

The Police and Crime Commissioner for Cambridgeshire  
and the Chief Constable for Cambridgeshire

Annual Audit Letter for the year ended 31 March 2015

7 October 2015

Ernst & Young LLP





The Police and Crime Commissioner for Cambridgeshire  
The Chief Constable for Cambridgeshire  
South Cambridgeshire Hall  
Cambourne Business Park  
Cambourne  
Cambridge  
CB23 6EA

7 October 2015

Dear Sir Graham and Alec

## **Annual Audit Letter 2014-15**

The purpose of this Annual Audit Letter is to communicate to both the Police and Crime Commissioner for Cambridgeshire (the PCC) and the Chief Constable for Cambridgeshire (the CC) 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 of the PCC and CC in the following reports:

2014/15 Audit Results Report for Office of the  
Police and Crime Commissioner for  
Cambridgeshire and the Chief Constable for  
Cambridgeshire (the CC).

Issued on 14 September 2015.

We do not repeat those findings here.

The matters reported here are those we consider most significant for the bodies.

We would like to take this opportunity to thank officers for their assistance during the course of our work.

Yours faithfully

Mark Hodgson  
Executive Director  
For and on behalf of Ernst & Young LLP  
Enc.

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Relevant parts of the Audit Commission Act 1998 are transitionally saved by the Local Audit and Accountability Act 2014 (Commencement No. 7, Transitional Provisions and Savings) Order 2015 for 2014/15 audits.

The Audit Commission's '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.

# 1. Executive summary

Our 2014/15 audit work was undertaken in accordance with the Audit Plan issued on 24 February 2015 and was 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 and CC are responsible for preparing and publishing its Statement of Accounts, accompanied by an Annual Governance Statement (AGS). In the AGS the PCC and CC reports publicly each year on how far it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in year, and any changes planned in the coming period.

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

As auditors we are responsible for:

- forming an opinion on the financial statements, and on the consistency of other information published with them for the PCC and CC
- reviewing and reporting by exception on the Council's AGS for the PCC and CC
- forming a conclusion on the arrangements the PCC and CC has to secure economy, efficiency and effectiveness in its use of resources
- undertaking any other work specified by the Audit Commission and the Code of Audit Practice.

Summarised below are the results of our work across all these areas:

Area of work	Office of the Police and Crime Commissioner	Office of the Chief Constable
Audit of the financial statements the Police and Crime Commissioner and Group and Chief Constable Statements for the financial year ended 31 March 2015 in accordance with International Standards on Auditing (UK & Ireland).	On 24 September 2015 we issued an unqualified audit opinion on the PCC and Group's financial statements.	On 22 September 2015 we issued an unqualified audit opinion on the CC's financial statements.
Form a conclusion on the arrangements the Council has made for securing economy, efficiency and effectiveness in its use of resources.	On 24 September 2015 we issued an unqualified value for money conclusion.	On 22 September 2015 we issued an unqualified value for money conclusion.
Report to the National Audit Office on the accuracy of the consolidation pack the PCC and CC needs to prepare for the Whole of Government Accounts	The PCC is below the specified audit threshold of £350 million. Therefore we did not perform any audit procedures on the consolidation pack and submitted the required audit assurance statement confirming the threshold position.	We reported our findings to the National Audit Office on 24/09/15.

Consider the completeness of disclosures on the PCC and CC's AGS, identify any inconsistencies with other information which we know about from our work and consider whether it complies with CIPFA/ SOLACE guidance.	No issues to report.	No issues to report.
Consider whether we should make a report in the public interest on any matter coming to our notice in the course of the audit.	No issues to report.	No issues to report.
Determine whether we need to take any other action in relation to our responsibilities under the Audit Commission Act.	No issues to report.	No issues to report.
<b><i>As a result of the above we have also:</i></b>		
Issued a report to those charged with governance of the PCC and CC with the significant findings from our audit.	Our Audit Results Report was issued on 14 September 2015 to the Police and Crime Commissioner.	Our Audit Results Report was issued on 14 September 2015 to the Chief Constable.
Issued 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.	Issued on 24 September 2015.	Issued on 22 September 2015.

## 2. Key findings

### 2.1 Financial statement audit

The PCC and CC's Statement of Accounts is an important tool to show both how the PCC and CC have used public money and how it can demonstrate its financial management and financial health.

We audited the PCC and CC's Statement of Accounts 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 and issued an unqualified audit report on 22 and 24 September 2015 respectively for the Chief Constable and Police & Crime Commissioner.

Our detailed findings were reported to 'those charged with governance' within our Audit Results Report issued on 14 September 2015.

Our audit results demonstrated, through the few matters we had to communicate, that the Office of the Police & Crime Commissioner for Cambridgeshire and Office of the Chief Constable for Cambridgeshire prepared their financial statements well.

The main issues identified as part of our audit were:

#### **Significant risk 1: Risk of Misstatement due to Fraud and Error**

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ISA (UK&I) 240 requires that we plan our audit work to consider the risk of fraud. This includes consideration of the risk that management may override controls in order to manipulate the financial statements.

Management has the primary responsibility to prevent and detect fraud. It is important that management, with the oversight of those charged with governance, has put in place a culture of ethical behaviour and a strong control environment that both deters and prevents fraud. Our responsibility is to plan and perform audits to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatements whether caused by error or fraud. As auditors, we approach each engagement with a questioning mind that accepts the possibility that a material misstatement due to fraud could occur, and design the appropriate procedures to consider such risk.

One area which may be particularly susceptible to manipulation is the capitalisation of revenue expenditure on Property, Plant and Equipment given the extent of the Capital programme. This risk applies to the Office of the PCC, Office of the CC and the Group.

Our audit testing has not identified any instances of misstatement due to fraud and error.

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## 2.2 Value for money conclusion

As part of our work we must also conclude whether the PCC and CC has proper arrangements to secure economy, efficiency and effectiveness in the use of resources. This is known as our value for money conclusion.

In accordance with guidance issued by the Audit Commission, our 2014/15 value for money conclusion was based on two criteria. We consider whether the Council had proper arrangements in place for:

- ▶ securing financial resilience, and
- ▶ challenging how it secures economy, efficiency and effectiveness.

We issued an unqualified value for money conclusion for the PCC and CC.

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### Key finding 1: Arrangements for Securing Financial Resilience

**Identified risk - The PCC and CC medium term financial plan includes a budget gap of £12.9m over the net three financial years. This budget gap is greater than our planning materiality and therefore presents a significant risk to our Value for Money conclusion.**

We have undertaken a review of the medium term financial plan and the assumptions included within it. We have also assessed the level of reserves (both general fund and earmarked) that the Office of the PCC and Office of the CC has at the 31 March 2015.

The PCC and CC has a budget gap of £12.9m for 2016/17-2017/18. Savings plans have been identified of £10.9m to bridge this gap. The PCC and CC has £26.9m of useable reserves across the same period and will draw on reserves to realise the remaining gap if required.

We are comfortable that the level of reserves held by the Office of the PCC and Office of the CC (£26.98 million) covers the budget gap identified within the medium term financial plan to an appropriate level even after taking into account uncertain funding streams of £0.9 million.

We note that the Office of the PCC and of the CC have savings plans in place to address the budget gap going forward. These saving plans are heavily predicated on joint collaboration projects with Bedfordshire and Hertfordshire forces.

The PCC and CC has a strong track record of delivering required savings totalling £19.8m over the last spending review period.

However, the PCC and CC need to closely monitor the delivery of the planned savings programme in terms of realising the full quantum of the business cases and in ensuring the timing of those savings do not slip, so as to minimise the use of these reserve balances over the medium term.

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We have no other matters to report.

## 2.3 Whole of Government Accounts

We performed the procedures required by the National Audit Office. The Council is below the specified audit threshold of £350 million and therefore we were not required to audit the accuracy of the consolidation pack prepared by the Council for Whole of Government Accounts purposes. We made our audit assurance submission in line with the deadline.

## 2.4 Annual Governance Statement

We are required to consider the completeness of disclosures in the PCC and CC's AGS, identify any inconsistencies with the other information which we know about from our work, and consider whether it complies with relevant guidance.

We completed this work and did not identify any areas of concern.

## 2.5 Objections received

We did not receive any objections to the 2014/15 financial statements (PCC and CC) from members of the Public.

## 2.6 Other powers and duties

We identified no issues during our audit that required us to use powers under the Audit Commission Act 1998, including reporting in the public interest.

## 2.7 Independence

We communicated our assessment of independence to 'those charged with governance' on 14 September 2015. In our professional judgement the firm is independent and the objectivity of the audit engagement Executive Director and audit staff has not been compromised within the meaning of regulatory and professional requirements

### **3. Control themes and observations**

As part of our work, we obtained enough understanding of internal control to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control, we must tell those charged with governance about any significant deficiencies in internal control we find during our audit.

We did not identify any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in the PCC and CC's financial statements.

## 4. Fees

Our fee for 2014/15 is in line with the scale fee set by the Audit Commission and reported in our 24 February 2015 Audit Plan and 14 September Audit Results Report.

	Final fee 2014/15	Planned fee 2014/15	Scale fee 2014/15
The Office of Police and Crime Commissioner for Cambridgeshire – Code Work	40,450	40,450	40,450
The Chief Constable for Cambridgeshire Constabulary – Code Work	20,000	20,000	20,000
<b>Total Audit Fee – Code work</b>	<b>£60,450</b>	<b>£60,450</b>	<b>£60,450</b>

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