

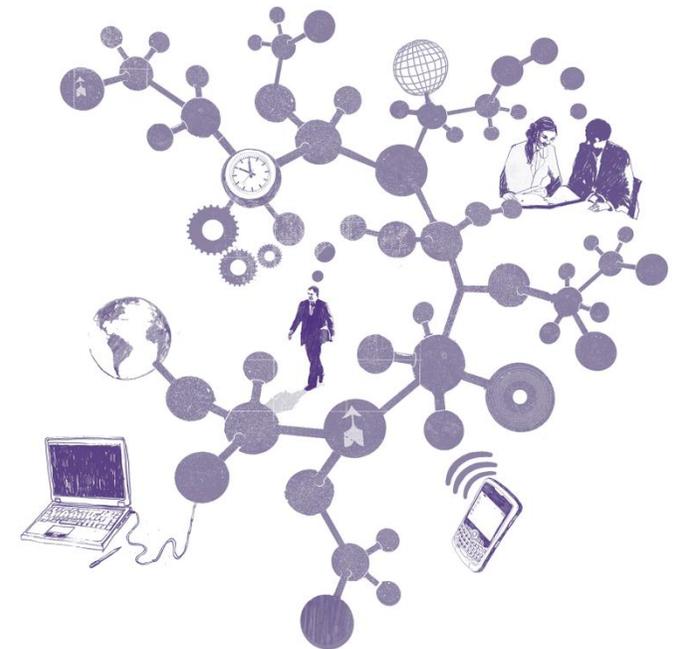
The Annual Audit Letter for the Police and Crime Commissioner and Chief Constable of Merseyside Police

Year ended 31 March 2013

23 October 2013

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Section 1: Executive summary

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Executive summary

Purpose of this Letter

Our Annual Audit Letter ('Letter') summarises the key findings arising from the following work that we have carried out at the Police and Crime Commissioner for Merseyside (PCC) and the Chief Constable of Merseyside Police for the year ended 31 March 2013:

- auditing the 2012/13 accounts and Whole of Government Accounts submission (Section two); and
- assessing the arrangements for securing economy, efficiency and effectiveness in its use of resources (Section three).

The Letter is intended to communicate key messages to the PCC, Chief Constable and external stakeholders, including members of the public. We reported the detailed findings from our audit work in the Audit Findings Report to the Joint Audit Committee on 12th September and to those charged with governance (the PCC and Chief Constable) on 18 September.

Responsibilities of the external auditors and the Audited Bodies

This Letter has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission (www.audit-commission.gov.uk).

The PCC and Chief Constable are responsible for preparing and publishing its accounts, accompanied by an Annual Governance Statement. They are also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources (Value for Money).

Our annual work programme, which includes nationally prescribed and locally determined work, has been undertaken in accordance with the Audit Plan that we issued in June 2013 and was conducted in accordance with the Audit Commission's Code of Audit Practice ('the Code'), International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

Audit conclusions

The audit conclusions which we have provided in relation to 2012/13 are as follows:

- an unqualified opinion on the accounts of the PCC and the accounts of the Chief Constable which give a true and fair view of the financial position as at 31 March 2013 and its income and expenditure for the year;
- an unqualified conclusion in respect of the PCC's and the Chief Constable's arrangements for securing economy, efficiency and effectiveness in their use of resources; and
- an unqualified opinion on the Whole of Government Accounts submission.

Executive summary

Key areas for PCC attention

We summarise here the key messages arising from our audit for the PCC to consider as well as highlighting key issues in the future.

The PCC's accounts were prepared to a high standard, supported by clear and comprehensive working papers. One significant amendment was made to present the funding of the pension liability as a negative reserve rather than as a financial guarantee from the PCC to reflect updated national guidance.

In 2012/13 the PCC responded effectively to the challenges created by the demise of the Police Authority, the reduction in central government funding and continued to ensure effective delivery of policing services during the transition to the new working arrangements under the Police and Crime Commissioner. In building on the work of the former Police Authority the PCC has established appropriate governance arrangements and agreed the Police and Crime Plan following extensive consultation. Arrangements are in place to enable the PCC to work with the Chief Constable to deliver the plan and address the financial challenges going forwards.

Key areas for Chief Constable attention

We summarise here the key messages arising from our audit for the Chief Constable to consider as well as highlighting key issues in the future. The Finance Team provided a good quality set of draft financial statements for the Chief Constable and supporting working papers. An amendment was made to the pension liability reported in the Chief Constable financial statements to reflect updated guidance.

In 2012/13 the Chief Constable has worked in partnership with the PCC to facilitate the effective transition from the Police Authority and to develop the new governance arrangements.

The Chief Constable has maintained a focus on improving operational performance at the same time as making further significant efficiency savings during 2012/13. Operational performance remains challenging with the number of emergency calls and the number of prosecutions above the average for England and Wales. During this period the Police Service has broadly maintained or improved its performance in terms of the levels of visible policing, responses to calls and crime detection rates.

Future Developments

Along with other public sector organisations, the PCC and Chief Constable are operating in a period of significant financial challenge. In the CSR 2010 spending review, the Government announced that central funding to the police service in England and Wales would be reduced in real terms by 20% in the four years between March 2011 and March 2015. In his Autumn Statement in December 2012, the Chancellor reinforced austerity measures announcing further savings in the Home Office Budget but no further reductions to central government funding for the Police Service in 2013/14.

The 2015-16 spending review, announced by the Chancellor in June 2013, confirmed the Home Office will face a further funding reduction and that the Police Service will face a reduction in overall funding of 3.1%. Individual force level allocations for 2014/15 will be announced later in the year as part of the annual police funding settlement process.

Executive summary

The major challenge for the Chief Constable is to deliver a significant efficiency programme in each of the next 3 financial years (2013/14 to 2015/16.), whilst maintaining strategic and operational objectives.

The PCC and Chief Constable have a good track record of delivering planned savings in recent years. The savings requirement as set out in the 2012/13 budget amounted to a total of £17.071m. During the year savings of £16.753m were identified with the shortfall to be achieved in 2013/14. But the scale of future savings requirements, on top of what has already been achieved, increases the challenge significantly.

The PCC and Chief Constable recognise that this can only be achieved through the sustaining excellence programme, collaborative working and reviewing cost structures. Together with senior officers of the Police Service and in partnership with other stakeholders the PCC and Chief Constable are actively engaged in discussions about options to bring this about.

Acknowledgements

This Letter has been agreed with the PCC and the Chief Constable and will be presented to the joint audit committee meeting on 12 December 2013.

We would like record our appreciation for the assistance and co-operation provided to us during our audit by the PCC and Chief Constable's staff.

Grant Thornton UK LLP
October 2013

Section 2: Audit of the accounts

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Audit of the accounts

Audit of the accounts

Before giving our opinion on the accounts, we are required to report significant matters arising from the audit to 'those charged with governance' (defined as the PCC and Chief Constable). We presented our report to the Joint Audit Committee on 12th September 2013 and we reported the Audit Findings Report to the PCC and Chief Constable on 18 September. The key messages of our audit of the accounts are summarised below.

The preparation of the financial statements required the Finance Team to make judgements, estimates and assumptions about accounting policies with unclear and changing accounting guidance. Finance officers needed to work from first principles to design the content of the statements which complies with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom and reflects the new relationships established under the Police Reform and Social Responsibility Act 2011. Preparation of two sets of financial statements has therefore been a significant achievement.

Preparation of the PCC's accounts and issues arising from the audit

The Chief Finance Officer for the PCC presented us with a set of draft financial statements on 28 June 2013, in line with the national deadline. Comprehensive accompanying working papers were also supplied at the start of our audit.

The key messages arising from our audit of the PCC's financial statements were:

- we did not identify any errors affecting the PCC Group net expenditure or reserves and balances position;
- we did agree a technical amendment to the disclosure of the pension guarantee in the PCC Group accounts in line with the revised guidance;

- we recommended a number of adjustments to improve the presentation of the accounts; and
- we received good co-operation from officers and we would like to offer our thanks for their professional approach to the audit and to our requests for additional information.

The Chief Finance Officer for the PCC adjusted the financial statements for the amendments identified in pages 19 -25 of our Audit Findings Report.

Preparation of the Chief Constable's accounts and issues arising from the audit

We received draft financial statements and accompanying working papers at the start of our audit, in accordance with the national deadline. The key messages arising from our audit of the Chief Constable's financial statements were:

- the accounts were prepared to a high standard, supported by clear and comprehensive working papers, and officers provided prompt and helpful responses to our requests for additional information.
- we agreed one material adjustment to reflect the latest guidance on the recognition of pension costs under IAS19. The Chief Constable did not have local authority status and was unable to apply the statutory override to offset IAS 19 liabilities with a pension reserve.

The Director of Finance for the Chief Constable adjusted the financial statements for the amendments identified in pages 20 -25 of our Audit Findings Report

Audit of the accounts

Annual governance statement

We have also reviewed the PCC's and Chief Constable's Annual Governance Statement (AGS) against the requirements set out within CIPFA guidelines, and concluded that the AGS was consistent with our knowledge and that no additional disclosures were required.

Conclusion

We issued an unqualified opinion on the PCC Group and Chief Constable's 2012/13 accounts on 25 September 2013, meeting the deadline set by the Department for Communities and Local Government. Our opinion confirms that the accounts give a true and fair view of the PCC Group and Chief Constable's financial position and of the income and expenditure recorded.

Section 3: Value for Money

01. Executive summary

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Value for Money

Scope of work

The Code describes the PCC's and Chief Constable's responsibilities to put in place proper arrangements to:

- secure economy, efficiency and effectiveness in its use of resources
- ensure proper stewardship and governance
- review regularly the adequacy and effectiveness of these arrangements.

We are required to give a VFM conclusion based on the criteria specified by the Audit Commission which support our reporting responsibilities under the Code. We have undertaken our audits in accordance with the Code of Audit Practice and, having regard to the guidance issued by the Audit Commission, we have considered the results of the following for both bodies:

- our review of the annual governance statements;
- the work of other relevant regulatory bodies or inspectorates, to the extent the results of the work have an impact on our responsibilities; and
- our locally determined risk-based work.

Key findings – PCC

Establishing new governance arrangements following the creation of the PCC's office required considerable management effort by both bodies. The PCC identified the need for organisational change and made significant changes to the staffing structure of the office inherited from the Police Authority. The PCC, in partnership with the Chief Constable, has worked to develop new governance arrangements which are now captured in a formal governance framework and supported by the Scrutiny and Decision Making Framework.

Key findings – Chief Constable

The Chief Constable has responded effectively to the challenges created by the demise of the Police Authority, the reduction in central government funding and continued to ensure effective delivery of policing services during the transition to the new working arrangements under the Police and Crime Commissioner.

The Chief Constable recognises that it is highly likely that further savings will be required after March 2015 when the Government announces specific funding levels. These further savings will present a considerable challenge to maintain frontline staff and the level of response to the calls the force receives from the public. The PCC and Chief Constable will need to work together to consider a range of options to deliver on this difficult agenda.

Overall VFM conclusion

On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects the PCC and the Chief Constable put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2013.

Appendix

Appendix A: Reports issued and fees

We confirm below the fee charged for the audit.

Fees

	Per Audit plan £	Actual fees £
Police and Crime Commissioner Audit Fee	57,000	57,000
Chief Constable Audit Fee	25,000	25,000
Total fees	82,000	82,000

Fees for other services

Service	Fees £
None	Nil

Reports issued

Report	Date issued
Audit Plan	June 2013
Audit Findings Report	September 2013
Annual Audit Letter	October 2013



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