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Annual Audit Letter 2013/14

Police and Crime Commissioner for Lincolnshire and Chief Constable for Lincolnshire

October 2014

Contents

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This report is addressed to the Police and Crime Commissioner and the Chief Constable and has been prepared for their sole use. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. The Audit Commission has issued a document entitled *Statement of Responsibilities of Auditors and Audited Bodies*. This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. We draw your attention to this document which is available on the Audit Commission's website at www.auditcommission.gov.uk.

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Sue Sunderland, the appointed engagement lead, who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees on 0161 246 4000, or by email to trevor.rees@kpmg.co.uk, who is the national contact partner for all of KPMG's work with the Audit Commission. After this, if you are still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. Put your complaint in writing to the Complaints Unit Manager, Audit Commission, 3rd Floor, Fry Building, 2 Marsham Street, London, SW1P 4DF or by email to complaints@audit-commission.gsi.gov.uk. Their telephone number is 0303 4448 330.

Headlines

This report summarises the key findings from our 2013/14 audit of Lincolnshire Police and Crime Commissioner (PCC) and the Chief Constable for Lincolnshire (CC).

Although this letter is addressed to the PCC and CC, it is also intended to communicate these issues to key external stakeholders, including members of the public.

Our audit covers the audit of the PCC's and CC's 2013/14 financial statements and the 2013/14 VFM conclusion.

VFM conclusion	We issued an unqualified conclusion on the PCC's and CC's arrangements to secure value for money (VFM conclusion) for 2013/14 on 9 September 2014. This means we are satisfied that you have proper arrangements for securing financial resilience and challenging how you secure economy, efficiency and effectiveness. To arrive at our conclusion we looked at your financial governance, financial planning and financial control processes, as well as how you are prioritising resources.
VFM risk areas	We identified one significant risk to our VFM conclusion around the management of savings plans to secure longer term financial and operational sustainability, and considered the arrangements you have put in place to mitigate this risk. We critically assessed the controls the PCC and CC have in place to ensure a sound financial standing and reviewed how they were planning and managing savings plans. We found that the PCC and the CC have to date responded well to the pressures of the reduction in central funding, demonstrating good performance in identifying and delivering savings whilst maintaining the level of reserves.
Audit opinion	We issued an unqualified opinion on the PCC's and CC's financial statements on 9 September 2014. This means that we believe the financial statements give a true and fair view of the financial position of each organisation and of its expenditure and income for the year.
Financial statements audit	For both the PCC and the CC our audit identified a significant number of audit adjustments. Many of these were presentational, but some errors identified during the audit of the PCC accounts had an effect on the primary statements and accompanying notes. We noted a deterioration in the quality of the accounts and the availability and quality of supporting working papers. As a consequence of this, further audit input was required, particularly in relation to Property, Plant and Equipment and reconciliation to the fixed asset register. Officers dealt with the majority of audit queries within a reasonable time but in some cases we experienced delays in the audit process. We will work with officers to identify ways of improving the process for the future.
Annual Governance Statement	We reviewed both Annual Governance Statements and concluded that they are consistent with our understanding.

Headlines (continued)

We provide a summary of our key recommendations in Appendix 1.

All the issues in this letter have been previously reported. The detailed findings are contained in the reports we have listed in Appendix 2.

Whole of Government Accounts (WGA)	The PCC's and CC's income, expenditure, assets and liabilities were below the threshold for a full review of the WGA consolidation pack. However, we reviewed, as required by the National Audit Office, the consistency of the relevant figures for property, plant and equipment and pensions between the accounts and the WGA return and reported any inconsistencies.
High priority recommendations	We raised two high priority recommendations as a result of our 2013/14 audit work. These are detailed in Appendix 1 together with the action plan agreed by management. We will formally follow up these recommendations as part of our 2014/15 work.
Certificate	We issued our certificates for both the PCC and CC on 9 September 2014.The certificates confirm that we have concluded the audit for 2013/14 in accordance with the requirements of the *Audit Commission Act 1998* and the Audit Commission's *Code of Audit Practice*.
Audit fee	Our total fee for the PCC and CC for 2013/14 was £64,533, excluding VAT. This is £5,478 higher than the original proposed fee for the PCC due to the extra work involved in the final accounts audit particularly around reconciling the fixed asset register to the financial statements and the ledger. Further detail is contained in Appendix 3.

Appendix 1: Key issues and recommendations

This Appendix summarises the high priority recommendations that we identified during our 2013/14 audit, along with your responses to them.

Lower priority recommendations are contained, as appropriate, in our other reports, which are listed in Appendix 2.

No.	Issue and recommendation	Management response/ responsible officer/ due date
1	**Quality of the accounts and quality and availability of working papers** There was a deterioration in the quality of the accounts and the quality and availability of working papers this year. **Recommendation** The finance team should ensure: • Internal consistency of the figures in the draft accounts; • Availability of the working papers specified in the PBC schedule prior to the start of the audit; • Availability of key staff during the audit process; and • Appropriate peer review of working papers prior to handover.	The Chief Finance Officers accept the two priority one issues raised by KPMG. In relation to the deterioration in the quality of the accounts and the quality and availability of working papers, there are some mitigating factors which have been highlighted in the response below from the G4S Finance team. However, an analysis of the post audit changes shows that those adjustments which involved significant complexity and therefore resulted in the additional audit effort related to the capital accounting entries on the PCC Group Accounts and did not therefore arise as a result of the late changes in accounting rules. These issues will be addressed as part of the contract management regime. The following details the G4S Finance teams response to these items: A number of mitigating factors reduced the time available for preparation and review of the financial statements in 13/14: • Guidance around the changes to the PCC/CC accounting split was provided at a very late stage in the preparation process, significantly after the draft accounts were initially due to be completed. • The resulting guidance changes created significant additional work in terms of creating far more comprehensive CC accounts and significantly altering PCC accounts, in addition to the process of identifying and allocating all PCC and CC transactions between the entities. • Regional financial information relating to the PCC's jointly controlled assets was provided late into the accounts preparation process and a number of subsequent adjustments were provided. These figures are out of our control. The result of these factors was a delayed production of the draft accounts and less time to coordinate reviews prior to the June 30 signing of the draft accounts. There was also an impact on the preparation and completeness of working papers for the audit.

Appendix 1: Key issues and recommendations (continued)

No.	Issue and recommendation	Management response/ responsible officer/ due date
		While a number of working papers were not available at the start of the audit most were provided by the end of the first week, there was no time during the audit where work could not be progressed and the on-site work finished in line with the agreed timetable. For next year we will adopt a number of changes to our approach to prevent a reoccurrence of the delays this year: 1. EMSOU figures will be excluded from all account drafts until the final version to prevent delays and reduce the number of potential adjustments and movements in drafts. 2. A cut-off for applying new guidance will be applied to the draft accounts process so that the process does not become delayed waiting on external factors. Any new guidance issued after the cut-off will be considered separately with subsequent versions adjusted if required. 3. In advance of the yearend a review of the accounts will be completed to agree the format and structure in theory, including any disclosure notes that should be included / excluded going forward. This will reduce the extent of review required at yearend. In addition to this 14/15 will see a number of efficiencies gained through the CC accounts being set up in 13/14 and all t-Police reports used for the audit already being set up as templates for the new year. Subsequent to the signing of the accounts an audit debrief meeting will be arranged to outline the 14/15 schedule and agree in more detail what working papers are required for the audit. Responsible officer: Reporting manager. Due Date: Actions to be completed by February 2015

Appendix 1: Key issues and recommendations (continued)

No.	Issue and recommendation	Management response/ responsible officer/ due date
2	**Reconciliation of the asset register to the ledger and the accounts** The asset register did not reconcile to the ledger and the accounts and there were errors in the figures for disposals and revaluations. **Recommendation** Finance staff should ensure that the asset register reconciles to the ledger and the accounts.	In 2013/14 the Fixed Asset Register was transferred from the historic spreadsheet used in previous years to the system sub ledger built into t-Police. A review of the migration of data was completed in early April but missed a number of duplicate assets included in the migration, in addition to EMSOU assets which had been incorrectly included. These assets and the subsequent automatically generated transactions resulted in a number of reconciling differences between the FAR, the general ledger and accounts. The following actions will be undertaken: 1. The assets in question have been identified and agreed with audit and will be removed from the fixed asset register with any generated transactions reversed. This will provide a correct opening balance. 2. A full reconciliation of the opening balance will be completed and reviewed by the end of October. 3. We will then complete a full review of all FAR transactions for the first six months of the year to October by the end of November and complete subsequent monthly reviews going forward. A full FAR download, reconciled to the GL and the draft accounts, will be provided for 14/15 by the end of April 2015 as part of the accounts preparation process. 14/15 will be the first year the benefits of the t- Police FAR are realised as a significant time saving will be achieved through not having to fully update a spreadsheet register and manually generate all accounting transactions. Responsible officer: Reporting manager.

Appendix 2: Summary of reports issued

This Appendix summarises the reports we issued since our last *Annual Audit Letter*.

2014

January

February

March

External Audit Plan (March 2014)

The *External Audit Plan* set out our approach to the audit of the PCC's and CC's financial statements and the work to support the VFM conclusion.

April

Audit Fee Letter (April 2014)

The *Audit Fee Letter* set out the proposed audit work and draft fee for the 2014/15 financial year.

May

June

July

August

September

Report to Those Charged with Governance (September 2014)

The *Report to Those Charged with Governance* summarised the results of our audit work for 2013/14 including key issues and recommendations raised as a result of our observations. We also provided the mandatory declarations required under auditing standards as part of this report.

Auditor's Report (September 2014)

The *Auditor's Report* included our audit opinion on the financial statements, our VFM conclusion and our certificate.

October

Annual Audit Letter (October 2014)

This *Annual Audit Letter* provides a summary of the results of our audit for 2013/14.

November

Appendix 3: Audit fees

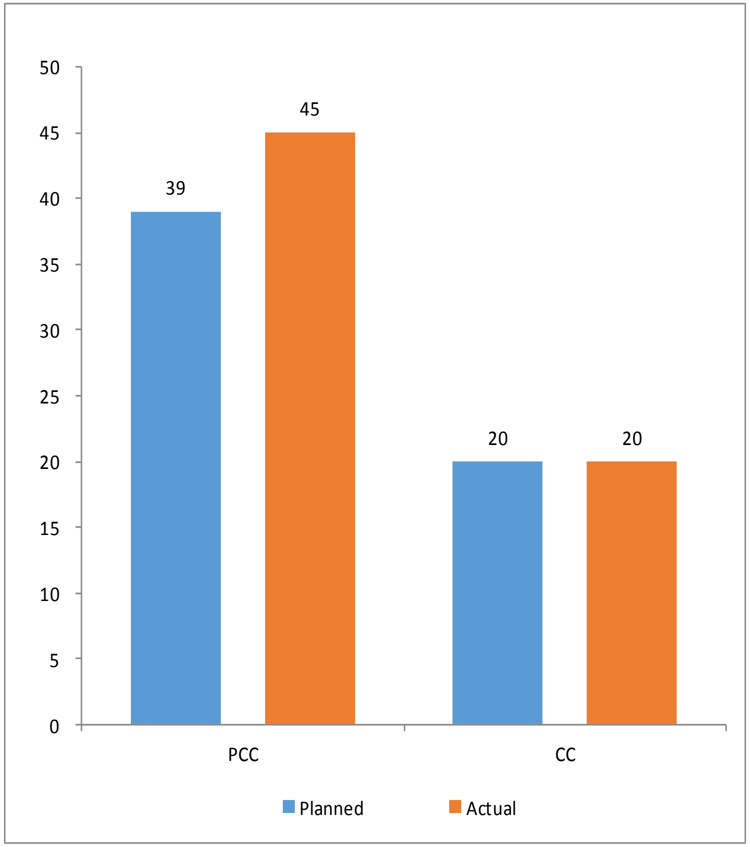
This Appendix provides information on our final fees for 2013/14.

To ensure openness between KPMG and your Joint Independent Audit Committee about the extent of our fee relationship with you, we have summarised the outturn against the 2013/14 planned audit fee.

External audit

Our combined final fee for the 2013/14 audit was £64,533. This compares to a combined planned fee of £59,055. The £5,478 increase reflects the additional costs incurred due to the extra work involved in the final accounts. These costs have been attributed to the PCC audit as the a significant aspect of this extra work related to reconciling the fixed asset register to the financial statements and the ledger

Our proposed additional fee is still subject to final determination by the Audit Commission.



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