you may have, provide our insight at key points along the path, and provide any papers and analysis of the impact of the referendum on the Government and Public Sector market.
New Legislation which infers new powers and responsibilities on the Police and Crime Commissioner (PCC):	The previous Home Secretary, now Prime Minister, was keen on expanding and developing the role of the Police and Crime Commissioner.	If these proposed changes are enacted in legislation this could impact on the governance of the PCC as well as the resources required to meet the new role and responsibilities. Some of the proposed changes include the PCC taking on responsibility for other blue light services in the area such as Fire and Rescue. This was introduced via the Policing and Crime Bill. Another key area of change introduced in the Bill was in relation to the police complaints system. Currently the Chief Constable is responsible for overseeing at a local level the complaints system. However recent discussions at a governmental level have suggested that this role could transfer across to the PCC with the PCC becoming in effect the appellate body for those appeals currently heard by the Chief Constable. This would require additional resource in the Office of the PCC to meet these additional responsibilities.

Area	Issue	Impact
Faster close	From the 2017/18 financial year, the deadline for preparing the financial statements will move to 31 May from 30 June. In addition, the deadline for completing the statutory audit will move to 31 July from 30 September.	The faster closedown timetable requires the PCC and CC to adjust their timetables for preparing the accounts, as well as the budget setting process and the timing of committee meetings. It requires upfront planning to identify areas of the accounts that can be prepared earlier, before the 31 March, and there will be a need to establish robust basis for estimations across a wider number of entries in the financial statements. For the 2016/17 audit, we are working with officers to bring our work forward to support the transition ahead of the new deadlines in 2017/18.
Appointment of auditors	The current audit contracts expire on the completion of the 2017/18 audit. The expiry of contracts also marks the end of the current mandatory regime for auditor appointments. After this, the PCC and CC can exercise choice about whether they decide to opt in to the authorised national scheme, or whether to make other arrangements to appoint their own auditors. In July 2016, the Secretary of State for Communities and Local Government specified Public Sector Audit Appointments limited (PSAA) as an appointing person under regulation 3 of the Local Audit (Appointing Person) Regulations 2015. PSAA will be able to appoint an auditor to relevant authorities that choose to opt into its national collective scheme.	Appointment of auditors for the 2018/19 financial year is required by 31 December 2017. The PCC and CC have already agreed to opt into the appointed person scheme to appoint auditors from 2018/19.

Appendix A

Audit Fees

Appendix A Audit Fees

Our March 2016 Audit Plan recorded planned fees for 2015/16 in line with the scale fee set by the PSAA Ltd.

Description	Final Fee 2015/16 £	Planned Fee 2015/16 £	Scale Fee 2015/16 £
Total Audit Fee PCC – Code work	To be confirmed*	33,825	33,825
Total Audit Fee CC – Code work	To be confirmed*	15,000	15,000
Total PCC Group	To be confirmed*	48,825	48,825

*As reported in the Audit Results Report to those charged with governance, We have also undertaken extra work as a result of:

- The review of the Prior Period Adjustments undertaken by the PCC in relation to the PFI Grant and Home Office Top Up Grant (the latter impacting on the CC Single entity financial statements); and
- Later than planned responses to our request for documentation regarding the Enterprise Resource Planning system.

We anticipate a scale fee variation will be necessary, which we will discuss in the first instance with the Chief Finance Officer. Any extra fee is subject to approval by PSAA Ltd.

We confirm we have not undertaken any non-audit work outside of the PSAA’s requirements.